

**Islamabad Papers
2017**

No. 36

**Economy and Ecology as
Factors of Pakistan's
Regional Integration
in an Asian Context**

Wolfgang-Peter Zingel



Institute of Strategic Studies Islamabad (ISSI)

THE INSTITUTE OF STRATEGIC STUDIES ISLAMABAD, PAKISTAN

Registered under societies registration Act No. XXI of 1860

The Institute of Strategic Studies was founded in 1973. It is a non-profit, autonomous research and analysis centre, designed for promoting an informed public understanding of strategic and related issues, affecting international and regional security.

In addition to publishing a quarterly Journal and a monograph series, the ISS organises talks, workshops, seminars and conferences on strategic and allied disciplines and issues.

BOARD OF GOVERNORS

Chairman

Ambassador Khalid Mahmood

MEMBERS

Ambassador Shamshad Ahmad Khan Ambassador Riaz Mohammad Khan

Ms. Mehtab Rashidi

Dr Hassan Askari Rizvi

Dr Sarfraz Khan

Dr Moonis Ahmar

Additional Secretary (Policy and
Public Diplomacy)
Ministry of Foreign Affairs
Islamabad (ex-officio)

Director
School of Politics and International
Relations, Quaid-i-Azam
University, Islamabad (ex-officio)

Director General
Institute of Strategic Studies, Islamabad
(Member and Secretary Board of Governors)

Economy and Ecology as Factors of Pakistan's Regional Integration in an Asian Context

Wolfgang-Peter Zingel*

December 2017

* Wolfgang-Peter Zingel is University Associate Member, South Asia Institute of Heidelberg University. He undertook this paper under the Distinguished Fellow programme at ISSI from April-July 2017, funded by Hanns Seidel Foundation, Germany. He was also Visiting Faculty, National Institute of Pakistan Studies, Quaid-i-Azam University, Islamabad.

EDITORIAL TEAM

- Editor-in-Chief** : Ambassador Khalid Mahmood,
Chairman BoG, ISSI
- Editor** : Najam Rafique
Director Research
- Publication Officer** : Azhar Amir Malik
- Composed and designed by** : Syed Muhammad Farhan
- Title Cover designed by** : Sajawal Afridi

Published by the Director General on behalf of the Institute of Strategic Studies, Islamabad. Publication permitted vide Memo No. 1481-77/1181 dated 7-7-1977. ISSN. 1029-0990

Articles and monographs published by the Institute of Strategic Studies can be reproduced or quoted by acknowledging the source.

CONTENTS

	<i>Page</i>
Abstract	1
The task, methodology and sources	2
Why integration?	3
Regional cooperation in Asia	5
Economy and ecology	7
The New Silk Road	8
The political economy of neighbourly relations among states	10
A review of economic and ecological neighbourly relations	14
Beyond borders: Neighbour's neighbours	24
Conclusion	25

Abstract

Pakistan, a new state without any historic precursor came into being as the result of a quest for an independent state for the Muslims of India. India then comprised of British India, i.e. the territories directly controlled by the colonial power, plus hundreds of princely states, tribal and other areas bound to the crown by treaties that left them more or less independent, except in matters of foreign policy and defence. When the British withdrew in 1947, they *uno actu* released their ‘jewel in the crown’ into independence and created two dominions, i.e. Pakistan and India. The rulers of the rest of India with roughly one third of the territory and one fourth of population were advised to join any of the two, while the colonial power walked away from their treaties and all responsibilities. Independence, thus, meant disintegration of the subcontinent and the integration of the princely states and other territories into the new states. In Kashmir, overlapping interests and perceptions lead to war and a series of conflicts with both claimants looking for outside support. In South Asia, as the subcontinent was called now, none of the attempts at regional integration inside and outside became successful.

This paper¹ follows the idea that economy and ecology play an important role in regional integration in Asia, and looks especially at Pakistan’s relations with the neighbours.

¹ Based on earlier work, the text was developed during a visiting fellowship at the Institute of Strategic Studies Islamabad in Spring 2017, sponsored by the Hanns Seidel Foundation of Germany. The author benefited from discussing first findings during an in-house talk at the ISSI.–Wolfgang-Peter Zingel. 2015. “Economy and ecology as factors in South Asian cooperation”. *Socio economic cooperation between India and Pakistan. Challenges and prospects*, edited by Muhammad Iqbal Chawla, 139-157. Lahore: Research Society of Pakistan. – *Idem*. 2016. *Economy and ecology as factors of bilateral and regional relations along the Silk Road: The case of Pakistan*. Paper prepared for the International Conference “Silk Route as a Factor in Asian Integration”, organized by the Centre for Central Asian Studies, University of Kashmir, and the Academy of International Studies, Jamia Millia Islamia, New Delhi, in Srinagar, 10-11 March 2016 (in print).

1. The task, methodology and sources

Discussing integration first requires asking why it might be needed, and who is to be integrated into what and how. It also has to be asked, whether there is any continent-wide cooperation in Asia and if not, why?

The next question would be which countries we should consider important for Asia and the Silk Route in general, and Pakistan in particular. After presenting their history and geography, the paper concentrates on the economic and ecological aspects of bilateral and multilateral relations, more specifically, the exchange of good and bad, especially travel, trade and transport, and the role of flow resources, with special emphasis on Pakistan.

It also looks at China's plans of a New Silk Road and the China-Pakistan and other Corridors in comparison, before conclusions can be drawn on the importance of economy and ecology not only as factors of international relations, but also of national and regional security.

It is a study on contemporary affairs. The *major research question* is: What is the role of economy and ecology in the development of international relations of Pakistan, especially with regard to Pakistan's neighbours and its national security. A first *review of literature* in English and German languages shows quite a number of works on Pakistan and its neighbours; works on bilateral matters mainly deal with security matters, the defunct SAARC, and – of lately – the China-Pakistan Economic Corridor (CPEC), much less on economic cooperation and transnational ecological matters with the exception of the Indus waters².

² Dipanjan Roy Chaudhury, 2017. "CPEC not only threatens India, it may also trigger Pakistan's collapse. Here's how." *The Economic Times*, May 8, Mumbai. Accessed May 9, 2017. http://economictimes.indiatimes.com/news/politics-and-nation/china-pakistan-corridor-fuels-fears-of-social-upheaval/articleshowsp/58567071.cms?intenttarget=no&utm_source=newsletter&utm_medium=email&utm_campaign=Dailynewsletter&type=dailynews&ncode=fecd2253fcdf0ca6c39eb1cb2a919b7c. – Danish Hyder and Mushtaq Khan. 2017. "CPEC: The devil is not in the details". *Herald*, January 11, Karachi. Accessed May 2, 2017. <http://herald.dawn.com/news/1153597/cpec-the-devil-is-not-in-the-details>. – Wolfgang-Peter Zingel, 2015. "China's Pakistan

Very few combine economic, ecological, political and security aspects. Since we are witnessing dramatic changes in the region that abounds with breath-taking developments and plans, the task is to find out what already has been realised or is in the process of being realised, and what might/could/would be the outcome and impact for the people and the ecology of the region. Therefore, any such study has to rely more than usual on media reports and the internet. Independent research on the spot is urgently needed, but will be very demanding and difficult.

2. Why integration?

Complementing the system of defence alliances (Baghdad Pact also known as CENTO, NATO, SEATO, Warsaw Pact), economic ones (Comecon, EU, RCD/ECO, SAARC, ASEAN) were started with the beginning of the Cold War. After the demise of the Soviet Union (1991), its former republics in Asia joined in the Commonwealth of Independent States (CIS). So far, there is no regional cooperation confined to the whole continent.

But why should countries want integration? In economic terms, integration is more than just easing conditions of trade.³ Travelling without controls from country to country like in the Schengen area is the most visible and most appreciated result of European integration. Its price is sharing a common burden and giving up national privileges. The fact that among the hundreds of regional co-operations that have been started since World War II, only a few can be regarded as a success, is an indication that regional integration is not that easy. Bhagwati warned that (regional) preferential trade agreements often work like ‘termites in the trading system’.⁴

option: Economic and social implications of an ‘all-weather relationship’”.
IIC Quarterly, 42,2: 14-24. New Delhi: Indian International Center.

³ *Making trade an engine of growth for all: The case for trade and for policies to facilitate adjustment*. [Washington, D.C.:] Prepared by staff of International Monetary Fund, World Bank, World Trade Organization. Accessed April 13, 2017. https://www.wto.org/english/news_e/news17_e/wto_imf_report_07042017.pdf.

⁴ Jagdish Bhagwati. 2008. *Termites in the trading system. How preferential agreements undermine free trade*. New York: Oxford UP.

Theoretically, a less restricted exchange of merchandise goods, services, travel, capital, ideas and people should bring a reduction of costs (because of scale effects), higher incomes, consumer satisfaction and more choice, as international competition yields better quality and a wider range of goods and services. Cooperation should also help solving transnational environmental problems. Some of them are restricted to neighbouring countries, others require a global solution. More of this later.

But although regional cooperation and integration may be a win-win-game for all participating countries, it does not mean that every one in every country will be winning. Structural changes that are often required after harmonisation need time. And whenever needed, losers have to be compensated by the winners of integration. Such compensation requires a responsible, efficient and effective organisation, usually the government. If not, attempts at integration can lead to frustration, social and political unrest and violence. Ecologically, sharing water should be the most problematic area because of its many economic repercussions. Organising compensation on an international scale is much more difficult in the absence of a binding international law and effective organisation of control and sanctions.⁵

2.1 Who is to be integrated into what and how?

The Silk Route, as described in classical (Chinese, Arabic, Latin, Greek) texts, was a network of caravan trails between China and Persia and onwards to the Mediterranean Sea. The rise of China to become the world's number one manufacturer and trader means that unprecedented quantities of merchandise goods have to be transported to and from China. Westbound trade in modern times has been by sea, where ships have to pass several bottlenecks like the Strait of Malacca, the Red Sea and the Suez Canal. Overland transport by rail, road and pipelines has become competitive, reducing China's dependency on sea transport. Under the names of New Silk Road and One Belt One Road (OBOR), China has

⁵ *Globalization backlash. South Asia economic focus spring 2017.* Washington, D.C.: World Bank. Accessed October 15, 2017. <https://openknowledge.worldbank.org/bitstream/handle/10986/26373/9781464810954.pdf?sequence=5>.

embarked on a programme of creating the necessary physical infrastructure in order to make overland transport faster, reliable, safe and less costly. As far as sea transport is concerned, a New Maritime Silk Road mainly means new harbours on the shores along the sea way to Europe, plus railways and roads linking overland and sea routes. The various projects spread over almost all of Asia.

However, as long as it is not clear whether Asian nations want to be integrated and what kind of integration they could agree on, it is not possible to specify the requirements. The fact that most countries along the Silk Route are ruled by autocratic governments makes it easier to realise grand projects, but also to abandon them.

3. Regional cooperation in Asia

The Thai government started an Asian Cooperation Dialogue (ACD) in 2002 with now 34 member states, after regional cooperation and integration had been restricted to parts of the continent, like the Gulf Cooperation Council (GCC), the Association of Southeast Asian Nations (ASEAN) or the South Asian Association for Regional Cooperation (SAARC). The Economic Coordination Organisation (ECO) is in principle an extension of the old Regional Cooperation for Development (RCD) to Central Asia. The Commonwealth of Independent States (CIS) comprises the republics of the former Soviet Union (minus the Baltic states). In 2015 Armenia, Belarus, Kazakhstan, Kyrgyzstan and the Russian Federation formed the Eurasian Economic Union (EEU); Tajikistan is a prospective member. The European Union always had a number of programmes for the Mediterranean countries; Turkey is an associate member waiting for full membership. The European Neighbourhood Policy (ENP) extends to Turkey and the Caucasus. China has its own initiatives with the Shanghai Cooperation Organisation (SCO), the Asian Infrastructure Investment Bank (AIIB) and the Central Asian Regional Economic Cooperation (CAREP).

Some of these organisations have members outside of Asia, like the AIIB (Egypt), EEU (Belarus) or SAARC (Australia, EU, Mauritius, USA). During the Cold War the USA had their military alliances (NATO, CENTO, SEATO) to contain the ‘red flood’ of

communism in Asia; ASEAN and RCD were civilian partner organisations, although most members preferred not to be engaged in the Vietnam War. The latest US attempt to build their own network for economic cooperation, i.e. the Trans-Pacific Partnership (TPP), has been restricted in Asia to the ocean rim;⁶ in mid 2017 the future of TPP is uncertain. A comparison of membership shows that most Central Asian and Caucasus states are members or taking part in programmes led by China (AIIB, CAREP,SCO) and Russia (CIS). China has especially strong ties as ASEAN-Plus-Three member; since 2010 there is a free trade agreement between ASEAN and China. Like Pakistan, India and Russia, China takes part in the ASEAN Regional Forum.

The countries along the Silk Route share geography, history and culture.⁷ Pakistan and India, for example are founder-members of the South Asian Association for Regional Cooperation (SAARC), the South Asia Preferential Trade Area (SAPTA) and the South Asia Free Trade Area (SAFTA), but even after they joined these regional cooperation organisations, they have been at the brink of war (e.g. Kargil 1999), maybe even of a nuclear war. In the disputed territory of the erstwhile princely state of Jammu and Kashmir, a low intensity border war has been going on since decades; Pakistan's and India's engagement in Afghanistan has been called a 'proxy war' by the press.⁸ Both countries blame each other of supporting cross-border terrorism.⁹ There might be no other regional cooperation in the world, where bilateral relations among members are that bad. Pakistan and India are also founder members of the

⁶ Daniel C. K. Chow. 2016. "How the United States uses the Trans-Pacific Partnership to contain China in international trade". *Chicago Journal of International Law*: Vol. 17: No. 2, Article 2. Accessed November 11, 2017. <http://chicagounbound.uchicago.edu/cjil/vol17/iss2/2>.

⁷ Valerie Hansen. 2015. *Silk Road. A new history*. Oxford: Oxford UP (first printed 2012).

⁸ Dean Nelson. 2011. "Afghanistan is a proxy war between India and Pakistan". *The Telegraph*, November 2. Accessed July 30, 2013. <http://www.telegraph.co.uk/news/worldnews/asia/afghanistan/8863073/Afghanistan-is-a-proxy-war-between-India-and-Pakistan.html>.

⁹ Shanthie Mariet D'Souza. 2017. "Countering insurgencies, terrorism and violent extremism in South Asia". *Small Wars & Insurgencies* 28:1-11. London: Taylor and Francis. Accessed May 7, 2017. <http://www.tandfonline.com/doi/full/10.1080/09592318.2016.1266163>.

World Trade Organisation (WTO), which in principle would require them to grant most favoured nation status and non-discrimination to the neighbour. In practice, however, transit trade is hardly possible and trade via third countries is often blamed as smuggling. Atari/Wagah is the only opening for overland trade and transport between Central and Southwest Asia on the one side, and South and Southeast Asia on the other. Pakistan-Indian relations, therefore, are of utmost importance for all Asia.

The same applies to ecology: Under conditions of a dry arid climate, water is the most important production factor in agriculture. Feeding India's and Pakistan's growing population of 1.5 billion people is vital, indeed. Both countries are short of oil and gas and depend on imports from outside the region. Central Asia would provide an alternative to the Gulf countries, but only if pipelines can be laid across neighbouring states.¹⁰ Collaboration is also needed to tap hydroelectric power. Air pollution does not stop at the border. Emerging economies no longer can simply blame the old industrial countries for global warming and a rising sea level. With a rising gross domestic product (GDP) comes also ecological responsibility. Not to forget fish, another flow resource that crosses borders in rivers and coastal waters.

4. Economy and ecology

Travel, transport, energy (including pipelines and transmission lines), trade and fishery appear to be the most important aspects of international economics in the context of regional integration. Contrary to expectations (and some economic theories) geographical distance (as measured by kilometres) is surprisingly irrelevant for the intensity of economic relations between countries (and even within countries). The cost of transportation often makes out only a small proportion of translocation and transaction costs. This applies to Pakistan's as well as to China's international economic relation.

Transnational ecology problems arise when external costs of the use of the natural environment hurt neighbouring countries. Along

¹⁰ Fatima Raza, "Iran-Pakistan Gas". *Issue Brief, February 17, 2017*. Islamabad: Institute of Strategic Studies. Accessed April 28, 2017. http://issi.org.pk/wp-content/uploads/2017/02/Final_IB_Fatima_dated_18-1-2017.pdf.

the Silk Route water is the main flow resource crossing borders. It is also a major source of discontent and sometimes even of war. The fact that most water flowing into Pakistan has first crossed the erstwhile princely state of Jammu and Kashmir led to the Indus Water Treaty that is more clear about dividing waters than about the dividing of the (electric) power potential, inherent in the water.¹¹

But there are also domestic factors with great effect on the ecology and international relations: An overuse of water for irrigation upstream, seeping into the ground or evaporating into the air, is a major reason for a lack of water downstream and reducing the amount of water. Often the quality of water that has been used upstream suffers, as is the case in agriculture (salt), industry (sludge), energy (heat) and private households (sewage). Well meaning domestic policy can have far reaching repercussions within and outside of a country with grave consequences for national security. This is always the case if subsidies lower the price of water and increase its consumption, so that less water arrives at the border. Examples can be found in almost every part of Asia.

5. The New Silk Road

China's New Silk Road comprises several options for reaching West Asia and Europe overland: As an alternative to the Northern Corridor via Manchuria, Mongolia or Xinjiang/Kazakhstan and onwards through Russia, a Central Corridor extends from Xinjiang via Kazakhstan/Kyrgyzstan/Tajikistan/Afghanistan, Uzbekistan, Turkmenistan, across the Caspian Sea, Azerbaijan, Georgia and the Black Sea to Ukraine/Romania/Bulgaria, a Southern Corridor runs from Xinjiang via Pakistan and Afghanistan to Iran and Turkey. A rail connection exists from Pakistan to Iran, Turkey and Europe. The corridors are interlinked.

¹¹ Aloys Arthur Michel. 1967. *The Indus rivers. A study of the effects of partition*. New Haven: Yale UP. – Graham P Chapman. 2000. *The geopolitics of South Asia. From early empires to India, Pakistan and Bangladesh*. Aldershot: Ashgate, 232-252. – Robert D. Kaplan. 2012. *The revenge of geography*. New York: Random House, 228-254. – Mian Ahmad Naeem Salik. 2017. "A new round of water talks between Pakistan – India". *Issue Brief*, March 28. Islamabad: Institute of Strategic Studies. Accessed April 28, 2017. http://issi.org.pk/wp-content/uploads/2017/03/Final_IB_Ahmad_Salik_dated_28-03-2017.pdf.

The China-Pakistan Economic Corridor (CPEC) has been planned as a rail/road link from Kashgar in Xinjiang via the Khunjerab Pass and the Karakoram Highway to the plains of the Indus Valley and onwards to Gwadar on the Arabian Sea. An agreement was signed in April 2015. Different routes have been discussed: Western routes would be via Dera Ismail Khan and Dera Ghazi Khan to Zhob and Quetta and onward to the Makran coast. The Eastern routes would follow the highway from Islamabad via Lahore to Karachi and from there via the Coastal Highway to Gwadar. None is without serious security concerns: The western routes run through tribal areas, the eastern ones are close to the Indian border. In the early 1960s, the US Army Corps of Engineers had worked out a plan of a direct road from Peshawar to Karachi on the right bank of the Indus as a lifeline in case of Indian aggression. Under the name of Indus Super Highway, the project had the full support of Zulfikar Ali Bhutto, but was dropped by his successor, General Zia ul Haq amidst fears that the Soviet after Afghanistan would also invade Pakistan and gain a shortcut to the Arabian Sea.

The CPEC was subject to a lot of speculation. Details became known in connection with the Belt and Road Summit in Beijing in May 2017. Not unexpectedly, China presented a host of corridors to connect with the world, not just the Pakistan one. The Eurasia Corridor and CPEC are two of them. Others would be the Bangladesh-China-India-Myanmar (BCIM) Economic Corridor¹² or the Maritime Corridor. Such corridors are going to become showpieces of China's political will, economic power and technical capability.

India reacted with reviving plans of its own 'New Silk Road', a sea-road/rail link from Mumbai and Kandla to Bandar Abbas in Iran and onwards via Baku to Russia with the North-South Transport Corridor (NSTC) or the Kazakhstan-Turkmenistan-Iran railway.¹³

¹² *Talks on BCIM Economic Corridor to be upgraded to government level.* No place: Xinhua, 26 April, 2017. Accessed 12 November, 2017. http://xinhuanet.com/english/2017-04/26/c_136238431.htm.

¹³ Jack Farshy, James Kyngé, Chris Campbell, and David Blood. 2016. "One belt, one road". *The Financial Times*, 14 September. London. Accessed August 1, 2017. <https://ig.ft.com/sites/special-reports/one-belt-one-road/>– Tian Jinchén. 2016: "'One Belt and One Road' connecting China and the world".

US support is expected for the link from Chabahar to Afghanistan and the Indo-Pacific Economic Corridor, linking India to Southeast Asia.¹⁴

6. The political economy of neighbourly relations among states

In the wake of the 19th century, ‘political economy’ started to drop its qualifier and became ‘economics’ in a drive to make it more respectable. The introduction of scientific rigour led to a mathematisation of the discipline¹⁵ and a mechanistic understanding of economy and society. The unity of social science got lost with increasing specialisation of the various disciplines.¹⁶ Syllabi and curricula reflect this trend with the effect that students study their disciplines in great depth, but more narrowly. Unfortunately, however, real world problems like neighbourly relations among countries and regions tend to be utterly complex and multi-faceted. Sharing natural resources and the environment has become a matter of global concern, now discussed as climate change and rising sea levels. A revival of political economy, the new environmental economics and interdisciplinary studies are attempts to reunite

New York: McKinsey and Company. Accessed October 15, 2017.
<http://www.mckinsey.com/industries/capital-projects-and-infrastructure/our-insights/one-belt-and-one-road-connecting-china-and-the-world>.

¹⁴ “US, India to revive ‘New Silk Road’ seen as counter to China’s Belt and Road project”. *NDTV*, 24 May. New Delhi. Accessed August 1, 2017. <http://www.ndtv.com/india-news/us-india-to-revive-new-silk-road-to-counter-chinas-belt-and-road-obor-project-1697632>. – Wade Shepard. 2017: “Watch out, China: India is building a ‘New Silk Road’ of its own”. *Forbes*, June 28. Accessed August 1, 2017. <https://www.forbes.com/sites/wadeshepard/2017/06/28/watch-out-china-india-is-building-a-new-silk-road-of-its-own/#ae35d7da90ec>.

¹⁵ Gerard Debreu. 1991. “The mathematization of economic theory”. *The American Economic Review* 81,1:1-7.

¹⁶ My own university would be a perfect example: The old ‘Institute of Social and Political Sciences’ where Max Weber, the founder of modern Sociology, and his brother, Alfred Weber, a prominent economist (e.g. location theory), taught, gave birth to Institutes of Political Science, Sociology, Anthropology, Journalism, Statistics, Translation and Ecology. The old Faculty of Philosophy was broken up; at times economists had their own faculty. In other places law was separated from social sciences.

economics, environmental studies and political science again.¹⁷ There are few countries where transnational environmental problems are as serious as in Pakistan.

For decades, regional integration has been seen as a panacea to overcome rivalries among neighbours. The European Union was seen – and still is by many – as a solution to enmities on the continent. And, indeed, there have been no wars in most parts of Europe since more than 70 years, the longest period since centuries. However, we are just finding out that getting closer creates its own problems. Globally, there must have been at least two hundred attempts at regional cooperation in post-colonial times. Quite a number of them are in Asia, the Association of South East Asian Nations (ASEAN) being the best known. Others like the Pan-Beibu Gulf (PBG) Economic Cooperation, the Greater Tumen Initiative (GTI) or the Greater Mekong Subregion (GMS) Economic Cooperation attracted less attention.¹⁸

Pakistan, being a member to several of groupings, is in the centre of this attempt, concentrating on the country's economic and ecological relations with its neighbours and the implications for regional cooperation and integration in Asia.

Economic and ecological relations are to be understood as the exchange of goods, services, capital, ideas, people and natural resources. Natural resources include minerals and primary energy in the ground, water, air and wildlife. Some of them, like minerals and primary energy, are stationary, but can be tapped from across the border (as in the cases of oil and gas). Water, air and wildlife (including fish) move across borders (hence: flow resources). Gravity forces water downhill; while air and sea water can move into various directions. Air and water (on the surface and below) can

¹⁷ Robert Costanza, ed. 1991. *Ecological economics: the science and management of sustainability*. New York: Columbia UP.

¹⁸ *Regional economic cooperation and integration in Asia*. Eschborn: GIZ. Accessed October 15, 2017. <https://www.giz.de/en/worldwide/33082.html>. – *Regional economic cooperation in Asia: Current situation and prospects*. Bangkok: United Nations, Economic Commission for Asia and the Pacific. Accessed October 15, 2017. http://www.un.org/en/development/desa/policy/wess/wess_current/2010wess.pdf.

be used as a sink for ‘bads’, i.e. goods with a negative value, like air pollutants, sewage or agricultural and industrial effluents, carrying toxic or other hazardous substances that when travelling across borders affect neighbouring countries. Noise and heat are further pollutants. An overuse of migrating animals (birds, fish) can have serious adverse effect on the natural environment of neighbouring countries, besides the well-known effects on the global commons (atmosphere, oceans) that are currently discussed.

The problems listed arise among states, but also within. The major difference is that states – in principle – enjoy a set of rules that apply and can be enforced throughout the country. This is less the case in international relations, where rules might be objected and cannot be enforced, even if laid down in international agreements. Economic sanctions and embargoes are rarely successful (if ever) and hurt the weaker sections of the population more than the perpetrators. If we understand intervention as ‘to interfere with force or a threat of force’ (like the Webster’s dictionary), it only can be the *ultima ratio* and, therefore, is used by the international community with restraint.

A deeper understanding of the underlying economic and ecological causes of conflicts should help in framing and pursuing less confrontational policies. As in the case of the oft-quoted and less often understood Tragedy of the Commons,¹⁹ common property needs a prudent use, guaranteed by regulation. However, clearly defined property rights, irrespective of private or public, are not sufficient, if they are not generally accepted.

Pakistan has four neighbours and two near neighbours. It shares geography, history, language, religion and culture with India, Afghanistan and Iran to quite an extent, as empires were stretching far beyond present borders. What became Pakistan was part of a colonial empire that defined its western borders only in late 19th century in continuation of the East India Company’s policy of controlling the western borderlands because of their strategic, rather than their economic value.

¹⁹ Garrett Hardin. 1968. “The tragedy of the commons”. *Science*, 162:1243-1248.

Soon after conquering the Indus Valley, it started to create one of the biggest irrigation networks in the world. The railways were extended up to the borders of Afghanistan and (then) Persia.²⁰ But Pakistan's western neighbours had no interest to be connected by rail. In the north, the mountains constituted a forbidding natural barrier. It was only after Independence that relations with the geographically, historically and culturally most distant neighbour in the north became more intense. China became Pakistan's closest ally and friend, contrary to the other three neighbours, with whom Pakistan shares so much.

How bad relations with regard to the other neighbours are, can be seen from the fact, that Pakistan is increasingly being fenced in, in the east vis-a-vis India and in the west, viz-a-viz Afghanistan and Iran.²¹ The border to Afghanistan was closed again in early 2017 and fire was exchanged across the border.²² At the same time, a discussion is going on in Pakistan's media, whether India and Afghanistan should be allowed to use CPEC, or it would actually increase regional tensions.²³

²⁰ Brian Spooner. 2010: "Baluchistan. I. Geography, history and ethnography". *Encyclopaedia Iranica*. (first printed 1988). Accessed April 21, 2017. <http://www.iranicaonline.org/articles/baluchistan-i>. – *Idem*: "Baluchistan. I. Geography, history and ethnography (cont.)". Accessed April 21, 2017. <http://www.iranicaonline.org/articles/baluchistan-ia>.

²¹ "Iran summons Pakistan envoy over massacre of border guards". *PressTV*, April 28. Teheran. Accessed April 29, 2017. <http://www.presstv.ir/Detail/2017/04/28/519749/Iran-Pakistan>. – Alex Vatanka., 2016. *Iran and Pakistan. Security, diplomacy and American influence*. London: I. B. Tauris (first printed 2015).

²² Tushar Ranjan Mohanty. 2017. "Afghanistan-Pakistan: Border Disorder". *South Asia Intelligence Review*, 15 (May 22) 47. New Delhi: Institute for Conflict Management.

²³ The discussion intensified once it was 'disclosed' that a new UN report had referred to the problem. The report that was immediately published on the internet, however, just repeats common reservation: 'Marginalisation of local population groups could re-ignite separatist movements and toughen military response from the Government. [...] The dispute over Kashmir is also of concern, since the crossing of the CP in the region might create geo-political tension with India and ignite further political instability.' *The belt and road initiative and the role of ESCAP. Advanced unedited copy*, 15. Bangkok: United Nations, Economic Commission for Asia and the Pacific. Accessed May 24, 2017. http://www.unescap.org/sites/default/files/ESCAP%20BRI%20Report_Unedited.pdf.

7. A review of economic and ecological neighbourly relations

Before analysing the causes and consequences of neighbourly problems, let us first have a detailed look at neighbourly relations from different perspectives.

7.1 Trade in merchandise goods

Economic relations are usually judged by the intensity of bilateral trade, with trade understood as trade in merchandise goods. It is also the area where most data are available, and since research follows data, judgements are often derived from quantitative analysis. Unfortunately, much of trade goes undocumented, especially if countries share a land border that is difficult to control.

With Afghanistan:

This especially applies to trade relations of Pakistan and Afghanistan.²⁴ Almost the whole border area is ‘tribal areas’, administered either by the Federal Government (FATA) or by the provincial governments of Baluchistan and Khyber Pakhtukhwa (KP). The FATA with more or less open borders towards Afghanistan, as well as towards Pakistan’s ‘settled areas’ is virtually a free trade zone with some form of control at the border check points of the few paved roads that cross the border and the rest is open to what the tribal population regards as their right and that officially is considered ‘smuggling’. As a land-locked country, Afghanistan enjoys some transfer privileges across Pakistan, i.e. from Karachi to Kandahar (via Quetta) and Jalalabad and Kabul (via Peshawar). Since decades, Pakistan complains that many of the customs exempted goods transported to Afghanistan return instantly and appear on Pakistan’s black markets. Furthermore, some of the wares never reach Afghanistan and are unloaded on the way. Thousands of containers just get lost.²⁵ New tracking devices are

²⁴ Wolfgang-Peter Zingel. 2014. “The economics of Pakistan-Afghanistan relations: implications for the region”. *India Quarterly*, 70,1: 1-14. New Delhi: Sage.

²⁵ Mujahid Raza. 2017. “Electronics worth billions smuggled into country: Customs”. *Daily Aftab*, September 27. Accessed October 15, 2017. <http://dailyaftab.pk/2017/09/06/electronics-scandal-customs/>.

planned to be introduced, but it needs time until they become effective.

On top of it, most of Afghanistan's exports are illegal, i.e. weapons and narcotics. All this explains the absurdly high deficit of Afghanistan's balance of trade. Afghanistan has started to shift imports to Chabahar in Iran, rather than via Karachi.²⁶ As far as statistics are concerned, we neither know the number of population in Afghanistan, nor their production and income, nor the amount of trade.

With India:

In the case of India, the situation is just the opposite: Since the war of 1965, the border has been hermetically closed, especially the northern part of it, where it runs through densely populated areas. Thinly populated deserts and marshes in the south allow aerial surveillance. Trade through the single trading post at Atari/Wagah, on the old Grand Trunk Road that connects Lahore with Amritsar (and Islamabad with Delhi) is very limited; most goods come and go by sea. 'Smuggling' is less across the land border, but through third countries, mostly via harbours in the Persian Gulf like Dubai. Goods can be easily re-labelled. Whether the unaccounted trade is still more than the official one, cannot be ascertained, but the official trade has grown over recent years, although just in step with overall growth of trade that has been substantial over the last two decades.

With Iran:

Trade with Iran has suffered since the days of Pakistan-Iranian friendship of Zulfikar Ali Bhutto and the Shah of Iran. Until the Iranian Revolution (1979), Iran was the economic super power of southwest Asia, especially after the OPEC cartel had raised the oil price in 1973. Iran for a short while became a major donor of Pakistan. In the years of the first Gulf War, i.e. after the Iraqi invasion of Iran's oil fields, it started to re-route some of its foreign trade through Pakistan. There are no official figures, as military

²⁶ Victor Mallet. 2016. "India to bypass Pakistan on the road to Central Asia. The Financial Times, May, 24. 2016. Accessed November 13, 2017. <https://www.ft.com/content/8510176c-2188-11e6-9d4d-c11776a5124d>.

hardware usually is not subject to customs control and trade statistics. With Pakistan becoming a close ally of the USA again after 1979 and also after 9/11 of 2001,²⁷ the tensions between the USA and Iran, the falling oil price in the 1980s and 1990s and Iran's overall lacklustre economic performance, trade suffered and Iran no longer is a major trading partner of Pakistan.

The statistical data may not show the whole picture, especially for the years before the embargo was partially lifted. After Iran was cut off from international finance, dealings became more difficult. In the case of India, it is known that Iran and India decided for deferred payment: Iran sent oil to India that was paid for much later. It would not be surprising to hear that part of Iran's oil exports went unaccounted, especially after the country had to return to barter trade.

With China:

Despite a lack of much historical and cultural commonness with China, the People's Republic rose to become Pakistan's major trading partner. The political reasons are too well-known to have to be retold.²⁸ But the fact that China is the most prominent trading

²⁷ Stephen P[hilip]Cohen and others. 2011. *The future of Pakistan*. Washington, D.C.: Brookings Institution. –C. Christine Fair. 2011. "The U.S.-Pakistan F-16 fiasco". *Foreign Policy*, 3 February. Accessed May 11, 2017.<http://foreignpolicy.com>. – Christophe Jaffrelot. 2015. *The Pakistan paradox: Instability and resilience*. Gurgaon: Random House India (Le syndrome pakistais. Paris: Fayard, 2013). – *Idem: Pakistan at the crossroads. Domestic dynamics and external pressures*. New York: Columbia University Press. – Ayesha Jalal. 2014. *The struggle for Pakistan. A Muslim homeland and global politics*. Cambridge, Massachusetts: The Belknap Press of Harvard University Press. –Anatol Lieven. 2011. *Pakistan: A hard country*. London. Allan Lane. – Daniel S. Markey, 2013. *No exit from Pakistan. America's tortured relationship with Islamabad*. Delhi: Cambridge UP. – Ahmed Rashid. 2012. *Pakistan at the brink. The future of America, Pakistan, and Afghanistan*. New York: Viking. – Teresita C. Schaffer. 2017. "Pakistan and the United States: A More Turbulent Ride?" *Asia Policy*, 23: 49-56. Seattle: The National Bureau of Asian Research. Accessed March 24, 2017.http://www.nbr.org/publicatioEspens/asia_policy/free/03312017/AsiaPolicy23_US-Asia_Relations_January2017.pdf.

²⁸ Andrew Small. 2015. *The China-Pakistan axis. Asia's new geography*. London: Hurst.

partner of 120 countries, including India, allows the conclusion to be drawn that China might have risen to become Pakistan's premier trading partner anyway. Like in the case of India, most of the trade enters Pakistan not overland, but via the sea.

Trade figures reported by individual countries often do not match. This especially applies to trade between Pakistan and China. China reports much more exports to Pakistan than Pakistan reports imports from China, e.g. in 2014 with 'Chinese figures for imports (US\$2.8 bn) and exports (US\$13.2 bn) being much higher'.²⁹ Such discrepancies point to massive misreporting of trade and are used as indicators of money laundering and tax evasion on the largest scale.

Trade in merchandise goods in international comparison:

Pakistan's trade in merchandise goods has expanded substantially since the early 2000s, from US\$25 bn in 2003 to US\$ 66 in 2015; however, the export performance has not improved over the last years. In 2015, exports amounted to just half of imports, with a trade gap as much as total exports. 2003 had been an exceptional year with a trade gap of just 9 per cent of export earnings. In the following years, the gap reached a maximum of 109 per cent in 2007, fell in the following years and stood at 99 per cent in 2015.³⁰

China was the biggest trading partner in 2015; the volume of bilateral trade was US\$ 13 bn, with a vast and increasing trading gap of US\$9 bn, more than four times what Pakistani exports to China. Trade with India had reached US\$2.5 bn in 2014, but has fallen back to US\$2.0 bn in 2015. Imports from India were up to almost five times as much as in imports (2011: 489 per cent) and are still not much less (2015: 435 per cent). Trade with Iran was US\$1.2 bn in 2009 and fell to US\$229 million in 2014 and to US\$293 in 2015. Except in 2012 the trade gap was always substantial. In 2015 imports from Iran were more than seven times Pakistani exports. Only with Afghanistan the trade balance was positive at a volume of

²⁹ Wolfgang-Peter Zingel. 2015. "China's Pakistan option". –*UN Comtrade Database*. New York: United Nations, Department of Statistics. Accessed March 23, 2017. <https://comtrade.un.org/data/>.

³⁰ *UN Comtrade Database*.

trade of US\$ 2.1 bn in 2015 after US\$ 2.9 bn in 2011. Pakistani exports exceeded imports by around factor ten. The trade surplus has been up to US\$2.5 bn (2011) and 95 per cent (2005). It has become less in absolute and relative terms and stood at US\$1.3 bn and 77 per cent in 2015.³¹

Chinese figures differ from Pakistani ones substantially: Trade, especially exports, were much higher than reported by Pakistan: According to UN Comtrade for 2015, China reported export of merchandise goods to Pakistan of US\$16.5 bn and imports of US\$2.5 bn or a trade volume of US\$19 bn with a trading gap of US\$14 bn or 85 per cent of export earnings. The difference in the trading gaps reported by the two neighbours amounts to US\$5 bn, a substantial sum, or a quarter of the official trade gap of Pakistan in 2015 (US\$21.9 bn). How this enormous difference can be explained is subject to speculation.³²

Around one quarter of Pakistan's total trade (Pakistan reporting) is with the four neighbours. That is more than in many other countries. The trade balance with the neighbours is negative as is the case for Pakistan's foreign trade in general. As lined out, there is considerable unaccounted trade in the case of Afghanistan. Trade with China would be much more if Chinese figures are believed (see above). The illegal trade with India is mostly via third countries and, thus, more a matter definition. Trade with Iran most probably also suffers from under-reporting, but given the recent scale of the bilateral trade, even a substantial higher volume would pale in comparison with the unaccounted trade with Afghanistan. Trade with the neighbours has increased over the last 13 years covered by UN Comtrade. This especially applies to trade with China that more than ten-folded. But also trade with India and Afghanistan grew faster than overall foreign trade. This is not the case for Iran with its dramatic ups and downs.

Further developments will depend on Pakistan's ability to mobilise funds for an almost unlimited demand for foreign products.

³¹ Ibid.

³² Ibid.

For the time being, the range of export products is limited³³ and the markets in neighbouring countries, especially China and India are highly competitive, whereas Afghanistan and (still) Iran lack the funds to buy more from Pakistan.

The regional trade matrix of Pakistan and its neighbours:

Regional trade (merchandise goods) among Pakistan and its four neighbours amounted to (2016) US\$264 bn or about five percent of the aggregated foreign trade (exports and imports) of the five countries (2015: US\$4.8 trn). The regional trade was dominated by China-India bilateral trade that made out more than half of all regional trade, followed by China-Iran trade. India-Iran trade was ahead of China-Pakistan trade. It would be much more, if the Iran embargo would be further lifted. Iran reported much lower imports than the corresponding exports of the China (US\$8.4 bn and US\$16.7 bn) and India (US\$1.4 and US\$ 2.4 bn) (IMF 2017).³⁴

7.2 Trade in commercial services

Trade in commercial services comprises a variety of mostly intangible goods like transport, tourism, financial services, business processes and use of intellectual property. Transactions across border are difficult to control like the *hundi* (in India: *hawala*) system of money transfers. As in the case of merchandise goods, trade in services goes often unaccounted.

According to official sources, Pakistan's trade in commercial services reached US\$ 14 bn in 2015 or 22 per cent of trade in merchandise goods. That is a little less than the international average. In any case, overall trade in services has not grown as fast as commonly expected. Exports of services were less than imports with a negative balance of trade in services at US\$ 2.4bn or 41 per

³³ Hamna Ahmed, Naveed Hamid, and Mahreeen Mahmud. 2015. "Export lessons from the past and the way forward". *Pakistan. Moving the economy forward*, edited by Rashid Amjad and Shahid Javed Burki, 135-170. Delhi: Cambridge University Press.

³⁴ *Direction of trade statistics*. Washington: International Monetary Fund. Accessed April 4, 2017. <http://data.imf.org>

cent of services exports. That was better than in the case of trade in merchandise goods.³⁵

Trade in commercial services fluctuated considerably over the years. Exports rose from US\$ 3.0 bn in 2003 to US\$ 6.6 bn in 2012 and fell to S\$ 5.8 bn in 2015; imports rose in the same time from US\$ 3.3 bn to US\$ 9.7 bn in 2008 and stood last at US\$ 8.1 bn. Total trade almost doubled from US\$ 6.3 bn to US\$ 13.9 bn; the trade balance was negative throughout but was as low as US\$ -0.3 bn in 2003 and US\$ -0.5 bn in 2010 and as high as US\$ -5.5 bn in 2008; it stood at US\$ -2.4 in 2015. Measured by export earnings, it was between -8 per cent in 2010 and -142 per cent in 2006. At 41 per cent in 2015 it was less than in most years (UN 2017).

Services traded most in 2015 were transportation, government services, 'other' business services and travel, with a trade surplus in government services, and computer and information service, while transportation, travel and 'other' business services' showed the highest deficits. In relative terms royalties and licence fees, travel, transportation and financial services are the areas where Pakistan depends most on foreign services.

The four neighbours are much less important partners for trading services than for trading merchandise goods: Pakistan's total trade in services with the four neighbours was just US\$ 0.74 bn or 5 per cent of total trade in services. Among the four neighbours, China stood out; Pakistan's services trade with China was more than eight times as much as with the other three countries together. Import of services from China was almost ten times exports and even more than ten times with India (although on a much lower level). Pakistan's exports to Afghanistan and Iran was more than imports and the trade balance positive, but the amounts were even lower, and in the case of Iran almost nil.³⁶

There are no detailed data available on neighbourly trade in services, but given the low weight of the neighbours in overall trade in services, one cannot expect any one of them being overly

³⁵ *UN Comtrade Database.*

³⁶ *Ibid.*

important for trading any of the services commodities. Furthermore, neighbourly trade does not necessarily mean trade across a common border. This especially applies to China, the most important trading partner for services. Trade in merchandise goods requires physical transport and other trade related services, but most of Pakistan's trade with China is transported by sea and not across the Khunjerab Pass. The transport capacity of the Karakoram Highway is lamented as being too limited for much more traffic,³⁷ despite absurd expectations as those of the Chief Economist of Pakistan's once powerful Planning Commission: 'Pakistan expects up to 4 per cent of global trade to pass through it by 2020'.³⁸

Most of overland travel and transport between Pakistan and its neighbours is with Afghanistan that obviously is not being accounted. It does neither enter the trade statistics, based on border controls, nor the financial statistics collected by the State Bank of Pakistan. The latter require a financial transaction with a foreign bank, but not payments within the country (as would be the case if a transport bill would be paid in the country where the service originates). As a land-locked country, Afghanistan depends on transit trade across its neighbours, but most of travel and transport of the millions of Afghans living and working in Pakistan most probably is provided on cash basis, delivered personally or with the help of extended family networks.

7.3 Capital movements

Pakistan imports twice as much as it exports, leaving half of the import bill to be covered by remittances of Pakistanis working abroad and by foreign loans. Of course, imports can be also paid for by drawing on foreign exchange reserves, but they are limited and sufficient only to cover import costs for a few months and needing constant replenishment. The same applies, strictly speaking, to foreign loans that have to be repaid. In the early days, foreign aid

³⁷ Syed Irfan Raza. 2016. "Karakoram Highway inadequate for CPEC traffic, says Senate panel". *Dawn*, November 7. Karachi. Accessed May 19, 2017. <https://www.dawn.com/news/1294813/karakoram-highway-inadequate-for-cpec-traffic-says-senate-panel>.

³⁸ Drazen Jorgic. 2017. "4pc of global trade to pass through CPEC by 2020", 1. *Business Recorder*, May 11. Karachi.

was often given as grant,³⁹ but those became more and more reserved for the ‘least developed’ countries like Bangladesh. In a few instances debt has been waived. Technically, the Coalition Support Fund (CSF) might be treated as a grant, but one could argue that it basically is a payment for military services export.

In older statistics, home remittances of Pakistani working abroad entered the balance of payments as private unrequited transfers. Unrequited, because it is not exactly a remuneration for labour exported, but voluntary contributions of Pakistani working abroad, sent home to support their families. Exact figures are difficult to come by, for details see below.

Capital imports enter the balance of payments as direct, portfolio and ‘other’ investment. Direct foreign investment was US\$ 0.9 bn in 2015. In 2015-16 (June to April) 54 percent originated in China.⁴⁰ There are considerable fluctuations in capital movements. Pakistan, however, never has been the destination of really large scale foreign investment. The (assumed) considerable funds from outside that enter Pakistan unaccounted are usually held to be home remittances of workers abroad to be consumed rather than being invested, as has been lamented in a string of research papers.

In the early days of development economics, explanations were sought for the spectacular growth of latecomers to industrialisation such as Japan, where ‘dual landlords’ invested their profits from agriculture in industrialisation, while ‘surplus labour’ migrated to the city, where they consumed the ‘surplus’ agricultural production (food). In Pakistan, industrialisation and urbanisation remained slow, ‘surplus’ labour (mostly male) went abroad. The money they sent home was needed for repaying (private) debt, often related to the substantial costs caused by emigration (i.e. paper work, commissions, travel, bribes) and family obligations like marrying

³⁹ Parvez Hasan. 2015. “Failed economic promises: Lessons from Pakistan’s development experience”. In *Pakistan. Moving the economy forward*, edited by Rashid Amjad and Shahid Javed Burki, 22-47. Delhi: Cambridge University Press.

⁴⁰ *Economic Survey 2015-16*. Islamabad: Government of Pakistan, Ministry of Finance. Accessed May 13, 2017. http://www.finance.gov.pk/survey_1617.html.

off sisters and daughters, and sustaining spouses, children and parents. Expenditures of migrant workers follow a pattern, where education of the children and building a house figure prominently once the most urgent needs have been taken care of. This is also the case in Pakistan. Although building a house is counted as investment in national accounts, it has been seen, not only by Marxists, as less urgent consumption. Most economists would agree, however, that expenditure for education increases the 'human capital', although it enters national accounts under consumption (depending who pays, under 'private' or 'government consumption').

On these lines, one could argue that remittances, indeed, to some extent should be seen as investment and should be attributed to foreign income. However, Pakistan national accounts works with a number of quite general consumption: In the absence of better figures, the amount of cement used served as a proxy for construction, and is counted as investment, without giving credit to the source of funding.

This has also relevance to the topic of this paper, not because any of the neighbours is the source of any substantial remittances (however, Iran was before 1979), but Pakistan itself became a major source of home remittances of Afghan refugees, who have been flooding the country since the Saur revolution in Afghanistan in 1978. As shown above, Afghanistan suffers from an extreme deficit in its balance of trade. Much more than Pakistan, Afghanistan depends on the home remittances of its people abroad. There are no reliable figures on the number of Afghans neither inside nor outside of the country. The figures that appear in official documents and research reports are commonly in the range of 20 to 30 million, but also smaller and larger numbers can be read. During the almost forty years of war, there had been waves of refugees out of and into the country. Pakistan accommodated up to five million refugees or more alone, the largest number anywhere since decades. They could move around freely in the country and take up work. Only some of them had been registered. Urdu, the national language of Pakistan, is understood now in large parts of Afghanistan.

Until the war, the Kabul money market was world famous for its efficiency and reliability and functioned with a minimum of paper

work, if at all. Part of it shifted to Peshawar. Afghan banks, when functioning, were not involved in most transactions; some of the business went via third countries. There are a number of studies on Afghan remittances, but the picture is not very clear.⁴¹ It appears that Afghan refugees residing in Pakistan are not or not much better off than their relations in Afghanistan. Amounts are small, sent rarely and irregularly. There are remittances from Pakistan to Afghanistan and in the opposite direction. Much, if not most, is hand carried. Surveys and interviews seem to suffer from under-reporting. Nevertheless, under conditions prevailing in Afghanistan, remittances from Pakistan play a considerable role that cannot be read from official figures. As long as the border was comparatively easy to cross, leaving the country (again) was an option that Afghans rarely enjoy elsewhere. Iran has become stricter on Afghan refugees, which partly explains why Iran appears as the most prominent source of remittances: Migrants usually close their bank accounts abroad before they return for good.

Husain⁴² refers to the five billion US-dollar gap between Pakistani and Chinese figures of bilateral trade as an indicator of massive unaccounted financial flows between the two countries, directly or indirectly.

8. Beyond borders: Neighbour's neighbours

Pakistan's four neighbours border dozens of countries, covering almost all of mainland Asia. Most of Asia can be reached by

⁴¹ Katrin Marchand, Melissa Siegel, Katie Kuschminder, Nassim Majidi, Michaella Vanore, and Carla Buil. 2014. *Migration profile: Afghanistan*. Kabul: International Organization for Migration. Accessed March 24, 2017. <http://publications.iom.int/books/migration-profile-afghanistan>. – Michaella Vanore, and Katrin Marchand. 2013. *Afghanistan remittance overview and trends. Annex to Afghanistan migration profile*. Kabul: International Organization for Migration Afghanistan [no date]. Accessed October 15, 2017. www.merit.unu.edu/publications/uploads/1442240401.pdf.

⁴² Khurram Husain. 2017. "Black into white: Inside money laundering". *Dawn*, March 26, Karachi. Accessed April 13, 2017. <https://www.dawn.com/news/1322817/black-into-white-inside-money-laundering>. – *Idem*. 2017. "Trading priorities". *Dawn*, April 13. Karachi. Accessed April 13, 2017. <https://www.dawn.com/news/1326542/trading-priorities>. – *Idem*. "Deficits and reserves". *Dawn*, June 15. Karachi. Accessed June 15, 2017. <https://www.dawn.com/news/1339586/deficits-and-reserves>.

crossing just two borders: China has 14 neighbours, India and Afghanistan have six each and Iran has nine. Pakistan, Iran and China (and India by own account) border Afghanistan; Pakistan, Afghanistan and China border India.

Neighbourly relations of Pakistan's neighbours are especially strained in the case of India (with the exception of Bhutan) that had been at war with China in 1962 and justified its nuclear 'coming out' with 'that other country', despite the fact that China has become India's major trading partner. The main reasons for discontent are territorial claims (Aksai China, 'Southern Tibet'/Arunachal Pradesh) and water, i.e. China's plans to bifurcate water from the Tsangpo (Brahmaputra) to southeast China.⁴³

9. Conclusion

Asia has seen a number of initiatives of regional integration. Pakistan is a member to several ones that link the country to South (SAARC, SAPTA, SAFTA), West and Central (ECO) and East Asia (SCO). Pakistan has four neighbours. Relations, however, are not best with those which the country shares geography, history and culture, but with the one that is separated by the highest mountains. This paper has looked at economy and ecology as factors of bilateral relations. Economic relations are closest with China, much less, but improving with India⁴⁴ and surprisingly less with Iran, once a close ally.⁴⁵ The exchange of goods, services, capital, ideas and people is not sufficiently reflected by official statistics: This especially applies

⁴³ Alka Acharya. 2008. *China and India: Politics of incremental enlargement*, 209. New Delhi: Har-Anand.

⁴⁴ Sucha Singh Gill, Ranjit Singh Ghuman, Inderjeet Singh, Lakhwinder Singh, Sukhwinder Singh, and Jaswinder Singh Brar. 2012. *Economic cooperation and infrastructural linkages between the two Punjabs: Way ahead*. Chandigarh: Centre for Research in Rural and Industrial Development (first printed 2010).

⁴⁵ Muhammad Taimur Fahad Khan. 2016. Press Release: Public Talk on "Iran and its Surroundings", August 10. Islamabad: Institute of Strategic Studies, Islamabad. Accessed April 28, 2017. <http://www.issi.org.pk/public-talk-on-iran-and-its-surroundings-press-release/>. – *Idem*. 2016. *Regional Connectivity: Benefits for Pakistan. Issue Brief September 22, 2016*. Islamabad: Institute of Strategic Studies. Accessed April 28, 2017. http://issi.org.pk/wp-content/uploads/2016/09/Final_IB_Taimur-Khan_dated_26-9-2016.pdf.

to economic relations with Afghanistan due to more or less open borders, with India because of third country trade and with China because of under-invoicing of imports. Nevertheless, around a quarter of foreign trade is with the neighbours. That is more than in many other countries.

Travel, transport and trade across the borders is highly restricted by geography (China), national (Afghanistan and India) and international (Iran) politics. In the case of India, however, it is mainly ecology, i.e. the use of natural resources, which determines the relations of the two main powers on the subcontinent. Pakistan still is an agricultural country, situated in a region with an arid climate with high seasonal rainfall and a topography that does not allow storing needed quantities of water behind barrages and dams. Most of the water that is used for irrigation comes from rivers that originate or cross areas controlled by India. The fact that the erstwhile princely state of Jammu and Kashmir is claimed and partly controlled by India, adds to the problems. There are no such problems with the other neighbours, except for the Kabul River that enters from Afghanistan.

But Pakistan is also a factor for the neighbours' development. Afghanistan has been investing in infrastructure that allows bypassing Pakistan, although connecting the centres of population to the sea would be less costly via Pakistan. Travel, transport and trade between Iran and Afghanistan on the one side and India on the other would be much easier and cheaper if it would not be restricted. The whole of southern Asia would benefit.⁴⁶

Solving the question of water would be much more difficult: It would require a change of policy in both countries with emphasis on water saving techniques and cropping patterns, especially in agriculture.

⁴⁶ Husain Haqqani. 2016. *India vs. Pakistan: why can't we be just friends*. New Delhi: Juggernaut. – I. P. Khosla. 2014. *How neighbours converge: The politics and economics of regionalism*. New Delhi: Konark.

The study underlines that the role of economy and ecology in international relations. Interdependencies of economy, ecology, international relations and national security are substantial indeed.⁴⁷

⁴⁷ Yu Xiaofeng. 2017. "China-India non-traditional security cooperation: Inevitabilities and possibilities". *China-India Brief*, 92. April 11-25. Singapore: Lee Kuang Yew School of Public Policy, National University of Singapore. Accessed October 15, 2017. <http://lkyspp.nus.edu.sg/cag/publication/china-india-brief/china-india-brief-92#guest>. – Wolfgang-Peter Zingel. 2010. "National security and economic development: Securing development - developing security". In *Economic impacts of crisis response operations. An underestimated factor in external engagement*, 81-133, edited by Walter Feichtinger, Markus Gauster, and Fred Tanner. Vienna: Landesverteidigungsakademie.



Institute of Strategic Studies Islamabad (ISSI)
Sector F-5/2, Islamabad, Pakistan
Tel: 0092-51-9204423, 0092-51-9204424, Fax: 0092-51-9204658
Email: strategy@issi.org.pk Website: www.issi.org.pk