



# SOUTH ASIAN STUDIES

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## Articles

- Problems of Urban Local Government in Bangladesh : A Review  
*Musleh-ud-din Ahmad and  
Firoz Ahmed*
- Development of Foreign Investment Policies in Bangladesh: Factors which Influenced Liberalization  
*Sajjad M. Jasimuddin*
- Savings Income Relationship in a South Asian Country : Bangladesh  
*M. A. Razzaque and  
Muhammad Shofiqul Islam*
- Economic Cooperation Among SAARC Countries : Challenges and Prospects.  
*Arif Sultan*
- Foreign Policy Motives of U.S. Aid to Pakistan : The Cold War Years  
*Naheed Zia Khan*
- Incomplete Partition Process : Kashmir and Self - Determination.  
*Masood Hasan*
- Book Review
- Statements — SAARC
- Select Bibliography
- Chronology

JULY 1995

## SOUTH ASIAN STUDIES

RAFIQ AHMAD

*Editor*

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- |  |     |   |
|--|-----|---|
| Musleh-ud-din Ahmed<br>and<br>Firowz Ahmed       | 1   | Problems of Urban Local Government<br>in Bangladesh : A Review  |
| Sajjad M. Jasimuddin                             | 17  | Development of Foreign Investment<br>Policies in Bangladesh : Factors which<br>Influenced Liberalization        |
| M. A. Razzaque<br>and<br>Muhammad Shofiqul Islam | 33  | Savings Income Relationship in a<br>South Asian Country : Bangladesh  |
| Arif Sultan                                      | 43  | Economic Cooperation Among<br>SAARC Countries : Challenges and<br>Prospects.                                    |
| Naheed Zia Khan                                  | 53  | Foreign Policy Motives of U.S. Aid to<br>Pakistan : The Cold War Years  |
| Masood Hasan                                     | 65  | Incomplete Partition Process : Kashmir<br>and Self - Determination.   |
|  | 69  | Book Review   |
|  | 71  | Statements<br>South Asian Regional Cooperation  |
|  | 97  | A Select Bibliography of Books and<br>Periodical Literature on South Asia<br>and SAARC<br>January to June, 1995 |
|  | 111 | Chronology of Important Events<br>South Asian Region<br>January to June, 1995                                   |

# Problems of Urban Local Government in Bangladesh : A Review

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MUSLEH-UD-DIN AHMED

and

FIROWZ AHMED

## INTRODUCTION

Bangladesh was a part of the Indian sub-continent under British colonial rule until it became the eastern part of Pakistan in 1947. In 1971, became a Bangladesh as an independent state. The country began with a Westminster style of parliamentary government. But it soon plunged into a series of political turmoils and a sequence of military coups. Within few years of independence, the form of government became one of the key issues in political debate and conflict. The parliamentary system was replaced by the presidential form in 1975, which soon became identified as the vehicle for autocratic concentration of power under each successive government. When nine years of autocratic rule was ousted after an unprecedented mass movement in late 1990, one of the basic issues on which national consensus was believed to be achieve was the need for a return to parliamentary form of government. Eventually constitutional amendment was made and at present, the Constitution provides a parliamentary system where the executive authority is vested in Prime Minister and the Cabinet is responsible to the *Jatia Shangshad* (Parliament) comprising 330 members.

In accordance with the provisions of the Constitution, the function of the government is conducted by a number of ministries comprising one or more divisions responsible for the administration of a general area headed by a Minister as political head and a Secretary as official head located in the

Bangladesh Secretariat which is considered as the nerve-centre of Bangladesh Public Administration. In the Secretariat, each Ministry is composed of one or more divisions headed by a Secretary or an Additional Secretary which is further divided into one or more wings, several branches and sections, each looked after by a Joint Secretary, Deputy Secretary and Assistant Secretary respectively. Beyond the Bangladesh Secretariat, public policies are implemented by the Departments and Directorates attached to the ministries. The country's public administration structure comprises a network of the units of administration consisting of five Administrative Divisions, sixty-four Districts and four hundred and sixty Thanas (former Upazila). A division is headed by a civil servant known as the Divisional Commissioner, a district by a Deputy Commissioner and the Thana by a Thana Nirbahi Officer, each functioning as the field establishment of central administration.<sup>1</sup>

Side by side, the local bodies are organised to correspond to the administrative units of the country as provided in the Constitution. There are two categories of local government bodies operating in the rural and urban areas functioning on the legal basis of their respective Ordinances and Acts. At present, only Union Parishad is functioning in rural areas. But in the urban areas, two forms of urban local bodies are functioning with their respective jurisdiction of area and authority, i.e., four City Corporations at the four metropolitan cities which are also divisional headquarters and one hundred and nine Pourashavas at the sixty district towns and forty-nine thana level urban centres. At the National level, their activities are coordinated by the Ministry of Local Government, Rural Development and Cooperatives. The administrative units and controlling authority as well as Urban Local Government Bodies are shown in the Table 1.

TABLE I  
Administrative Units and Controlling Authority as well as  
Urban Local Government Bodies in Bangladesh

Administrative Units	No.	Controlling Authority as well as Urban Local Government Bodies	No.
National Level :	-	Ministry of Local Government, Rural Development and Cooperatives	-
Divisions	5	City Corporation	4
Districts	64	Pourashava	60
Thanas	460	Pourashava	49

Source : Government of Bangladesh, Ministry of Local Government, Rural Devision and Cooperatives.

In recent times, the urban local government has been getting increasing importance due to the rapid growth of urban areas in the country. These are also enjoying more power and are being entrusted with growing responsibility to render service to the city dwellers and hence occupying significant position to manage urban affairs.<sup>2</sup> The unique characteristics is that the Mayor who is the chief executive of the City Corporation and the Chairman who is the head of the Pourashava are directly elected by the people.<sup>3</sup> The execution of government policies of a Ministry or a Division is carried out by the different field level tiers of administration as well as local government units. But how far the urban local government units will be successful in discharging its development function and fulfilling the people's aspiration depends to a great extent on its measures to eradicate the functional problems. The present study is aimed at addressing these and other related issues. The principal purpose of this study is to assess the functioning of the urban local government system as well as its problems in Bangladesh with special reference to some City Corporations and Pourashavas.

### **FUNCTIONAL JURISDICTION OF CITY CORPORATIONS AND POURASHAVAS**

According to the different statutes, the different urban local bodies, i.e., City Corporation and Pourashava, in their respective areas are responsible for the promotion of public welfare and development activities and to ensure civic facilities for the local people. These units are also responsible for ensuring people's participation in the local nation building activities. City Corporations and Pourashavas in Bangladesh are statutorily bound to undertake several functions as specified in their respective ordinances which are more or less similar in nature. According to the provision of the statutes, some services are mandatory and others are optional but sometimes become obligatory under government order which are spelled out in their respective statutes.

The compulsory functions include the provision of sanitation and water supply facilities, removal of refuse, registration of births, deaths and marriages, prevention of infectious diseases, maintenance of lighting in public streets; maintenance of educational institutions. The optional functions are those which a Municipal Committee may wish to undertake on the basis of local circumstances and availability of funds. Such optional functions range from the provision of various public health activities, social welfare, education and cultural facilities. The optional function may sometimes be performed to a City Corporation or a Pourashava by government instruction under special circumstances. Apart from these formal functions, both City Corporations and



Pourashawas also perform some additional functions which include issuance of birth, death, character and nationality certificates.

### PROBLEMS OF CITY CORPORATIONS AND POURASHAVAS

In Bangladesh, the government delegates principal civic functions to the City Corporations and Pourashavas. But the proper functioning of these bodies is hampered by a surfeit of problems.<sup>4</sup> Financial constraints and political interference are just some of them.<sup>5</sup> There are then problems of representation, overlapping of functional jurisdiction and lack of coordination with other bodies in performing their activities. These problems call for immediate action if the goal of urban development is to be achieved. In the following, some of the organisational, administrative and operational problems as well as anomalies are discussed.

#### Organisational and Structural Problems

The very composition of the urban local bodies are not structurally sound. The scope for political interference remains to a large extent.<sup>6</sup> The Mayor and the Commissioner of a Corporation or the Chairman and the Commissioner of a Pourashava are representatives of the people who are directly elected by the people for a term of five years. But the Ministry has power to dismiss or to suspend any Commissioner, Chairman or even Mayor with just the stroke of a pen.<sup>7</sup> Reasons cited for such dismissal are trite. There are unspecified charges of abuse of power or criminal offenses. The government can also supersede a City Corporation or a Pourashava on the grounds of inefficiency and abuse of power. And all this it can do in the name of public interest. The government tends to use this lever against the Mayor or the Chairman who belongs to opposition political parties. As for example, the government dismissed the elected Chairman of Rangpur and Bhola Pourashavas in 1988 on the same grounds. Another weapon in the government's armoury to influence the course of urban local bodies is a provision for indirect election of women commissioners. Ingratiated as they are the women commissioners always toe the government line and vote for the government when controversy arises over a certain policy in a given local body.

#### Administrative Problems

Like any other developing country, urban areas in Bangladesh expand with the influx of people in increasing numbers from the rural areas. Urbanisation is expanded but not the level of urban services and quality of

urban management.<sup>8</sup> As a consequence, they face a number of administrative obstacles to the delivery of civic services. Limited financial resources and acute shortage of trained personnel make the problems worse.<sup>9</sup> Another major impediment is the weakness in the existing urban local laws. The functional jurisdiction of other urban development bodies and urban local bodies overlaps most of the time. There is no proper planning strategy for urban areas in local and national levels.

However, there are no evidences to suggest that the City Corporations and Pourashavas ever took any development plans in connection with the national plan and in coordination with other development agencies. Neither is there any umbrella organisation to supervise their activities nor any system whereby cooperation among them could be achieved. Although the City Corporation and Pourashavas are responsible for ensuring civic facilities to the urban people, they still do not have any direct linkages with other development agencies of the government responsible for the implementation of development programmes. There is no clear-cut policy to determine their relative stands. This, therefore, causes reckless use of development fund, mainly by those who has stronger political influence in a given area. The result is obvious and haphazard, unplanned and uncoordinated delivery of services. In short, the existing legal framework is complex, ambiguous and conflicting.

#### **Problems of Coordination and Overlapping of Functions**

The City Corporations and Pourashavas are the local self-government bodies in urban areas. Side by side, there also exist some other urban development and services organisations like Rajdhani Unnayan Kartipakka (RAJUK), Chittagong Development Authority (CDA), Water and Sewerage Authority (WASA), Department of Public Health Engineering (DPHE), Housing and Settlement Directorate (HSD) and Urban Development Directorate (UDD) for performing certain specialised functions. So, proper urban services require combination of well organised efforts by various urban bodies.

Expansion of urban areas and Population growth have increased the involvement of the government in a large number of development activities.<sup>10</sup> But due to the lack of a long term development programme and lack of people's participation, informal employment sector has increased often without proper direction which has induced the people to set some unauthorised services. The UDD and the HSD deal with all matters relating to the preparation or adoption of new urban housing plan and development of housing schemes for urban areas. But both are under the control of the

Ministry of Works whereas all the urban local bodies and administratively controlled by the Ministry of Local Government, Rural Development and Cooperatives.<sup>11</sup> It results in clashes among the departments and encourages the central authority to intervene. The government's avowed policy of decentralisation become the ultimate victim of the circumstances. So, different 'Parasitic' organisations work for the benefit of urban people but these can not perform the function properly due to the absence of well coordinated and integrated efforts. Lack of proper cooperation between the urban local bodies and the other urban development bodies have further aggravated the existing problem. The existing laws and institutional set-up are not suitable for tackling these problems. There is a room for confusion on the role of these bodies. The Corporations and the Pourashavas have been assigned with main administrative functions of urban areas, but they have no control over other urban development bodies and departments of the government working for urban wellbeing within their jurisdiction.

In the existing system, the duties of the urban local government include providing various urban services including construction and maintenance of roads, education facilities. But the responsibilities are delegated to different bodies. But different statutes give powers to different national and local government agencies to deal with the same aspects of town planning. RAJUK has a mandatory responsibility for preparing Master Plan in the Dhaka Master Plan area. Confusion on operational works of different bodies caused difficulties which resulted in delay in performing the job.

The functions of City Corporations and Pourashavas are almost identical in nature. They are empowered to perform a variety of socio-economic and civic functions. In practice, however, all of these functions can hardly be carried out within the same time-limit. Even greater responsibilities were sometimes entrusted to them merely by administrative order. For example, Dhaka WASA and Chittagong WASA are responsible for water supply and sanitation in Dhaka and Chittagong but in Rajshahi and Khulna areas, these responsibilities are lying with the respective City Corporations with Technical Corporation of DPHE. But in the Pourashavas, DPHE is responsible for technical expertise. In practice, Pourashava has no rules in housing, transportation, planning and development in true sense, but it has been entrusted with such functions. Basically, Pourashava is busy performing the jobs of public health activities, water supply, sanitation and sewerage but the responsibility is not clearly and unambiguously spelled out. The involvement of different development and special purpose bodies in the City Corporations like RAJUK, WASA, CDA, DPHE in the performance of various

responsibilities in Dhaka and Chittagong City Corporation areas have resulted in gross overlapping of functions and create coordination problems. Their uncoordinated planning in the name of development goes in all directions. Table 2 distributes different under local functions and nature of sharing by various urban bodies.

TABLE 2  
Urban Local Functions and Nature of Sharing by different Government, Semi Autonomous and Autonomous Urban Bodies

Functions	City Corporation and Pourashava	Government Bodies	Semi-Autonomous/ Autonomous Bodies
Public Health	Medical facilities and run charitable dispensaries.	Public Health services including maintenance of hospitals and institutes	Nil
Refuse and Garbage	Collection and disposal of refuse and garbage	Nil	Nil
Water Supply, Sanitation and Drainage	Operation and maintenance of water supply and provide adequate system of public drains and sanitation facilities	DPHE undertakes development of water supply and sewerage other than Dhaka and Chittagong cities and also run it in some Pourashavas	WASA in Dhaka city and WASA in Chittagong city to build and operate water supply and maintain sewerage system
Education	Adult education, offer scholarship to meritorious students and if possible maintains and runs educational institutions	All types — primary to college level education and special types of education and infrastructure development	Higher education through universities and other specialised institutions
Planning and Development	Very limited scope	Large scale urban development through its agencies like UDD, HSD, PWD.	Urban development in major cities through RAJUK, CDA
Housing	Highly limited scope	For government servants by PWD and few limited housing for private use by HSD	Give plots mostly for upper income group and limited for others by RAJUK, CDA, KDA.
Transport	Licensing of non-motorised vehicles establishment and maintenance of bus, rickshaw or other transport stand.	Licensing of all types of motor vehicles and control of traffic as well as railway network	Road transport in major areas by BRTC, Air Traffic by Biman and Water by IWTC and IWTA

Source : Information gathered from different urban bodies.

Table 2 also shows the functional role of institutions in various activities. On an average, there are two functional roles played by each institutions. However, RAJUK and DCC followed by CDA and CCC have most functional roles than other organisations. The distribution of functional role suggests that the bodies belonging to the Ministry of Works and Ministry of LGRDC play dominant roles in the urban development and in providing services to the City Corporation and the Pourashavas.

The multi-institutional framework for the development of City Corporations and Pourashavas generate overlapping of functional roles by agencies and this is due to the absence of strong coordinating agencies. In one study identified four types of problems that crop up from pluralistic approach to development involving multiple institutions for Dhaka City Corporation area.<sup>12</sup> There is lack of coordination at the level of : (a) decision making, (b) planning, (c) implementation and (d) maintenance of services. The activities of agencies are related to specific areas of the problem. There is also lack of coordination at the level of planning since most planning has been undertaken by the sectoral development agencies, and planning become fragmented and sporadic. As the planning and decision making are pluralistic and non-comprehensive, there is also lack of coordination in the implementation of the plans. The example of non-coordination development in Dhaka city areas testifies to this aspect of lack of coordination. Coordination and integrated efforts also lack in the field of maintenance. There is an overlapping of authority that result in inordinate delays in implementing a given programme. The scarce resources of the country are thus tragically wasted. The payment of road cutting fees to DCC and CCC by Dhaka WASA and Chittagong WASA in their respective areas can be cited as stark evidence of this wastage. These examples are just few of the showing gap between coordination of various agencies at different levels of planning and development in Dhaka and Chittagong Corporation areas. Such problems are also found in other Pourashavas and government bodies.

### Operational and Service Related Problems

1. *Water Supply System* : Water supply in Dhaka and Chittagong City Corporation areas are the responsibilities of Dhaka and Chittagong WASA. But in the Pourashavas, the responsibility of water supply is lying with the respective Pourashavas. And this they perform with the active help from the DPHE. Government policy requires the DPHE to ensure water supply and sanitation in Pourashava areas. This responsibility was to be formally transferred in its entity to the Pourashava concerned. But this is yet to happen.

At present, out of 67 areas under water supply and sanitation coverage, only 23 areas are under the management of Corporation and Pourashava concerned, 2 under Dhaka and Chittagong WASA and 42 under directly by DPHE. It is observed that the Pourashavas have not yet taken the management of water supply and sanitation in the remaining areas due to lack of technical manpower, expertise and adequate finance. In Dhaka, the normal daily requirement of water supply was about 160 million gallons. But the Dhaka WASA supplied only 93.55 million gallons of water during the year 1989-90. Both consumers and the government are to be blamed for wastage of water, i.e., the consumers for the lack of civic consciousness about the importance of conserving water and the government for not giving specific advice on how to have water and the seriousness of water shortage. A study of DPHE (1989) shows that due to lack of maintenance efforts and lack of awareness, wastage of water costs Taka six lakh every month, and that 40 per cent of the water is wasted was due to open water pipes, water tanks without float-valves.

In Dhaka and Chittagong, the Chairmen of Dhaka and Chittagong WASA are the members of DCC and CCC respectively. Therefore, within DCC and CCC area, any problem regarding water supply can be directly solved by WASA, but in the other four Pourashavas it was observed that there was no representation from Department of Public Health Engineering.<sup>13,14</sup> But, all the technical aspects of water supply in the Pourashavas are lying with the DPHE. So, whenever any problem arises regarding water supply system, it takes a lengthy process to solve. Because there is a lack of clear cut relation between the DPHE and the Pourashava and the Pourashava has no authority to link itself with the DPHE without consulting the Ministry of LGRDC for the settlement of any problem.

Several short and long term measures are taken to solve the water supply problem but it is uncertain whether the water crisis will be solved immediately. The expenditure on water supply was also increased in the areas of Dhaka and Chittagong City Corporations. But among the four Pourashavas, expenditure on water supply in Barisal showed a decreasing trend whereas in Bogra and Sylhet, recorded small increase. In Mymensingh Pourashava, expenditure on water supply sharply decreased during the period from 1987-88 to 1989-90.

2. *Sanitation System and Sewerage Disposal* : Proper sewerage disposal system is an indispensable requisite of modern city and town life. It also protects and improves health standard of city dwellers. The responsibility of sewerage disposal is mainly lying with the WASA and the DPHE in Dhaka and Chittagong City Corporations. In the Pourashava areas, it is the

responsibility of Pourashava administration with technical cooperation from DPHE, but no proper system of sewerage disposal has been developed. The system is still far from adequate and comprehensive plan is absent in the selected Pourashavas. The majority of the people are served by septic tanks, together with the salty water sipping through from road side drainage. The poorer people also use unhygienic method of sewerage disposal which creates a hazard to health, and may spread diseases such as cholera, dysentery, etc. These also cause aesthetic nuisance. Water pollution occurs when waste-waters are not properly disposed off but discharged into the drainage system. The provision of a sewerage service incurs very heavy capital investment, which is one of the main reasons why sewerage has been given low priority by Corporations and Pourashavas.

Dhaka's water-borne sewerage system dates back to 1922 and for about 40 years investments were limited to small extensions within the City Corporation. The level of sewerage service is much below that of water supply services in terms of population served, proportions of the capacity of sewerage collection, conveyance and treatment facilities. The principal aim of the water supply and sanitation sector is to improve the health condition of the people. In view of water borne diseases prevalent in the urban areas, the need for potable water supply to Corporations and Pourashavas in Bangladesh is of prime importance.

The disposal of garbage and sewerage also pose serious threat to the environment which is linked with the fast growth of existing urban population. The Chittagong City Corporation Water and Sanitation Project jointly sponsored by DPHE and UNICEF commenced in August, 1985 for the installation of 300 tube-wells and 20,000 low cost latrines for low income population in the slums and fringe areas of the corporation. This project was successful in pioneering low cost sanitation in Chittagong and making tube-wells and latrines available to low income group. By February, 1988, 131 tube-wells and 3,234 latrines were installed. Although these figures were less than the targets.

The Chittagong WASA was set up in 1963 under a statute for undertaking the functions of water supply, sanitation and sewerage to the city dwellers. The present source of water is off the ground from Kalurghat well field and city tube-wells. The total volume of water available is 12.5 million gallons per day and total consumer connection was for about 20,000 in 1990. The domestic need was 25.8 million gallons per day (mgd.) in 1982 which raised to 33.5 mgd. in 1990. The industrial water demand was 13.33 mgd. in 1982 which

increased to 25 mgd. in 1990. Sewerage project compete with other socio-economic projects for the limited financial resources not only within Dhaka and Chittagong but also in other Pourashavas of the country. In Dhaka and Chittagong, some projects have been completed and some are in advance stage with the involvement of the World Bank finance and Japanese assistance.

3. *Refuse Collection and Disposal* : Refuse collection and disposal is one of the traditional urban local services in Bangladesh. The main problems are to finance, to plant, and to carry it out efficiently. The services incur heavy expenditure. The rapid rate of development and rapid population increase have multiplied the refuse volume in urban areas. This increase has qualitatively decreased the standard of services due to inadequate staff and shortage of labour forces. However, efforts have been made to re-enforce them. The fleet of refuse trucks, for example, has more than doubled in number since 1987-88 to 1989-90 in Dhaka and Chittagong City Corporations. But in the four Pourashavas only one truck each was given for the refuse collection during 1989-90. The regular schedule for refuse collection is once a day in the Dhaka and Chittagong City Corporations and in other four Pourashavas. Because of the shortage of refuse trucks, and required fund allocation, this objective is not often achieved. The result is that the refuse overflows the streets and produces offensive situation in Dhaka and Chittagong, particularly in the selected Pourashavas. Refuse collection and disposal service is done by respective Commissioners of the Pourashavas through the Master Roll labour. Earlier the responsibility of refuse disposal was lying with Health and Conservancy Department of the Pourashavas. Many people have complained that the system of refuse collection has deteriorated chiefly because of the poor quality of labour engaged by the Commissioner. In many cases, the collection was done only once in a week.

In this sector when we looked into the expenditure side in the three years' budgets from 1987-88 to 1989-90 period under study, we observed that the amount of expenditure increased from 1987-88 to 1988-90 and the highest expenditure was found in DCC budget. Among the selected Pourashavas highest expenditure was found in Mymensingh which was followed by Barisal but very little fund was allocated in this sector in Sylhet whereas a very negligible amount was spent in Bogra.

Besides other functions, the responsibility of waste collection and garbage disposal lies with the City Corporations and Pourashavas including Dhaka and Chittagong. The present practice of collection, transport (push-carts, trucks, vans, baskets) and disposal (in ditches, open grounds or drains) of garbage is



not very systematic. Open dumping continues to be a potential threat to the surrounding environment. The Pourashavas are also entrusted with the realisation of water taxes (excluding Dhaka and Chittagong). According to DPHE,<sup>15</sup> Sub-Working Group Report, the level of service to the consumers, the standards of operation, management and the recovery of revenues by the Pourashavas were very poor. Compared to the fast increases of population in Dhaka, civic facilities are quite inadequate specially in the old areas, though programmes were undertaken to the conversion of thousands of service latrines in the old city areas into sanitary latrines during Second and Third Five-Year Plan periods (1980-85 and 1985-90).

4. *Cleanliness of Cities and Towns* : Like refuse collection and disposal, street and drainage cleaning is also one of the integral parts of operation to keep the city clean. The roads are fairly tidy but the conditions of many drains are unsatisfactory, particularly those in the vicinity of markets and roadside stalls. Urban expansions make street cleaning more difficult as it needs more fund to increase the labour force and more vehicles to cover wider areas. Another major problem is lack of civic sense and consciousness among the people. Responsibility for keeping the city clean is vested in Commissioners of respective Pourashavas through the Muster Roll (casual daily basis) workers. Earlier these workers were appointed by the Health Department of the Pourashava on daily basis who were directly responsible for refuse disposal and city cleaning. But at present Health Department is working at the wish of the Commissioners of respective Corporations and Pourashavas.<sup>16</sup>

5. *Public Health Activities* : The preservation and improvement of public health standard is a major challenge for the Corporations and Pourashavas. It has received importance due to rapid increase of urbanisation and population growth so that widespread development has taken place especially in public health activities. This importance of public health calls for an intensification in the inspection of food, markets and shops to prevent the spreading of infectious diseases which requires more manpower. The presence of a large number of squatters and slums, aggravates these problems. High incidence of communicable diseases is observed in the squatter and slum areas where the drainage system is inadequate.

In comparison to working doctors to look after health facilities in DCC and CCC, it was observed that CCC employed more medical officers than DCC. But Mymensingh and Sylket Pourashavas have a three members teams whereas Barisal and Bogra Pourashavas have been performing their health

activities without having any full-time Medical Officers since 1987-88. They are entrusted with a lot of responsibility but they do not have the personnel strength to provide these services.

### EVALUATION AND CONCLUSION

Eversince the British period, there have been many reform attempts relating to the urban local government bodies in the area now know as Bangladesh. These reforms brought about little changes in the functional jurisdiction, personnel management system and financial ability of the local bodies and their relationship with the government. This means that the basic problem experienced during the British Raj still continues. The elected functionaries of urban local government bodies are people's representatives, but they are often controlled and supervised by the senior officials of the government. Respective statutes empowered the government, i.e., the Ministry of Local Government, Rural Development and Co-operatives to exercise general supervision and control over City Corporations and Pourashavas in order to ensure that their activities are in conformity with the law. For this purpose there exists the concept of Prescribed Authority. The Ministry has the power to suspend any committee or any department or section of the Pourashavas or even dissolve the committee if its functions are not found satisfactory. The Ministry can do likewise in case of City Corporation the only difference being that such action must be preceded by a show cause notice on them. The scope and nature of such control and supervision should be clearly defined and minimised.

The government's clout of supervision over the urban local bodies extends to a number of other areas. Those include calling for records, inspection, giving direction on certain matters, supersession and suspension. In this regard, the power of Prescribed Authority should be clear-cut and definite. There is an inherent weakness in our administrative structure. Still following the attitude of the former colonial authorities, the central government tend to have little respect for urban local bodies and little disposition to provide the autonomy. Because, the government influence the activities by giving them grants.<sup>17</sup> This implies endless delay before the central authorities act on local projects. Undefined constitutional base and unbalanced government's financial patronage have sometimes added to the structural anomalies.<sup>18</sup>

Another important point in urban local government is that all urban local orders of the government come in the form of ordinances. This implies that the chief executive makes rules from time to time to accommodate certain people in some posts or to bring about some changes to suit their needs. The

extension of functional jurisdiction and structural enlargement may have resulted in some improvement, but they are not always done for the sake of improvement. The government did nothing to bring about positive changes in the local government bodies. The urban problems are being multiplied day by day but the local government institutions do not have necessary manpower, finance or a proper administrative system to encounter these problems. In order to improve the quality of urban life and to ensure better and essential civic services, these problems have to be resolved.

It was pointed out that very often the City Corporations and the Pourashavas have to depend on such technical agencies like Water and Sewerage Authority (WASA) in Dhaka and Chittagong, Department of Public Health Engineering (DPHE), Health Directorate for dealing with water-supply, sanitation and medical services respectively. The Corporation and the Pourashava not only required technical assistance from these agencies but also depend on them for the execution of schemes. Thus a relationship between the Ministry and these technical agencies as well as City Corporation and Pourashava is necessary and the Ministry of Works as a catalyst between these bodies and the technical bodies. The general practice is that the City Corporation and the Pourashava submit their technical schemes and plans to the Ministry which examines them from the administrative and financial point of view and then asks all the other technical departments to cooperate with them, if they want.<sup>19</sup>

Lack of coordination between urban local bodies and various other government/development organisations operating in the urban areas, resulting delay, communication gap, confusion about operational responsibilities of different organisations, overlapping jurisdiction and functions of different organisations. All these causes influence both time and cost overrun in the developmental projects undertaken for delivering civic services. A new strategy needs to be introduced which will overcome the existing deficiencies and complexities. There should be a Central Coordination Committee to coordinate all the inter-ministerial agencies working for urban welfare and development and Ministry of LGRDC should take initiative in this respect.

It needs to be emphasised that the primary reason for the maladies in urban local bodies is the lack of clarity about their role. These bodies are rarely treated as an important level in the overall government set-up with the necessary functional autonomy, powers and resources. It is necessary that there should be some sort of central control over the activities of City Corporations and Pourashavas. The question is about the nature and extent of their control.

The existing type of central control and its frequent exercises undermine the confidence of the people in both central as well as the local bodies. Control should be aimed at rendering guidance and advice to these bodies. The power to supersede should not be used arbitrarily and too often but sparingly and control should not be exercised in partisan manner in the interest of the political party in power. The urban local government bodies should be politically responsible units and within the sphere of their activity they should be fairly autonomous. The increased responsibility should be accompanied by freedom in decision-making.

It is incontrovertible that the interference of local and regional politics cannot be wholly avoided. Nevertheless it is also true that the interest of the urban residents should not be jeopardised merely for political reasons. Unless the political parties sincerely adhere to the principles and practices of democratic functioning, these bodies would never succeed in achieving the desired objectives.

Cities are the nerve-centre of political, economic, educational, developmental and recreation activities and the urban local bodies are charged with the responsibility of providing an efficient civic and administrative assistance suited to the local needs, assuring planned development and utilisation of local resources to the best advantages of the community. For the welfare of the respective areas as well as for the socio-political development of the whole country, the existing problems of urban local bodies need to be resolved and they should emerge as autonomous but accountable and financially solvent local self-governing bodies.

As effective system of urban local government, financially independent, free from administrative and political interference, having sound personnel policies, operational autonomy and well-defined relation with other urban development agencies and autonomous bodies as well as government will enhance the quality of civic facilities and development activities rendered towards urban welfare and development.

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# Development of Foreign Investment Policies in Bangladesh : Factors which Influenced Liberalization

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SAJJAD M. JASIMUDDIN

## INTRODUCTION

The development of the Third World economy depends heavily on foreign capital, i.e, on International Aid in general and Foreign Direct Investment (FDI) in particular. While in the 1960s and 1970s attitudes towards FDI in developing countries were antagonistic or skeptical, these countries are now becoming increasingly appreciative of the benefits that can be derived from FDI.<sup>1</sup> In fact, FDI is not only a sufficient, but is certainly a necessary, condition for the rapid economic development of Third World including Bangladesh. One of the world's top three recipients of international development assistance, Bangladesh welcomes FDI as an alternative to capital borrowings like many other host developing nations with the aim to improve the overall economic conditions *via* the generation of employment and reduction of chronic balance of payments deficits through the establishment of import-substitution and export-oriented industries. This article reviews five phases through which Government attitudes towards FDI developed during the period 1947-1991 and also looks at the relative importance of exogenous and endogenous forces that influenced to bringing about the relaxation of FDI regulation in Bangladesh. To begin with, the Act XI of 1980 of Foreign Private Investment notifies the definitions of the terms 'foreign capital' and 'foreign private investment.' According to Section 2 of this Act, unless there is anything repugnant in the subject context :

1. 'Foreign Capital' means capital invested in Bangladesh in any industrial undertaking by a citizen of any foreign country or by a

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company incorporated outside Bangladesh, in the form of foreign exchange, imported machinery and equipment, or in such other form as the Government may approve for the purpose of such investment.

2. 'Foreign Private Investment' means investment of foreign capital by a person who is not a citizen of Bangladesh or by a company incorporated outside Bangladesh, but does not include investment by a foreign Government or an agency of foreign Government.

### **BANGLADESH REGULATION OF FOREIGN DIRECT INVESTMENT**

Foreign Direct Investment has been highlighted from time to time within the framework of the analysis of industrial investment regulation of Bangladesh. The policy of Governments towards FDI has throughout been extensively liberal except for short intervals immediately after the independent of Bangladesh. It is important to mention that FDI regulation regime in Bangladesh (former Pakistan)<sup>2</sup> moved from a liberal one characterized in the first phase by offering extensive incentive packages, then extremely strict following the introduction of socialist economy after the emergence of Bangladesh in the second phase, and again moved gradually to liberalization due to the pressures from the exogenous and endogenous forces in the investment environment of the rest three phases.

#### **Policy During 1947-1971 :**

##### **Emphasis of Important-Substitution Industries**

The first policy statement of relevance to the role of FDI was enunciated in the former Pakistan (now Bangladesh ) Government's announcement of its first industrial policy in 1948 and again clearly in 1954. It declared that the Government would welcome FDI and ensure its guarantee provided that it did not have any political motive. All sectors, especially import-substituting consumer goods industries, were open to FDI, except for a few key industries such as armament manufacturing and electricity generation. The Government encouraged Joint Venture (JV) form of foreign investment. In some industries such as cement, coal, etc., foreign investors had to offer 51 per cent of the shares to local investors; if local nationals fail to purchase those shares during the stipulated period, then foreigners could hold these shares.

Foreign Direct Investment regulation measures manifested the Government's positive efforts to encourage FDI. Under the foreign investment regulation a large number of incentives had been introduced and expanded for attracting FDI over the whole period. Following the Government's

announcement that FDI would be encouraged, Pakistan had been providing a number of incentives and facilities which, *inter alia*, were :<sup>3</sup>

1. For purposes of income tax, no distinction is made between local and foreign investors.
2. No restriction on the remittance of profits, dividends and repatriation of capital to the extent of original investment.
3. No rigidity about the participation of Pakistani capital in the case of approved foreign investment.
4. Tax holiday.
5. Avoidance of double taxation.
6. Provision of remittances for maintenance family and at the time of retirement.
7. Just and reasonable compensation in the event of nationalization or expropriation, if any.
8. Liberal depreciation allowance.
9. Tariff protection.
10. Exemption from income tax of foreign technicians employed with Government approval for a period of 36 months.
11. Liberal employment of foreign technical personnel.

#### **Policy after Independence 1972 - 1974 :**

##### **The Government Emerged as a Local Partner**

The Government of Bangladesh took over management of the industries under the Presidential Order 27 of 1972 following the policy of nationalization of industrial units including banks and insurance.<sup>4</sup> There was a very little scope for private investment. FDI was permitted only in collaboration with state-owned enterprises (SOEs) to form joint ventures and only with a minority equity participation of 49 per cent or less. Wholly-owned foreign investment was not allowed. There were exceptions on this restriction for the plantation, processing and export of tea only. No specific sector of the economy was excluded from participation by foreign investors. The SOEs could invite foreign collaboration in any field, although all acts of foreign collaboration were to be approved by the Government. The SOEs were to enter into management contracts with the foreign firms in order to take advantage of their



technological know-how, managerial and marketing skills. The policy of the Government was thus opposite to that of the previous Pakistan Government.

In January 1973, the Government formally declared the first Industrial Investment Policy which also reflected the Government's socialistic views on FDI and JVs. Later the Government began to relax the so-called 'nationalization policy' knot. The Government guaranteed full freedom for the transfer of annual profits (after the payment of taxes) and for the repatriation of capital spread over a number of years. The ceiling on remittances of salary income by foreign nationals was set at pound 150 per month. A minimum dividend of 15 per cent, subject to the availability of profits, was also guaranteed. Again, guarantees were provided that no nationalization would take place within a period of ten years, and that fair and equitable compensation were intended to offset whatever disincentives were involved in insisting on the public sector as the only partner with foreign investor.<sup>5</sup>

By realising the negative effect of undermining the private sector, the Government revised Industrial Investment Policy in July 1974 giving permission for FDI in ventures in collaboration with private sector preferably where technical expertise was not available locally, where the technology was particularly complex or the skills particularly important to Bangladesh. The regulation was liberalised following the revision. The ceiling of FDI was limited to Taka 30m (\$ 1m). The period of moratorium on nationalisation was extended from 10 to 15 years and tax holiday was extended from 5 to 7 years whilst repatriation facilities were further relaxed raising ceiling on remittances of salary income by foreign nationals to pound 200 per month.

#### **Policy During 1975- 1981 : The Speeding up of Privatization Through Foreign Investment and Joint Ventures**

Foreign investment policy has changed considerably in this phase. The change of the first Government of Bangladesh in August 1975 paved the way for a significant shift in the official attitude towards FDI. In December 1975, the Revised Industrial Policy was announced with one of the important objectives to speed up the process of privatization through foreign investment. FDI was allowed in ten other sectors previously reserved for SOEs. The provision of moratorium on nationalization was totally abolished to ensure an environment of not to nationalize any more. The ceiling on private investment was raised. The disparity between local partners and foreign investors were withdrawn, i.e., foreign investors were to enjoy same treatment as local investors.

In September 1978, a series of important regulation changes were made. The ceiling on private investment was raised from Taka 30m (\$ 1m) to Taka 100m (\$ 3.4m) and finally withdrawn. Incentives available were remittance of approved royalties and technical fees and income tax exemption on salaries received by foreign technicians for a period of 3 years.<sup>6</sup> A free sector list was introduced where no formal permission had to be required.

In order to allay the apprehensions of foreign investors, an Act of Parliament known as the Foreign Private Investment (Promotion and Protection) Act, 1980 was passed which guarantees security to FDI in Bangladesh. The Act signalled a more liberal Government attitude towards FDI and states, *inter alia* :<sup>7</sup>

*Section 4 : Protection and Equitable Treatment* : The Government shall accord fair and equitable treatment to Foreign Private Investment which shall enjoy full protection and security in Bangladesh.

*Section 5 : Terms of Sanction, etc.* : The terms of sanction, permission or licence granted by Government to an industrial undertaking having Foreign Private Investment shall not be unilaterally changed so as to adversely alter the conditions under which the establishment of such undertaking was sanctioned; nor shall Foreign Private Investment be accorded a less favourable treatment than what is accorded to similar private investment by the citizens of Bangladesh in the application of relevant rules and regulations.

*Section 6 : Indemnification, etc.* : In the event of losses of foreign investment owing to civil commotion, insurrection, or riot, foreign investment shall be accorded the same treatment with regard to indemnification, compensation, restitution, or other settlement as is accorded by investment by the citizens of Bangladesh.

*Section 7 : Expropriation and Nationalization* : 1. Foreign Private Investment shall not be expropriated or nationalized or be subject to any measures having effect of expropriation or nationalization except for a public purpose against adequate compensation which shall be paid expeditiously and be freely transferable. 2. Adequate compensation for the purpose of Sub-Section 1 shall be an amount equivalent to the market value of investment expropriated or nationalised immediately before the expropriation or nationalisation.

*Section 8 : Repatriation of Investment* : 1. In respect of Foreign Private Investment, the transfer of capital and the returns from it and, in

the event of liquidation of industrial undertaking having such investment, of the proceeds from such liquidation is guaranteed. 2. The guarantee under Sub-Section 1 shall be subject to the right which, in circumstances of exceptional financial and economic difficulties the Government may exercise in accordance with the applicable laws and regulations in such circumstances.

*Section 9 : Removal of Difficulty :* If any difficulty arises in giving effect to any provision of this Act, the Government may make such order, not inconsistent with the provisions of this act, as may appear to it to be necessary for the purpose of removing the difficulty.

The creation of the Bangladesh Export Processing Zones Authority (BEPZA) by an Act of Parliament (Act XXXVI of 1980) is a significant step in attracting and facilitating FDI in the Export Processing Zones (EPZs) of the country.<sup>8</sup> The idea for an EPZ was suggested to the Bangladesh Government by Robert McNamara in November 1976.<sup>9</sup> It is important to mention that investment in the EPZs are classified into three groups.<sup>10</sup>

*Type A :* This type of industry is 100 per cent foreign owned but includes investments by Bangladeshi nationals ordinarily resident abroad.

*Type B :* Foreign nationals, and Bangladeshi entrepreneurs resident in Bangladesh are the partners in a joint venture project.

*Type C :* Bangladeshi entrepreneurs resident in Bangladesh own a 100 per cent share in this kind of project.

Rules, regulations, import-export documentation and procedures in the EPZs have been so simplified that only require the observance of minimum formalities. The BEPZA offers a one Window Service to its investors. Entrepreneurs are not required to go to different offices to get things done. Sanction of project, issue of work permits, issue of export/import permits, provision of various utilities like gas, water, electricity, telecommunications are directly taken care of by the BEPZA. Apart from this, adequate regulations are promulgated to safeguard patent, design, trade mark, intellectual property rights. All these incentives and facilities reflect clearly the Government's commitment towards FDI and to streamline efforts to make Bangladesh more attractive to FDI.

In addition, firms at EPZs are allowed to insure their properties and products in foreign currency and compensation for any loss will be paid in

foreign currency. Both local and foreign banks are eligible to set up off-shore banking units in EPZs with authority to maintain code number accounts with a view to mobilising the resources from within and outside the country so that investors can obtain all sorts of easy financing from the off-shore banking units.<sup>11</sup> BEPZA is also authorised to look after the industrial relations issue. Production-oriented labour laws exist in EPZs of Bangladesh where labour unions are not allowed to operate and strikes are completely prohibited.

#### **Policy During 1982 - 90 :**

##### **Emphasis on Export-Oriented Industries**

The Government announced a further series of policy measures for improving the FDI climate during this phase. The New Industrial Policy (NIP) of 1982 made fundamental changes in the foreign investment regulation regime by encouraging FDI through joint ventures particularly in those areas where local raw material processing needs foreign technology and production of goods needs an external market. Under Section 16 of the NIP 1982:

"Foreign Investment will continue to receive due consideration and Government would welcome foreign participation in joint ventures on mutually beneficial terms and conditions."<sup>12</sup>

Various changes introduced under the NIP included among others, grouping of the industries under three lists, namely a reserve list of strategic industries for public sector investment only, a concurrent list of large-scale industries in which either public or private investment would be permitted and all other industries reserved for the private sector. Additionally, the free list of industries in which investment under certain conditions could be made without formal approval was enlarged. FDI in export-oriented industries was given greater emphasis.<sup>13</sup> To streamline the procedure for investment approvals, an Investment Assistance Unit 'one stop service' was set up.

In 1986 the Government again revised the FDI policy. The main thrust of the policy was to "encourage foreign investment in appropriate sectors and particularly in high technology, export-oriented and labour intensive industries."<sup>14</sup> The revision of FDI regulation made further relaxation and changes in which all industries except seven strategic areas of the reserve list, e.g., arms, energy, security printing, forestation, air and rail transportation, and telecommunication, were opened to private investment.

A wide range of incentive packages was announced by the Government in 1987 to streamline efforts to make Bangladesh more attractive to FDI. Protection has given to newly established industries for four years. The present

tax holiday will continue until the year 2000. Industries setting up in developed areas of the country are eligible for a five-year tax holiday (ten years for high tech-industries). Those opting for the more backward regions may get exemption from seven to nine years, and twelve years if sited in one of the special export processing zones, with the date when commercial production begins. The tax holiday will be followed by a tax exemption of 50 per cent and complete exemption from customs duties. There is also a 100 per cent depreciation allowance for plant and machinery during the tax holiday period. There will be no discrimination between local investors and foreign investors. Foreign investors will no longer be obliged to divest through the public offering of shares and may simply transfer their equity to their local partners.

As an expression of Government's special drive to attract FDI, a Board of Investment (BOI) is established in 1989 under Investment Board Act, 1989<sup>15</sup> to encourage investment and to facilitate expeditious sanction and implementation of projects. The Board provides all assistance and services for newly sanctioned projects and existing industries in a package form under one roof arrangement. The BOI supplants as many as nine different agencies that include the Directorate of Industries, the Capital Investment Board (CIB), the Sub-Committee of the CIB, the Bangladesh Licensing Board, the Industrial Facilities Board the Hard Term Loan Committee, the Standard Committees of the National Council for Industrial Development.<sup>16</sup>

In addition, Bangladesh has adopted a more flexible immigration policy along the lines of what the Newly Industrialized Countries (NICs) had done much earlier to help attract more FDI into these countries. The amendments to Bangladesh Citizenship (Temporary Provisions) Order 1972, are aimed at 'liberalizing' the provisions for granting citizenship rights and resident facilities to those foreigners making investments, up to certain limits in Bangladesh and also to secure an edge in attracting foreign investors.

#### **Policy of 1991 : An open door policy to provide an impetus to FDI to come into Bangladesh**

The Government launched a new policy in 1991 to further liberalize its already liberalized foreign investment policy. One of the important objectives is to "encourage foreign investment in overall industrial development."<sup>17</sup> The limit of equity participation by foreign investors has been raised to 100 per cent as against 51 per cent over the previous years. The foreign investors will be allowed to employ workers of foreign nationals through the issuance of work permits. Repatriation of 50 per cent of salary of the foreign workers and,

at time of departure, their savings and retirement benefits is allowed. Under the new policy, the list of 'discouraged' industrial sectors was abolished except in seven reserved sectors. In case of joint ventures or industries set up independently by foreign investors, there will be no obligation to sell shares through public issue of shares irrespective of the amount of paid up capital at the initial stage. If foreign investors invest their repatriable dividends in the industries this will be considered as new investment.<sup>18</sup>

Additionally, new foreign exchange rules were declared on June 15, 1991,<sup>19</sup> for stimulating the inflow of foreign investment :

1. The purchase of securities on the Dhaka Stock Exchange by foreigners and non-resident Bangladeshis, provided that the money used to purchase the shares was brought into the country through the banking system.
2. The remittance of profits overseas by foreign companies (except airlines, shipping firms, foreign banks and insurance companies) without the prior permission of the Central Bank (Bangladesh Bank).
3. Borrowing abroad by both state and privately owned companies with the approval of the Board of Investment (BOI), provided that the rate of interest charged did not exceed London Inter-Bank Official Rate (LIBOR) plus 2 per cent.

### **FORCES WHICH INFLUENCED THE FOREIGN DIRECT INVESTMENT POLICY CHANGES**

Foreign Direct Investment Policy in Bangladesh has been liberalized gradually in reaction to forces operating in the investment climate over time. The forces pressing for liberalization of FDI policy were both external and internal to Bangladesh. As noted earlier, during the pre-independence period there was favourable official attitudes towards FDI which attracted foreign investors to invest mostly in West Pakistan partly due to the availability of a well-developed infrastructure and an emerged entrepreneurial class in contrast to poor infrastructure and less entrepreneurship in the erstwhile East Pakistan (Bangladesh). The FDI inflows and JVs were not, however, insignificant here. This section deals with the relative importance of external and internal pressures in bringing about the liberalization of the FDI environment in independent Bangladesh.

### **The Change in Government**

The change of the Government of Bangladesh led to a change in the official attitudes towards FDI policy. The fall of the pro-socialist Government in August 1975 paved the way for a significant shift in liberalizing FDI policy. However, the first Government relaxed its stringent policy slightly by allowing JVs between foreign firms and domestic investors at the time of the announcement of the Revised Industrial Policy of 1974. During its tenure, 1975-81, the successor regime speeded up of privatization through JVs with foreign participation by announcing several liberal investment policies and enacting the Foreign Private Investment (Promotion and Protection) Act, 1980 and the Bangladesh Export Processing Authority Zones Act, 1980 through Parliament which improved the investment environment in the country. The liberalization of FDI policy gained momentum during the regime which came to power in 1981. Under this regime, 1982-91, many rules and regulations were promulgated and a wide range of incentives was offered to streamline efforts to make Bangladesh more attractive to foreign investors. The permission for the operation of wholly owned foreign firms provided an impetus to FDI to come into Bangladesh. The Investment Board Act, 1989 and the New Immigration Policy, 1989 were promulgated by Parliament which were also looked upon as a confirmation of the Government's positive attitude towards encouraging foreign investors.

### **Domestic Investors' Pressure**

Starting from 1973-74 there was increasing pressure from the local private investors for an upward revision of the investment ceiling and for allowing a larger role of foreign investors, especially alliances between them. It is worth noting the reasons for and forces behind such pressure.<sup>20</sup> By 1974 the party men under the cover of political protection had earned considerable sums from domestic and import trading activities, including illegal ones such as trade in contraband goods and smuggling jute and other exports across the Indian border, and also illegally occupied abandoned properties, buildings and business firms of the Urdu-speaking Pakistanis. Those who had accumulated funds were pressing the Government to commit itself to a more substantial and permanent role for private enterprise in the economy of Bangladesh. Later, local investors those who had already invested put continued pressure on the Government to relax the policy and improve investment environment by offering attractive incentive packages over the whole period.

**Competition Among Host Countries, i.e. , Experience of Bangladesh**

One of the most important exogenous forces that induced the FDI policy change was the disappointing experience of the Government of Bangladesh in volume of FDI term, compared with other host countries. There was the increased disappointment of the Government with the relatively low volume of FDI flowing to Bangladesh. It may be noted that FDI in Bangladesh accounts for less than half of even one per cent of its GDP which is very low any international standards. As a result, the Government made major breakthrough in its FDI policy by taking lessons from other host countries to compete with them in attracting foreign investors.

**Foreign Investors' Pressure**

Potential foreign investors were a powerful external pressure group who played vital role to influencing the policy change of FDI by demonstrating their reluctance to invest into Bangladesh due to the tougher stand of the first Government regarding FDI. As noted earlier, the Industrial Investment Policy, 1973 of the Government to encourage FDI with State-Owned Enterprises (SOEs) only and with minority equity did not meet a positive response from foreign investors. Moreover, the provision of a moratorium on nationalization had caused fear among the potential foreign investors that all private investments would necessarily be nationalized after ten years. With a view to protect FDI and accord fair and equal treatment to foreign investors, the Parliament passed several laws and regulations including the Foreign Private Investment (Promotion and Protection) Act, 1980.

**Donors' Prescription**

Donor agencies were the most strong exogenous forces that played great role to the FDI policy change. As mentioned above, the pressure for raising the ceiling on private investment exerted by the new rich within Bangladesh was consistently supported by foreign aid agencies. It has been argued that the changes in FDI policy was prescribed by the donors in 1974. The IBRD<sup>21</sup> (1974) report on the First-Five Year Plan had articulated the need to modify policy on FDI and was explicit about the advantages of promoting FDI in Bangladesh.

**CONCLUSION**

Foreign Investment Policy of Bangladesh has had a mary-go-round character. Before independence FDI policy was completely liberal. After independence, the Government took tough policy measures towards FDI. But



with the passage of time FDI policy turned back towards liberalisation. Bangladesh made a number of significant changes in its overall policy framework for attracting FDI. In order to allay the apprehensions of foreign investors, the Foreign Private Investment (Promotion and Protection) Act 1980, which was passed by Parliament, guarantees security to FDI in Bangladesh. The Law is also really a break-through which ensures a fair and equitable treatment with regard to indemnification, compensation, restitution or other settlements similar to those as are accorded to a Bangladeshi citizen. The provision for abolishing the ceiling for private investment, increasing the limit of equity participation by foreign investors from 51 per cent to 100 per cent, withdrawal of disparity between local and foreign investors in providing various facilities, tax holidays of five, seven and twelve years to industries depending on location, accelerated depreciation allowances, opening up the country's stock exchange to foreign investors, adoption of flexible Immigration Policy, establishment of BOI, relaxation of tax upto 100 per cent on export earnings of the industries, relaxation of foreign exchange regulation, permission of profits repatriation without unnecessary intervention of the Central Bank, are some basic policy measures of the Government policy regarding FDI.

The shift of FDI policy from tough to liberal provisions has had relatively positive implications on FDI inflows which, in turn, have benefitted the economy of Bangladesh. The history of FDI illustrates that the liberalization of the policy was made gradually. FDI rose in accordance with the relaxation of the regulation regarding FDI, although there was fluctuating trend due to political instability or so.

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2. Before independence in 1971, Bangladesh was called East Pakistan as a part of Pakistan during 1947-71. Former Pakistan was comprised East and West Pakistan.
3. Government of Pakistan : *Pakistan Economic Survey 1969-70*, Ministry of Finance, Islamabad, 1970, p. 32.
4. Jasimuddin, S. M., "Public Enterprise Success Depends on Managers," *Weekly Holiday*, Dhaka, Vol. XXV, No. 9, 1989, p. 5.
5. Islam, Nurul, *Development Planning in Bangladesh : A Study in Political Economy*, New York, St. Martin's Press, 1977, pp. 222-23.

6. Government of Bangladesh, *Guide to Investment, 1980*, Ministry of Industries, Dhaka, 1980, p. 12.

7. Government of Bangladesh, *Foreign Private Investment (Promotion and Protection) Act, 1980*, Ministry of Industries, Dhaka, 1980, p. 2.

8. To begin with, it was decided that the country would have three EPZs in phases — one each in the port cities of Chittagong and Khulna and another air-based zone near the capital city of Dhaka. Following the enactment of the BEPZA Act, 1980, BEPZA came into existence in 1983. In order to vest BEPZA with complete freedom of action, a special management device has been adopted in this organisation with a two-tier administrative set-up, namely Board of Governors and an Executive Board. Any decision taken by the Board of Governors is deemed to be the decision of the Government. Investment shall be in convertible foreign currencies by foreign investors. An investor has the option to establish either public/private limited companies or sole proprietorship/partnership concerns.

9. Wasow, Bernard, *Export Processing Zone Development in Bangladesh*, Planning Commission, Dhaka, 1985, p. 5.

10. Government of Bangladesh, *Bangladesh Export Processing Zones Authority Act, 1980*, Ministry of Trade and Commerce, Dhaka, 1980, p. 3.

11. These off-shore banking units may carry out transactions in US Dollars, UK Pounds, Canadian Dollars, Deutsche Marks, Japanese Yen, Swiss Franc, Dutch Guilder, French Franc, Swedish Kroner and Singapore Dollars. Off-shore banking units are also exempted from payment of income tax on interest payable of foreign currency loans obtained by them from outside Bangladesh. This facility has been extended to off-shore banking units just to attract FDI in EPZs.

12. Government of Bangladesh, *New Industrial Policy, 1982*, Ministry of Industries, Dhaka, 1982, p. 1.

13. Government of Bangladesh, *Fourth Five-Year Plan, 1990-95*, Ministry of Planning, Dhaka, Vol. VI, No. 3, 1990.

14. Government of Bangladesh, *Industrial Policy, 1986*, Ministry of Industries, Dhaka, 1986, p. 1.

15. The salient features of Investment Board Act, 1989 include :

*Section 7 : The functions of the BOI shall be :* (a) Providing of all kinds of facilities in the manner of investment of local and foreign capital for the purpose of rapid industrialization in the private sector. (b) Implementation of the Government policy relating to the investment of capital in industries in the private sector. (c) Preparation of investment schedule in relation to industries in the private sector and its implementation. (d) Preparation of area-schedules for establishment of industries in the private sector and determination of special facilities for such areas. (e) Approval and registration of all industrial projects in the private sector involving local and foreign capital. (f) Identification of investment sector and facilities for investment in industries in the private sector and giving wide publicity thereof abroad. (g) Invention of specific devices for the purpose of promotion of investment in industries in the private sector and their implementation. (h) Creation of infrastructural facilities for industries in the private sector. (i) Determination of terms

and conditions for employment of foreign officers, experts and other employees necessary for industries in the private sector. (j) Preparation of policies relating to transfer of technology and phase-wise local production in the private sector and their implementation. (k) Providing of necessary assistance for rehabilitation of sickly industries in the private sector. (l) Financing and providing of assistance in the financing of important new industries in the private sector. (m) Adoption of necessary measures for creation of capital for investment in industries in the private sector. (n) Collection, compilation, analysis and dissemination of all kinds of industrial data and establishment of data-bank for that purpose. (o) Doing such other acts and things as may be necessary for the performance of the above functions.

*Section-10 : Registrations :* 1. All industries set up in the private sector, other than those falling within the jurisdiction of the Export Processing Zones Authority or the Bangladesh Small and Cottage Industries Corporation and Textile Industries set up by own finance and the industrial project approved by the Board, shall be registered in the prescribed manner. 2. An industry registered under this section shall be deemed to be an industry approved by the Board under this Act, and such industry may, on its request, be provided with all such facilities as may be provided to an industrial project approved by the Board.

*Section 11 : Approval of an Industrial Project :* 1. Every person intending to set up an industry in the private sector, other than an industry falling within the jurisdiction of the Export Processing Zones Authority or of the Bangladesh Small and Cottage Industries Corporation, shall apply to the Board in the form and manner prescribed by it for obtaining the Board's approval on the proposed industrial project. 2. Notwithstanding the provisions of Sub-Section 1, upon recommendation of the Board, the Government may, by notification in the Official Gazette, except any industry or any industrial project from the operation of the provisions of this Section. 3. The Board may, for the convenience of considering an application received under Sub-Section 1, direct the applicant to furnish any information which it considers necessary for such purpose, and may also consult any relevant authority on any matter relating to the proposed industrial project. 4. If, after considering the application, the Board is satisfied that the project should be approved, it shall, subject to such conditions and limitations as it deems fit to impose, approve the same and shall issue a letter of approval to the applicant and shall specify in such letter the time-limit for the implementation of the project and also the time-limit for commencement of production thereat. 5. At the time of approving an industrial project under Sub-Section 4, the Board shall give its decisions on all facilities that may be required for implementations of the project in due time and, in particular, on all or any of the following matters, subject to their relevancy, and shall send such decisions to the concerned persons or authorities, namely :

- (a) the extent and the terms and conditions of foreign loan and of supplier's credit; (b) allotment of land in the industrial areas under the control of, or belonging to, the Government or a local authority other than the Export Processing Zone Authority and the Bangladesh Small and Cottage Industries Corporation; (c) time-limit for giving connections of electricity, gas and water-supply; (d) time-limit for giving connections of all kinds of telecommunications; (e) time-limit for clearing by the customs-authorities of imported machineries, spares of such machineries and raw materials; (f) time-limit for issuing clearance regarding environment pollution; (g) other facilities and services that may be required for speedy setting up of an industry.

6. A decision given by the Board under Sub-Section 5 shall be deemed to be a decision given by the Government or by such other person or authority as is authorised by or entitled to give such decision under the provision of the relevant law of the relevant subject, and such decision shall be implemented accordingly. 7. No person shall, except with the prior permission of the Board use any service or facility availed of by him pursuant to a decision under Sub-Section 5 for any purpose other than for the industrial project for which it was so availed. 8. Where an industrial project is a company registered under the provisions of the Companies Act, 1919 (VII of 1913), the Board may, in respect of all matters relating to the issue of capital and sale of shares of that company, exercise all powers and perform all functions of the Government under the provisions of the Capital Issues (Continuance of Control) Act, 1947 (XXI of 1947). 9. Where an industrial project faces any difficulty in the completion of the project within the time-limit specified in the letter of approval or if, after such completion, it faces any difficulty in commencing, within such time-limit, production, the entrepreneur of the project may apply to the Board for removing such difficulty, and upon such application, the Board shall endeavour to extend to the entrepreneur necessary assistance. 10. The Board may, from time to time, require the entrepreneur of an industrial project approved under Sub-Section 4 to furnish such information relating to the implementation of the project as the Board may consider necessary.

*Section 12 : Determination of Import Entitlement :* 1. If, an industry set up in the private sector, other than a textile industry or an industry falling within the jurisdiction of the Bangladesh Export Processing Zones Authority or of the Bangladesh Small and Cottage Industries Corporation, is in need of import entitlement for importing machineries, spares of machineries, raw materials, and packing materials for its own use, in the form and manner prescribed by rules, apply to the Board for such entitlement. 2. The Board shall, issue to the applicant a clearance so that such machineries, spares of machineries, raw materials and packing materials may be imported in accordance with the import entitlement determined by the Board after considering the application.

*Section 13 : Royalty and Fees :* If an industry set up in the private sector, other than an industry falling within the jurisdiction of Export Processing Zones Authority, is required to pay to a foreign national or a foreign organisation any royalty or any fees in respect of technical know-how or technical assistance, that industry shall, in the manner prescribed by the Board, apply to the Board for determination of such royalty or fees; and the royalty or fees determined by the Board shall be payable by the industry.

*Section 14 : Duties of other concerned authorities regarding an approved industrial project :* 1. If, at the time of approving an industrial project, the Board sends to any person or authority any decision under Section 11, that person or authority shall take necessary steps so that the decision is implemented within the time-limit specified by the Board. 2. If such person or authority fails or is unable to take, within the time-limit specified by the Board, proper steps pursuant to such decision, the Board may, after considering the circumstances of the case, issue direction for taking proper steps pursuant to the decision, and upon such direction the concerned persons or authority shall be bound to take necessary steps accordingly.

*Section 15 : Cancellation of Approval :* If an industrial project approved under Section 11 contravenes any of the provisions of this Act or any rules made thereunder or violates any of the

conditions relating to the approval, the Board may, in the manner prescribed by rules, cancel the approval of the project.

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# Savings Income Relationship in a South Asian Country : Bangladesh

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and

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## *Abstract*

*In this piece of research work we have studied the behaviour of savings measured in terms of Gross National Savings (GNS) and that of income measured in terms of Gross National Product (GNP) of a selected low income countries of the world according to the definition of the World Report 1992. The selected country from two income groups is Bangladesh. Our study includes the pattern of savings rates and the relationship between the year to year change in income with that of savings ratios. Further models are developed for the savings-income relationship based on co-integrating regression and error correction mechanism called Engle-Granger Two Stage (EGTS) approach and Hendry-type General to Specific (GS) approach. It is found that for Bangladesh the per capita savings adjusts to its long run growth path very slowly following the disturbances.*

## INTRODUCTION

The Keynesian revolution led to the development of modern income and employment theory and it's basic building blocks. — The consumption function, the saving function and the investment schedule. — These functions describe that movements along the consumption and saving functions are caused by changes in disposable income, all other things that influence consumption and saving remaining same. Changes in one or more of the other things will cause shifts in the consumption and saving functions. If saving is a stable function of income, then so is consumption, which is by far the largest component of aggregate demand. Changes in the savings ratio have important implications for both output and employment. A government wishing to

regulate aggregate demand must forecast the savings ratio in order to set its expenditure, taxes and interest rates at levels compatible with the level of aggregate demand it seeks.

Thus study of savings behaviour plays a very important role in the study of economic phenomenon. With this end in view savings behaviour and the savings income relationship have been studied for Bangladesh and Pakistan.

### METHODOLOGY

Our empirical work is based on time series data on savings and income for 22 years from 1971 to 1992 obtained from the well known publication *World Table* of different years including 1994. This *Table* is published by the Socio-Economic Data Division of the World Bank International Economics Department. We know that empirical work based on time series data assumes that the underlying time series is stationary. Further it is very important to find out if the relation between economic variables is true or spurious. So before modeling savings-income relationship we check for stationarity of the two series and then test for spuriousness of their relationship.

A popular past method of attempting to overcome the problem of spurious correlation has been to estimate relationships between the rates of change of variables rather than between their absolute levels. The effect of looking at the rate of change in a variable is typically to remove any trend element. That is many non-stationary economic time series become stationary when they are first-differenced. Unfortunately when attention is concentrated between rates of change, there is a real danger that valuable information on the long run relationship between the levels of variables will be lost. Further the disturbance term of the first differences equation will be autocorrelated.

To get rid of the above problem we apply the method of co-integration. Two-time series are said to be co-integrated of order  $d, b$  denoted by  $CI(d, b)$  if :

- (i) They are both integrated of order  $d$ , i.e., differenced  $d$  times before the series become stationary.
- (ii) But there exists some linear combination of them that is integrated of order  $b < d$ .

Co-integration is the statistical implication of the existence of a long-run relationship between economic variables. That is if two series are co-integrated, the regression on the levels of two variables is meaningful (i.e.,

not spurious); and we do not lose any valuable long-term information, which would result if we were to use their first difference instead.

Testing for co-integration will be done by the Co-integrating Regression Durbin-Watson (CRDW) test. In CRDW test we use the Durbin-Watson  $d$  value obtained from the Co-integrating Regression with the null hypothesis  $d = 0$  rather than the standard  $d = 2$ . Engle and Granger conclude that the critical values to test the hypothesis that the true  $d = 0$  are 0.511, 0.386 and 0.322 at 1 per cent, 5 per cent and 10 per cent level of significance respectively. Our Co-integration Regression models are described in equations 1 and 2 :

The first estimating model is based on the Keynesian absolute income hypothesis, where it is postulated that saving is a function of income which we write in the per-capita term as :

$$CS_t = \alpha + \beta CY_t + u_t \quad 1$$

Where,  $CS_t$  = Per - Capita Savings at time  $t$ .

$CY_t$  = Per - Capita Income at time  $t$ .

When two variables are co-integrated, it shows there is long run equilibrium relationship between the variables. Of course, in the short run there may be disequilibrium. The Error Correction Mechanism (ECM) corrects for disequilibrium. The error correcting model between savings and income can be written as :

$$\Delta S_t = \beta_0 + \beta_1 \Delta Y_t + \beta_2 \hat{u}_{t-1} + \varepsilon_t \quad 2$$

where  $\Delta$  denotes the first difference;  $\hat{u}_{t-1}$  is the one period lagged value of the residuals for equation 1, the empirical estimate of the equilibrium error term and  $\varepsilon_t$  is the error term with usual properties. Thus ECM makes sound sense since it implies that the lower (higher) is savings compared with its equilibrium value relative to income the greater (smaller) will be the immediate rise in savings. The value of savings is being corrected for the previous disequilibrium error. Hence the term error correcting model. In the above model  $\Delta Y_t$  captures the short-run disturbances in income whereas the coefficient of error correction term  $\hat{u}_{t-1}$  ( $\beta_2$ ) captures the adjustment towards the long run equilibrium. If ( $\beta_2$ ) is statistically significant, it tells what proportion of the equilibrium in savings in one period (year) is corrected in the next period.

In another approach to find a final preferred model we adopt the Hendry-type general to specific methodology. From the outset, starting with a general short-run model and testing down to a suitably parsimonious final model. Both



long-run and short-run elasticities are estimated together in this approach. Since we are dealing with annual data we adopt a general model with upto just second order lags before starting our simplification search, that is, we start with the following general model :

$$CS_t = \beta_0 + \beta_1 CY_t + \beta_2 CY_{t-1} + \beta_3 CY_{t-2} + \beta_4 CS_{t-2} + \beta_5 CS_{t-1} + U_t \quad 3.$$

But if the variables  $CS_t$  and  $CY_t$  are found to be co-integrated then short run relationship can be estimated in ECM form by adopting Hendry-type General to Specific (GS) methodology. Further since we are dealing with annual data we adopt a general model involving upto two-year lags only, that is, a model of the type :

$$\Delta CS_t = \beta_0 + \beta_1 \Delta CS_{t-1} + \beta_2 CS_{t-2} + \beta_3 \Delta CY_t + \beta_4 \Delta CY_{t-1} + \beta_5 CY_{t-2} + U_t \quad 4.$$

Using the selection criteria for regression models we shall finally obtain our preferred model between saving and income.

Finally to check for the stability of the parameters of the final model we apply Chow-test (Gujarati, 1995), using the following test statistic.

$$F = \left[ \frac{\sum e_p^2 - (\sum e_1^2) + \sum e_2^2}{\sum e_1^2 + \sum e_2^2} \right] \left[ \frac{n_1 + n_2 - 2K}{K} \right] \quad F_{(k, n-1, \alpha, 2k)} \quad 5.$$

where,  $e_p^2, e_1^2, e_2^2$  are square of residuals from model estimated using full sample, first sub-period sample and second sub-period sample respectively.  $n_1$  and  $n_2$  are the number of observations in the first sub-period and second sub-period respectively and  $K$  is the number of stable regressors in the equation.

## RESULTS AND DISCUSSION

### Savings Rate

Percentage of savings with some other variables for Bangladesh are given Table 1. It shows that the total national savings in real price goes up from 13.78 billions of Bangladeshi Taka in 1971 to Taka 65.45 billions in 1992, thus representing 4.75 times increase over a period of 22 years. But the real aggregate income increased from 316.22 billions in 1971 to 650.05 billions in 1992, that is, increased approximately two times during the same period.

During the study period, in Bangladesh, savings ratio rose from 2.82 per cent during 1971-75 to 8.86 per cent during 1991-92. To test whether the relationship is causal, i.e., changes in per-capita GNP lead to change in the savings ratio, the year to year changes in per-capita GNP and savings ratio

the savings ratio. The savings ratio rose in years when per-capita GNP was increasing in 1981, 84, 87, 90, 91 and 92 and fell in 1971, 76 when per-capita GNP fell. Which suggest a casual relationship between per-capita GNP and savings ratio during 80's. But there are deviations from the relationship; in 1974, 78, 79, 82, 86, 88 and 89 when the per-capita GNP rose the savings ratios fell and in 1973, 77, 80, 83 the per-capita GNP fell but the savings ratio rose sharply, while in 1975 and 85 per-capita GNP fell but there was small increase in the savings ratios. An explanation for these departures is that the increase in per-capita GNP was brought by the increased borrowing, which reduced savings ratios. The exceptions conflict with the consumption-spreading type theories of the consumption function. If savings is for the purpose of consumption-spreading, the savings ratio should fell with a temporary decline in per-capita GNP like that in 1975 and 1985, as people maintain the previous level of consumption out of a lower income, and should not fall when per-capita GNP is rising at or above it's average rate as in 1974, 78, 79, 82, 86, 88 and 1989. So we can infer that Keynes's hypothesis is not supported by Bangladeshi data—the proportion of income saved did not increase as per-capita income rose.

TABLE I  
Percentage of Savings with some other variables for Bangladesh

Year	Real GNP Bill. Tk. (1987=100)	Real GNS Bill. Tk. (1987=100)	Savings Ratio %	Five Yearly Averages (S. R. %)	Change in Savings Ratio %	Change in % Real Per- Capita Income
1991	316.22	13.78	4.36		-	-
1972	274.26	-8.81	-3.21		-7.57	-15.71
1973	275.29	29.64	10.77		13.98	-2.37
1974	309.89	2.83	0.91		-9.85	9.57
1975	312.12	3.97	1.27	2.82	0.36	-1.90
1976	319.91	-8.05	-2.52		-3.79	-0.10
1977	317.82	23.48	7.39		9.91	-3.11
1978	352.79	10.62	3.01		-4.38	8.33
1979	374.55	9.84	2.63		-0.38	3.67
1980	379.28	14.73	3.88	2.88	1.26	-2.19
1981	417.76	26.03	6.23		2.35	7.70
1982	440.41	17.05	3.87		-2.36	3.13
1983	444.04	25.43	5.73		1.86	-2.36
1984	471.84	27.16	5.76		0.03	3.01
1985	383.75	22.73	5.92	5.50	0.17	-21.08
1986	512.62	27.95	5.45		-0.47	30.99
1987	537.40	38.56	7.18		1.72	2.84
1988	544.14	34.86	6.41		-0.77	0.30
1989	556.59	31.50	5.66		-0.75	0.39
1990	602.58	36.93	6.13	6.16	0.47	6.30
1991	623.63	47.67	7.64		1.51	1.65
1992	650.05	65.45	10.07	8.86	2.42	2.41

### Model Building

To perform empirical work with the two series  $CY_t$  and  $CS_t$  first we check for their stationarity by statistical tests, that is, Dickey Fuller (DF) test. Now to perform DF test for the time series  $CY_t$  we calculate  $t$  (=Tau) statistic based on the following estimated regression.

$$\begin{aligned} \widehat{\Delta CY}_t &= -160864.65 + 83.34 T - 938 CS_{t-1} & 1 \\ t &= (-4.74)^* & (4.78)^* & (-4.78)^* \\ R^2 &= 0.583 \quad dw = 2.08 \quad (OA) \quad F = 12.58^* \end{aligned}$$

Since the computed value of the Tau ( $t$ ) statistic is  $-4.783$  which is absolute term is greater than its critical value at 5 per cent level of significance ( $-3.60$ ), we conclude that the per-capita income series of Bangladesh is stationary.

Similarly to perform DF test for the time series data on per-capita savings ( $CS_t$ ) following regression equation was estimated.

$$\begin{aligned} \widehat{\Delta CS}_t &= -52497.45 + 26.65 T - 1.44 CS_{t-1} & 2 \\ t &= (-5.17)^* & (5.18)^* & (-6.80)^* \\ R^2 &= .726 \quad dw = 2.08 \quad (OA) \quad F = 23.79^* \end{aligned}$$

From the estimated equation we see that the computed value of Tau statistic is  $-6.80$  which also in absolute term exceeds the critical value at 5 per cent level of significance. Hence we conclude that the  $CS_t$  series is stationary.

Since both  $CY_t$  and  $CS_t$  are stationary, we like to test whether the two series follow stochastic or deterministic trend by comparing the F values of the above two regressions with the critical value 7.24 at 5 per cent level of significance as computed by Dickey and Fuller (DF). As the F-values for the above regressions exceeds the DF critical value hence we conclude that  $CS_t$  and  $CY_t$  series follow deterministic trend.

Since with a deterministic trend, variables can be made stationary by including a time trend in any regression, we regress  $CS_t$  on  $CY_t$  including a time trend in the regression equation. The estimated equation gives the following results :

$$\begin{aligned} \widehat{CS}_t &= 23223.73 + 11.65 T - 0.078 CY_t \\ t &= (-1.58) & (1.53) & (0.94) \\ R^2 &= 0.497 \quad dw = 2.79 \quad (OA) \quad F = 9.45^* & 3 \end{aligned}$$

As  $R^2 < d$  according to Granger and Newbold we do not suspect that the estimated regression suffers from spurious regression. Further the long run MPS is about 7.8 per cent obtained from the model 3. This suggests the per-capita savings adjusts to its long run growth path very slowly following a disturbance.

Further to find the impact of short-run changes with the long-run behaviors a regression is run with the first differences of  $CS_t$  and  $CY_t$  and one period lagged value of the residuals  $U_{t-1}$  from the above savings income function 3. The estimated regression equation is :

$$\begin{aligned} \Delta \widehat{CS}_t &= 2.63 + 0.101 \Delta CY_t - 1.49 \widehat{U}_{t-1} & 4 \\ t &= (1.109) \quad (1.69) \quad (6.95)^* \\ R^2 &= 0.729 \quad F = 24.29^* \quad dw = 1.90 (OA) \end{aligned}$$

From the above estimated equation we see that the coefficient of  $\Delta CY_t$  is significant at 10 percent level and the coefficient of lagged random error is highly significant.

Including the higher order lagged differences of  $CY_t$  and  $CS_t$  we get :

$$\begin{aligned} \Delta \widehat{CS}_t &= 20.51 + 0.098 \Delta CY_t + 0.178 \Delta CY_{t-1} - 1.41 \Delta CS_{t-1} - 1.55 \widehat{U}_{t-2} & 5 \\ t &= (0.764) \quad (1.23) \quad (1.91) \quad (-5.66)^* \quad (-3.67)^* \\ R^2 &= 0.735 \quad F = 10.4^* \quad dw = 1.58 (OA) \end{aligned}$$

There is no problem of autocorrelation and overall regression is highly significant. But it is to be noted that the examination of 't-ratio' shows highly insignificant coefficient of  $\Delta CY_t$  and the coefficient of  $\Delta CY_{t-1}$  is significant at 7 per cent level. Further model 4 contains only three variables and model 5 has five variables. This model 4 is more parsimonious equation. Hence we accept the model 4 as our preferred model obtained by Engle-Granger two step (EGTS) procedure. We, therefore, conclude that short-run changes of income in Bangladesh has no impact on its savings pattern and cent per cent discrepancy between the actual and the long-run value of savings is corrected each year. This happened due to low long-run MPS and heavy dependency of Bangladesh economy on foreign aid. To compute the value of Chow statistic for the preferred EGTS model we divided our sample into two sub-periods and used the sum of squares of residuals from two estimated models. The value obtained from Chow statistic is 0.831 whereas the critical value of F is 3.29

with (3,15) degrees of freedom at 5 per cent level of significance. Hence we accept the stability of parameters of the preferred EGTS model 4.

Now we shall adopt the Hendry-type general to specific (GS) methodology from the outset, starting with a general short-run model and testing down to a suitably parsimonious final model. But since our co-integration analysis suggests that a long-run relationship exists, we will be able to express the short-run relationship in ECM form. Further as we are dealing with annual data we adopt a general model involving up to two period lags only. However, such a model can be represented into a second-order ECM. We shall, therefore, estimate our general model in ECM form. This yields :

$$\begin{aligned} \Delta \hat{CS}_t = & .1106.5 + .101\Delta CY_t + .190\Delta CY_{t-1} + .321CY_{t-2} - 1.40\Delta CS_{t-1} - 1.25CS_{t-2} & .6 \\ t = & (3.18)^* \quad (1.25) \quad (1.98) \quad (3.52)^* \quad (-5.52)^* \quad (-3.55)^* \\ R^2 = & 0.746 \quad F = 8.22^* \quad dw = 1.72 \quad (OA) \end{aligned}$$

From the above estimates we observe that there is no problem of autocorrelation and the value of  $R^2$  is satisfactory with overall regression highly significant. But examination of the 't-ratios' shows that only the coefficient of  $\Delta CY_t$  is insignificant and that of  $\Delta CY_{t-2}$  variable is significant at 10 per cent level. However, before we start omitting the variables from the above equation we note that a special case of the general second order ECM is a first order ECM of the type  $\Delta CS_t = \beta_0 + \beta_1 \Delta CY_t + \beta_2 CY_{t-1} + \beta_3 CS_{t-1} + \hat{U}_t$ . Now estimated of such a model yields.

$$\begin{aligned} \Delta \hat{CS}_t = & -954.06 + 0.209 \Delta CY_t + 0.278 CY_{t-1} - 1.45 CS_{t-1} & .7 \\ t = & (-3.34)^* \quad (2.76)^* \quad (4.03)^* \quad (-5.77)^* \\ R^2 = & 0.664 \quad F = 11.18^* \quad dw = 2.00 \quad (OA) \end{aligned}$$

The value of F statistic shows that overall regression is highly significant and there is no autocorrelation. Further all the coefficients are highly significant. Hence it is our preferred model obtained by Hendry-type GS method. The Chow statistic gives value 2.47, whereas with (4,13) degrees of freedom the critical value of F is 3.29. Thus we may accept the stability of parameters of the preferred GS model.

We now have two preferred models for the savings income relationship of Bangladesh. Equation 4. is based on Engle Granger Two Stage (EGTS) procedure and equation 7 is based on Hendry-type GS approach. They are non-nested equations. So we shall not attempt to choose between them. However the two equations are in fact not at all dissimilar. More importantly EGTS and

feature is that the savings ratio for Bangladesh during 1971 to 1977 fluctuated heavily. Most probably this happened due to post independence unstable situation of the country. Further although there are some fluctuations, yet in general the rates of saving show an upward trend beyond 1977. Negative rate of saving in 1972 and 1976 primarily reveals the effect of independence war of 1971 and serious turbulent political situation of the country. During 1971-75 the average savings rate was 2.82 per cent and similar savings rate was noted during the next five years period 1975-80. But in the two five-year periods of 80's, there was increase in the savings ratio. During 1981-85 the average rate of savings was 5.50 per cent. It rose to 6.16 per cent during the period 1986-90 and further to 8.86 per cent during 1991-92. This reveals a better saving performance in the later part of the 80's as compared with the earlier part. Heavy dependency on foreign aid, nationalization of all the industries after independence and inability to mobilize domestic resources are the factors responsible for weak economic performance of 70's. A better savings performance of the economy during 1980's reflects a policy change of the government and probably contains an element of recovery to a normal socio-political level in late 1970's.

For Bangladesh  $CS_t$  and  $CY_t$  series follow deterministic trend. Variables were made stationary by including a time trend in the regression of  $CS_t$  on  $CY_t$ . The long-run MPS for Bangladesh is about 7.8 per cent, which suggests the per capita savings adjusts to its long run growth path very slowly following a disturbance.

From the EGTS model we conclude that short-run changes of income in Bangladesh has no impact on its savings pattern and cent per cent discrepancy between the actual and the long-run value of savings is corrected each year. Perhaps this happens due to low long-run MPS and heavy dependency of Bangladesh economy on foreign aid. Further the two models for short-run relationship obtained by EGTS and Hendry-type GS approaches are in fact not at all dissimilar. They lead to the equations with very similar lag structures, long-run effect being fully felt after just one year.

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# Economic Cooperation Among SAARC Countries : Challenges and Prospects

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ARIF SULTAN

## INTRODUCTION

Regional Trading Blocs have lately been rising like mushrooms which is one of the significant features of the world-wide economic scenario today. One of these is 12-Member European Economic Community (EEC). Another is the European Free Trade Association. On the other side of the Atlantic is the North America Free Trade Agreement (NAFTA). In the Baltic Region, the three newly independent states of Estonia, Latvia and Lithuania announced their intention to form a customs union modelled on the European Community in order to promote economic growth and trade. The free trade agreement between Argentina, Brazil, Paraguay and Uruguay for common market has also been agreed upon. The members of the Organisation of African Unity agreed to establish the African Economic Community.

In Asia, the members of the Association of South-East Asian Nations (ASEAN) likewise agreed on setting-up a regional common market. Also, an important trading bloc is emerging on the Pacific realm with Japan dominating a set of countries.

It is expected that in the coming years there would be out-throat competition in the international market. Regional economic integration has therefore become the crying need of the hour. Of course, SAARC is a ray of hope for the Developing Countries of South Asia. This region has a number of significant factors which should help it to become a strong economic bloc. It has strategic location, rich agricultural resources, abundance of manpower and good market potential. Also, the region is connected with neighbouring countries with road and rail links.



### PROSPECTS OF ECONOMIC INTEGRATION

The SAARC has seven members. These are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The region has a population of more than 1,350 million people. This represents more than 25 per cent of the entire World's population. The region now occupies a vast area of over 5 million square kilometres which is quite rich in agricultural resources in particular. On the whole the region belongs to the developing and under-developed countries. It is inhabited by relatively poor people. The volume of its exports is nearly 29 billion dollars, which accounts for hardly 1 per cent of worlds' exports, while it takes in around 37 billion dollars of imports.

#### Manpower Resources

Another argument that favours the economic cooperation of the South Asian countries relates to manpower. The most notable 'surplus' of these Lower Income Economies is 'population.' Bangladesh has a population of 110.6 million; Pakistan 115.8 million; Bhutan 1.5 million; India 866.5 million; Maldives 221 million; Nepal 19.4 million, and Sri Lanka 17.2 million. A pertinent question arises : Is this population a burden-on-resources or a resources in its own right? Are the people of these countries well-fed, healthy and educated? Let us have a look at the literacy levels of these countries. The picture is like this : Bangladesh (35 per cent literacy rate), Pakistan (35 per cent), Bhutan (38 per cent), India (48 per cent), Maldives (95 per cent), Nepal (26 per cent), and Sri Lanka (88 per cent). The statistics of literacy rates show that most of the labour force in general and the population of Maldives and Sri Lanka in particular is educated and to some extent skilled. Indeed, population of any given country should be counted as a resource; but if they are sick, underfed, illiterate and demoralized they become liability. Obviously, manpower resources of the region will be considered as a strong argument for economic integration because it is appropriate educated and skilled.

TABLE I  
Comparative Picture of the South Asian Countries

South Asian Economies	Area ('000 sq km)	Population (mill)	GNP/Capita ('90 Per Capita Income (dollars))	Exports (mil \$)	Imports (mil \$)	Literacy Rate %-1990	GDP (mil \$)	Growth Rate	Total external debt (mil \$)	Exp. on defence as % of (Total exp.)
Bangladesh	144	110.6	220	1,718	3,470	35	23,394	4	13,051	10.1
Bhutan	47	1.5	180	56.7	82.4	38	240	5	8.7	
India	3,288	866.5	330	17,664	20,418	48	221,925	4.2	71,557	17
Maldives	Less than 500 Sq Km	221	460	-	-	95 (90)	-	-	-	-
Nepal	141	19.4	180	238	740	26	3,063	3.1	1,769	5.9
Pakistan	796	115.8	400	6,528	8,439	35	40,244	7.8	22,969	27.9
Sri Lanka	66	17.2	500	2,629	3,861	88	8,195	4.6	6,553	9.4
	4,482	1,352		28,833.70	37,010.40		297,061		115,986	

All the figures are for 1991 as otherwise indicated.

Source : *World Development Report 1993*.

### Land Resources

It is stated that the countries of South Asia have vast land reserves. Since land is a factor of production, it may be used for increasing agricultural output of the world in general and of South Asia in particular. Bangladesh comprises of 144 thousand sq. km.; Bhutan 47 thousand sq. km.; India 3,288 thousand sq. km.; Nepal 141 thousand sq. km.; Sri Lanka 66 thousand sq. km.; and, Pakistan 786 thousand sq. km. The importance of land as a factor of production is there, but for the poor countries, this reserve can sometimes become a liability rather than an asset. Some of these countries find themselves inadequately prepared to defend their frontiers despite sacrifice of valuable material resources on purchase of arms and ammunition from advanced countries. By benefitting from experiences of member countries, particularly in the field of agriculture the region could make better use of its land resources. Land and climate of Bangladesh is suited for the production of jute, rice and tea. Pakistan's land and weather conditions are favourable for wheat, cotton, rice and sugar-cane. East Punjab province of India has earned considerable credit for itself for producing high yields of wheat per acre.

TABLE 2  
South Asian Trade as Share of World Trade

	<i>(Million Dollars)</i>	
	1980	1989
1. World Exports	1809387	2902276
2. World Imports	1853204	3046114
3. SA Exports	12511	23631
4. SA Imports	23396	33990
3 as % of 1	0.69	9.81
4 as % of 2	1.26	1.11

Source : IBRD, *World Development Report, 1993*.

The region can be linked with the principal arteries of communications, by air, rail, road and sea with a little effort. Its geographical location gives it an over-riding edge over other regions.

### Technological Comparison

The South Asian states have achieved certain levels of technology. They are at different levels of industrialisation. In this connection we might consider the composition of the international trade of Pakistan, India, Bangladesh and some other countries. The major exports of Pakistan are cotton, rice, leather and sports goods, while its major imports are, machinery and engineering goods. It means its exports are mainly agricultural products. How can you call a country exporting agricultural products as an industrial country. Similarly placed are other (comparatively) more advanced SAARC countries. Most of the countries of the association are agro-based except India which, has exports of semi-manufactured products as well. In technological advancement the countries have lagged behind other countries.

### Economic Structure of the Economies

Table 3 sheds light on the structural composition of economies of the region. Bifurcation of GDP into its constituents, doubtlessly elucidates that in almost all of the countries, agriculture is considered as the mainstay of the economies. This sector's least contribution to GDP in any economy is not accounted for less than 30 per cent. In some countries of the region, agriculture is like back-bone of its economy. For instance, in Nepal, where it's share is around 60 per cent in GDP, Bhutan has also heavy reliance on agriculture, i.e., 43 per cent to GDP. Intrinsically, the South Asian economies are still agro-based, the magnitude of this sector in the respective economies though dropped slightly. The services sector also contributes massively to GDP. In the most significant sector, in which nearly all the economies of the region

are lagging behind is manufacturing and industry. Numerous reasons may be singled out as the causes of slow growth in these sectors. Lack of technical progress, shortages of capital inputs and insufficient infrastructural development are considered as pre-requisites for industrial growth and development. The remaining pre-requisite of industrialisation including abundance of raw material, access to market outlets and availability of giant markets within the region, and presence of adequately educated, skilled and low-cost labour force are invariable and obviously available.

TABLE 3  
Distribution of Gross Domestic Products

(Percentage)

Countries	Agriculture	Industry	Manufacturing	Services
Bangladesh	36	16	09	48
Bhutan	43	27	10	29
India	31	27	18	41
Maldives				
Nepal	59	14	05	27
Pakistan	26	26	17	48
Sri Lanka	27	25	14	48

Source : *World Development Report, 1993*.

### Natural Resources

This region has great wealth in human and natural resources, which, if fully utilised to the mutual benefit of all member countries, can make this region one of the most dynamic economic forces in the world. It has a population of more than one billion, almost equal to that of China and about 20 per cent of the world population. It is one of the biggest producers of important agricultural crops such as wheat, rice, cotton and jute. It has sizeable mineral resources, such as coal, iron, chrome, and gypsum. Though an importer of energy, it has vast oil and gas resources. The human reservoir of skilled workers, managers, scientists, and technicians is impressive too. Most of the region has a good system of physical infrastructure in the shape of roads, rail, sea, and air links. The problem of language is minimal as English is understood and spoken all over the region.

At present, in terms of intra-regional trade, around 47 per cent of exports between them take place, while almost 58 per cent imports being traded. Tough current volume of intra trade is quite huge but it may be enhanced by some efforts. However, there is little chances of its improvement keeping in view the status and structure of the concerned economies. A quite significant improvement might possible if the countries of the region remove the barriers

coming across the regional trade including restriction of trade and curtailing of other custom duties. Additionally, as an economic bloc it can exert some influence in international market.

Should the SAARC countries, in the given circumstances, seek economic cooperation? Can they form an economic bloc? Possibly, the South Asian world can develop an economic bloc. The South Asian countries which enjoy political sovereignty must join hands to emerge as an economic bloc leading towards self-sustained growth of the region. Despite differences in language, religion, moral and ideological grounds, racial stock and levels of economic development, the region has a measure of homogeneity in outlook. This derives from their geography, history and clash of cultures.

\*Chances of success of regional cooperation are enhanced if the participating countries are reasonably homogeneous in regard to :

1. The level of already attained development and potential for development.
2. Social and economic systems.
3. General development policies.
4. Culture and language.
5. Legal and judicial systems.
6. Foreign policy.

Consequently, countries which are potential partners in regional cooperation need to be identified on the basis of social, economic, and political realities, geography, culture, assurance concerning the safeguarding their sovereignty and independence, and relations with foreign factors and interests.

Intra-regional trade may also prove fruitful in terms of cost and benefits. \*Unit value realised by SAARC countries in their export to regional countries were higher than those obtained from trading with the rest of the world, especially in goods where freight cost was significant. The examples, include, export of tea and raw jute by Bangladesh; refined sugar, black pepper, iron ore, varnishes, powerloom fabrics exported by India; export of cotton, cotton thread for sewing, pig iron by Pakistan, and coconut oil by Sri Lanka. Wheat unmilled, cotton yarn grey, and bleach imported by Bangladesh were cheaper when imported from regional sources as compared to the rest of the world. India's imports of butter oil, beans and peas, other crude vegetable materials, inedibles, almonds, dates dry and pig iron were found cheaper from regional sources. Similarly, bidi leaves, yarn of coir, raw, jute cuttings, bags and sacks

of jute and textile materials, and large cardamoms were found to be cheaper than in the rest of the world. Not much different is the situation in respect of Sri Lanka's imports of paper, raisins, currants, raw sugar, mica and essential oils. The above facts make it abundantly clear that there are good prospects of expanding the intra-SAARC trade provided the needed land transport and the concomitant linkages are properly developed and, in addition, the obstructions standing in the way of transit facilities, are removed.

TABLE 4  
Percentage of Intra-Regional Imports and Exports  
in Total Trade of SAARC Countries (1989)

Countries	Imports	Exports
India	1.10	2.80
Pakistan	1.70	3.60
Bangladesh	4.50	3.90
Sri Lanka	8.0	5.60
Nepal	36.20	24.00
Maldives	6.40	6.60

Source : *Defence Journal*, pp. 89-90.

## CHALLENGES

There also are some negative factors which might work against our hypothesis. It is feared that there exist some economic and political rivalries among the member states.

\*There are serious political factors which continue to bedevil the relationship among the member countries of the SAARC region. Among the physical problems encountered in the region are : In recent years normal border movement was not possible between Sri Lanka and India on account of the known political problems. In fact, the car ferry service which links Dhanushkodi in India and Talaimannar in Sri Lanka has been suspended for passenger as well as good traffic. India also has serious differences of opinion with Bangladesh centring on its fear of the continued migration by people from Bangladesh across the border to the Indian states of Assam, Meghalya, Tripura and West Bengal. Further, of late, India developed serious difference with Nepal which led to the suspension of transit facilities accorded by the former to the latter which caused hardships to the Nepalese people.

\*But what hinders cooperation is the climate of suspicion and mistrust between India and its neighbours. That is what makes trust the indispensable key to regional cooperation in South Asia. There are four major sources of

mistrust. The first is the recent and earlier history of this region. Second, the great disparity between the size and the power potential of India on the one hand and its neighbours on the other. Third, the exploitation of this fear for their own purposes by the extra-regional powers. The fourth is insufficient inner coherence in some South Asian countries.

\*Misperception among SAARC member countries can be realised by the following facts. Even the smallest of India's neighbours, Bhutan, in negotiating a joint hydropower development project at Chukha, has quite rightly wrested very favourable terms, and despite pressing Indian needs and requests has hitherto declined further expansion of the project even on these terms on the ground that a further project does not fit its present priorities. The next smallest, Nepal, has even more resolutely resisted, until its own terms are fully satisfied, joint projects proposed by India for the development of the resources of rivers flowing into India from Nepal. So has Bangladesh. Success or failure of such negotiations in all three cases has depended upon the customary dealings between buyers and sellers; attributing them to the disparity between the negotiators is a clear case of misperception.

The Kashmir dispute has been not only a serious security threat to the two parties — India and Pakistan but has also become a challenge to the entire region of South Asia. At present, "there are three dimensions to the problem : first, gross violation of human rights in Jammu and Kashmir by the forces of Indian occupation; secondly, the fact that this human rights situation is a cause-related phenomenon. The fundamental issue is Kashmiri people's national movement for their right of self-determination under the United Nations Resolutions; and finally, the threat to security in South Asia posed by this conflict which, if escalates, can spark off war in a region that houses over a billion people — over one-fifth of the human race : a war that could even result in the use of nuclear weapons in this populous region.

Furthermore, "Kashmir has been the central issue between India and Pakistan and has been responsible for much of the tension, bitterness and conflict between the two major South Asian countries since their independence. It has led to three major wars between the two countries in the past, one in 1947-48 and the other in 1965 and yet come more in 1971. The threat of war is not yet over. The main source of tension is over Kashmir. Only the sight of self-determination, as enshrined in the resolutions of the United Nations, could resolve the issue. U.S. scholar notes : "The Kashmir dispute, in particular, could become the flashpoint of a conventional war that could escalate to the nuclear level." The nexus between the unresolved

Kashmir dispute and the possible nuclear confrontation between India and Pakistan is a real one, which crates an alarming situation for the people of the sub-continent. A nuclear holocaust could spell a real disaster for the people of entire South Asian region besides India and Pakistan.

Similarly, a number of chronic disputes continue between India and Pakistan since partition. "A host of other issues between India and Pakistan such as the Siachin Glacier dispute, the Wuller Barrage issue, covert warfare, escalating arms race and the absence of meaningful economic or political cooperation are, in fact, the off-shoots of the conflict in Kashmir. Kashmir has been the root-cause of all the major problems between the two countries which have been following divergent foreign policy paths since their independence in 1947. This dispute has also been primarily responsible for ever-increasing defence expenditures of the two countries, diverting their scarce resources from other more vital sectors of their economies with many-fold consequences for the domestic polities of the two countries.

Misperception, political rivalries and overlapping interests of the members of the SAARC, and disparity and inequality in size of the countries have made the security concerns for each member country as its top concern. Expenditure of defence has become the biggest head of current expenditure in all the member countries in general and in particular in India, Pakistan and Bangladesh. For instance, Bangladesh (expenditure on defence as per cent of total expenditure equals 10.1), India (17 per cent) and Pakistan (27.9 per cent). If friendship, tranquility, harmony and unanimity on critical issues among the member countries prevails, these resources can be saved and reallocated in some other areas of the economy which might be more encourages and profitable.

Disharmony on different political matters and overlapping interests of the member countries enforced them to allocate their precious chunk of resources to safeguarding its sovereignty and independence. In general, almost all the member countries specify more than 6 per cent of their expenditure on defence. Pakistan, India and Bangladesh in particular spend huge sums of money on defence spending. These resources can be transferred from and be saved from wastage if the member countries devise policies and resolve conflicts through consensus. These resources may further be utilised for development and making SAARC a really efficient economic bloc.

### CONCLUSION

Most of the SAARC countries heavily rely on agriculture sector as the mainstay of their economies. More or less the structure of all the economies is



same, i.e., agro-based economies. The balance of trade is only favourable for India, while other countries are facing adverse balance of trade position. Except India, all other economies are exporting primary and agro-based products. The potential of the region in terms of skilled and educated manpower resources, agricultural production, land reserves is remarkable. Despite all these facts, the region is gripped with misperceptions, historical and post colonial border and boundary disputes. If the prevailing misperception and disputed territorial issues are solved through consensus, doubtless prospects for the emergence of SAARC as an economic bloc will not be too far and a vain hope. Then, intra-regional trade, joint-ventures and efficient utilisation of all the resources may be streamlined.

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# Foreign Policy Motives of U.S. Aid to Pakistan : The Cold War Years

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NAHEED ZIA KHAN

## INTRODUCTION

In the 1950s Friedman wrote an article, whose argument, while never forgotten, appears to have generated fresh appeal in recent years.<sup>1</sup> While Friedman also discusses the effects of foreign aid on development, it is his opinion that the objectives of U.S. foreign aid are mainly to further U.S. interests which is the pivotal point of this study. Throughout the Cold War, U.S. Governments tended to give generously to countries whose allegiance they wanted to buy. In 1985, Secretary of State, George Shultz, stated flatly that "our foreign assistance programmes are vital to the achievement of our foreign policy goals."<sup>2</sup> Viewing the world as divided between two opposing camps, U.S. Government acted as if their country's interests were threatened by any experiment that did not emulate the U.S. economic model. Any nation seeking to alter its economic ground rules was reckoned by the U.S. policy makers as in the other camp and thus an enemy. During the Cold War era, U.S. economic assistance was highly concentrated on a few governments<sup>3</sup> and its distribution between recipient countries was not related to need.<sup>4</sup> Most aid was used to bolster politically allied governments.<sup>5</sup> This study's scope of inquiry is focused on the foreign policy motives of U.S. aid to Pakistan. The analysis is carried out in three parts. Part I explains the geopolitical significance of Pakistan in the strategy of the Cold War. Part II gives some relative measures of U.S. foreign aid to Pakistan during the Cold War years. Finally, Part III discusses the implications of politically manoeuvred aid for developing countries like Pakistan.

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## I

**GEOPOLITICAL PERSPECTIVE OF U.S. AID TO PAKISTAN**

Insofar as Pakistan produces no significant industrial raw materials and offers no considerable market for the high-technology products, it has never enjoyed very great prominence in the strictly economic calculations of USAID (US Agency for International Development). However, in so far as Pakistan borders on the three largest states of the world, the former U.S.S.R., China and India, as well as the strategically crucial Persian Gulf, its geopolitical significance was enormous in the strategy of the Cold War. In this discussion, an attempt has been made to provide a background to this assertion.

The years 1949 and 1950 were traumatic in the history of the Cold War. The Soviet Union exploded its first atomic weapon. Most Americans derived little reassurance from President Truman's avowal, in his announcement of the event, that "ever since atomic energy was first released by man, the eventual development of this new force by other nations was to be expected. This probability has always been taken into account by the U.S."<sup>6</sup> The Americans realised that their supremacy of power had come to an end and they foresaw that, as the years went by, the Soviet Union could affront and assail the West more boldly. While Americans were adjusting to that nascent reality, China, on whose co-operation the United States had counted for security in the Pacific, fell before the triumphant Communists, trained and armed by the Soviet Union, swooped down upon South Korea. The American position in Japan and the Philippines was threatened, and the value of their main naval and air base in Okinawa depreciated.

Hence, the power struggle for world supremacy became primarily an inter-continental struggle between the U.S. and the former Soviet Union. Any Soviet plans to expand on the Western flank were stemmed by the U.S. with the formation of the military bloc of the North Atlantic Treaty Organisation (NATO) in 1949. The extended chain of American bases and garrisons from the Aleutian Islands to the Philippines similarly blocked the threat of expansion by Soviet Union or its ally China into the sphere of the Pacific Ocean. In the North the series of radar detection lines across Canada were intended to serve the same function. Only the Southern flank, by its physical and political fragmentation, indicated a number of loopholes vulnerable from the interior. From west to east these loopholes are the Straits of Dardanelles and the Bosphorus, the Persian Gulf, and the Indus low-lands and the passes which connect them to Central Asia.

After the Second World War the Soviet Union had acquired access to the Mediterranean Sea, but the subsequent defection of Yugoslavia was a great blow to her strategy and it accentuated the critical importance of the Straits. Any possibility of effective penetration by the Soviet Union was also vitiated when Turkey and Greece joined NATO. Subsequently, the Middle East Treaty Organisation commonly known as the Baghdad Pact (and later as the Central Treaty Organisation, CENTO) was formed.<sup>7</sup> It allied Britain with Turkey, Iraq and Iran (and later Pakistan) and was supported by the U.S. as it was meant to serve as a military cordon along the borders of the Soviet Union in South West Asia. The Pact insulated the Persian Gulf and extended NATO's influence farther east. The fourth loophole was the Indus Valley. Here, the gap between the Soviet transport network and Pakistan's road system was only about a hundred miles. If strategic and political considerations demanded it, an aircraft over the narrow Wakhan range could quickly bring hostile forces to the very centre of army and civil power in Pakistan, Rawalpindi. It was a very similar hypothetical threat that led the British to fortify the north-west frontier of India at the end of last century.<sup>8</sup> Similar considerations might have caused the Americans to include Pakistan in the chain of bases allied to Western powers and extending along the southern Soviet periphery. Though airpower and ballistic missiles had greatly reduced dependence on these bases, it is doubtful if they could have been eliminated altogether. Further, the Afghan War finally proved in the 80s' that Pakistan always remained a critical area in the strategy of the Cold War. Indeed, the following substantial evidence supports this opinion.

Even before the creation of Pakistan, the U.S. Secretary of State, George Marshall (the architect of the Marshall Plan), in a memorandum to President Truman on July 17, 1947, referring to Pakistan said, "Pakistan with a population of seventy million persons, will be the largest Muslim country in the world and will occupy one of the most strategic areas in the world."<sup>9</sup> Further, as early as March 1948, it had been noted in an influential American journal, "We must realise what Britain and Russia have always understood: that the Eastern Mediterranean basin and the Middle East countries bordering it are parts of one political complex. This complex now extends as far as Pakistan; and a new line from Karachi north to Kabul must enter into the calculations of Washington as it has for many years into those of Moscow and London."<sup>10</sup> Soon after, in December 1948, the Truman Administration set up the Foreign Assistance Correlation Committee which consisted of senior representatives of the state and defence departments and the Economic Co-operation Administration. The Committee believed that, in the context of

United State's strategic plans the geographic location and terrain of a country was an important military criterion for the identification of prospective recipients of aid.<sup>11</sup> And, in a memorandum dated March 24, 1949, the U.S. Joint Chiefs of Staff highlighted the importance of Pakistan and Afghanistan and the Karachi-Lahore area as vital for meeting the basic strategic objectives of the region.<sup>12</sup> Truman himself, in his report to Congress, expressed the view that "Pakistan's friendship for the West may become an important factor in giving stability to the Near East. At the same time Pakistan is a valuable ally in South Asia because of its strategic location on the Indian Ocean and its control of land passes from Central Asia."<sup>13</sup>

Indeed, with a population of 76 million and an army of about 200,000, Pakistan offered obvious advantages from the standpoint of regional defence in the Middle East and Southern Asia. Its troops included some of the most famous regiments of the old British Indian army; its borders included the Khyber Pass, the historic invasion route of the Indian Subcontinent. Most importantly, John Foster Dulles, Eisenhower's Secretary of State believed that Islam-oriented Pakistan was psychologically best suited to oppose Communism. As he noted, the "strong spiritual faith and martial spirit of the people make them a dependable bulwark against Communism,"<sup>14</sup> an observation which, about three decades later was to become the most effective emotional instrument to manipulate in the strategy of the Afghan War.

## II

### FOREIGN AID TO PAKISTAN : THE U.S. CONTRIBUTION 1951 To 1988

The regressed evidence concerning the total commitments of major donors is given in Table I. These figures are the aggregate magnitudes of the gross flows of various kinds of loans and grants until the end of 1988. The United States appears to be the largest source of foreign aid the Pakistan, a share of 26.5 per cent for the period between July 1951 to June 1988. In the 1950s, over tow-thirds of all economic assistance was from the U.S.; this share fell to a little over a half in the 1960s, and it was considerably less during 1971-77. The relative fall i.a the U.S. aid to Pakistan continued until after the Soviet invasion of Afghanistan in 1979. The Carter Administration then offered Pakistan US \$402 million in economic and military assistance. This offer was rejected on the grounds that it was not worth the price that Pakistan would have to pay in terms of its relations with the Soviet Union.<sup>15</sup> Later the Reagan Administration's offer of a five-year package of military and economic assistance was accepted by the Government of Pakistan.<sup>16</sup>

TABLE I  
Foreign Aid : Commitments  
Pakistan : July 1951 to June 1988

Donor Country/Agency	Absolute Value (US\$ Million)			Share of Total Aid (Percentage)		
	Loan	Grant	Total	Loan	Grant	Total
<b>1. Consortium</b>						
(a) <i>Multilateral</i>	7862.00	699.70	8561.70	30.89	9.04	25.33
(b) <i>Bilateral</i>						
Belgium	73.50	0.00	73.50	0.30	0.00	0.22
Canada	860.90	474.40	1335.30	3.38	6.12	4.07
France	890.50	0.00	890.50	3.50	0.00	2.62
Germany	1550.00	75.20	1625.20	6.10	0.98	4.81
Italy	546.10	0.00	546.10	2.15	0.00	1.62
Japan	1842.00	448.00	2290.00	7.27	5.7	6.90
Netherlands	257.30	141.60	398.90	1.01	1.83	1.22
New Zealand	0.00	29.00	29.00	0.00	0.38	0.10
Norway	7.00	159.00	166.00	0.03	2.05	0.54
Sweden	9.30	77.60	86.90	0.04	1.01	0.29
Switzerland	95.20	38.00	133.20	0.37	0.50	0.41
U.K.	1223.30	525.20	1749.50	4.79	6.79	5.29
U.S.A.	5448.90	3225.80	8674.70	21.47	41.64	26.54
<b>2. Non-Consortium</b>	4771.94	1853.40	6625.34	18.80	23.91	19.85
Total (1 + 2)	25439	7747	33186	100	100	100

Source : "Pakistan Economic Survey," 1988-89, *Statistical Supplement*, pp. 181-189.

TABLE 2  
U.S. Economic Assistance : Top Seven Recipients  
1981 - 1985

(US\$ Million)

No.	Country	Donation
1.	Egypt	5,444.10
2.	Israel	5,215.00
3.	El Salvador	1,286.10
4.	Pakistan	1,153.70
5.	Turkey	1,103.50
6.	India	1,084.80
7.	Bangladesh	857.30

Source : U.S. Agency for International Development, *Congressional Presentation Fiscal Year 1987*, Main Volume, Parts I and II.

Note : Economic Assistance includes, Economic Support Fund, PL 480 Food Aid, Peace Corps and International Narcotics Control.

Figures in Table 2 show that Pakistan then became the fourth largest recipient of U.S. economic assistance after Egypt, Israel and El Salvador. As mentioned above, the U.S. Government's motive behind this new initiative was political. The principal aim at that time was to give Pakistan confidence in its external security, internal stability and conventional military forces to enable it to stand up to Soviet pressure from Afghanistan.

By June 1988, Pakistan received commitments of a little over US\$ 33 billions of nominal aid. These inflows are composed of both grants and loans given in number of different forms and with a variety of conditions on the use of resources and repayment. As listed in Table 3, between 1951 and 1988 roughly 23 per cent of the total aid committed to Pakistan was in the form of grants while the rest consisted of different forms of loans. Thus, only a part of the assistance given to Pakistan was actually in the form of outright grants. Further, there have been notable shifts in the composition of grants and loans between different periods. Table 3 lists the composition of the nominal inflow of all external assistance in four sub-periods. These sub-periods have been devised in line with the shifts in Pakistan Government's economic policy.

TABLE 3  
Foreign Aid Commitments : Composition  
Pakistan : 1951 - 1988

No.	Period	Percentage Share		
		Percentage of Total Aid	Grants	Loans
1.	1951 - 58	2.50	61.00	39.00
2.	1958 - 69	16.50	33.00	67.00
3.	1969 - 78	22.00	12.00	88.00
4.	1978 - 88	60.00	23.00	77.00
1 - 4.	1951 - 88	100.00	23.00	77.00

Source : "Pakistan Economic Survey, 1988-89," *Statistical Supplement*, pp. 183-91.

At first sight, the periodic record of different forms of aid flows to Pakistan, as given in Table 3, is very revealing. The fact that the figures have been compiled from a single source makes them particularly significant in indicating basic trends. During 1951-58, out of the total economic assistance 61 per cent was in the form of grants while the rest was composed of loans. In the next period, 1958-69, grants declined to 33 per cent while the volume of loans increased to 67 per cent. It is perhaps indelicate but not totally unfair to suggest that grants decreased once Pakistan's alignment with the U.S., acceptance of U.S. military aid and membership in CENTO were assured. The suspicion is further reinforced by the aid figures for the later two periods. In

the third period, 1969-78, the amount of grants fell to the lowest level of 12 per cent of the total while the amount of loans jumped to the highest level of 88 per cent of the total commitment for this period. The last period, 1978-88, the peak years of the Cold War with indirect but significant involvement of Pakistan, witnessed a favourable change in the composition of grants and loans, the proportion being 23 and 77 per cent respectively.

### III

#### COLD WAR POOR ALLIES OF U.S.: DEVELOPMENT AND THE LEGACY

How was this development aid spent? During the 1950s and 1960s, much of it went to install infrastructure (power plants, transportation, communication and the like) benefiting mainly businessmen, landlords, and others in an economic position to take advantage of such facilities. In the late 1970s and 1980s, the trend has been toward smaller-scale projects, including agricultural credit programmes and the development of small and medium-sized businesses. But even these smaller-scale projects failed to reach the vast majority of the poor. The Development Committee of the World Bank and the IMF conceded that 'rural development programmes have usually been unable to benefit 'the poorest of the poor', i.e. the lowest 20 per cent or so of the rural income distribution.'<sup>17</sup>

While the poor in developing countries may not be the chief beneficiaries of AID's development assistance projects, one group that did benefit handsomely includes the U.S. corporations and universities that got AID's contracts. Under the U.S. law, its economic assistance is 'tied', meaning that any imported goods and services paid for with U.S. aid funds must come from the United States, even if they could be purchased more cheaply from elsewhere. In FY 1984, 20 US corporations and universities received over \$159 million in AID's funds,<sup>18</sup> equal to almost half of US development assistance to Sub-Saharan Africa that year.<sup>19</sup>

Due to the unavailability of data on military assistance to Pakistan, this study has only utilised the data on economic assistance. However, overwhelming importance of military assistance can be inferred from the fact that in 40 years to 1985 since the end of World War Second U.S. aid provided more than \$47 billion worth of military equipment and training to the developing countries, a substantial portion of which went to military controlled governments.<sup>20</sup> The U.S., no doubt, has the dubious distinction of being the world's largest donor of military arms to the developing world.<sup>21</sup>



As for Pakistan, it is legitimate to conclude that U.S. military and economic assistance made General Zia-ul-Haq's military rule over Pakistan the 'longest ever' in the country's history. Lacking any claim for political legitimacy, Zia's military dictatorship decided to justify its attempt to perpetuate its rule by a new claim; namely that it had a mission to create an Islamic economy and polity in Pakistan. Since Soviet troops were in Afghanistan in the 1980s, the U.S. supported Zia's Islamising military regime. Zia used Pakistan's willingness to act as a 'conduit' for military and economic aid to the Afghan *Mujahedin* to develop a complex military and economic relationship with the United States. Between 1977 and 1988, the number of military personnel in Pakistan rose manyfold. Zia's regime corrupted and destroyed the key institutions of Pakistan. The 1980s witnessed the presence of Zia's men in the judicial, legislative, administrative and executive bodies. With such persons so deeply entrenched, the challenge for any democratically elected Government of Pakistan working to overcome the Zia's legacy and fight under-development and poverty is made incalculably more difficult.<sup>22</sup>

Finally, Foreign Policy motives of U.S. foreign aid programmes are only tip of the iceberg. Over and above the AID's performance, through numerous other overt channels (not to mention the covert ones, like the CIA), the US Government supports governments of its choosing, often in ways diametrically opposed to the interests of the developing countries. For example, the Export-Import Bank (EXIM) and the Commodity Credit Corporation (CCC) can have a greater impact on the economy and policies of the developing countries than official U.S. foreign aid. In a typical year, these two agencies alone channel about one and one-half times as much U.S. Government support to the developing world as the Economic Support Fund and development assistance portion of U.S. aid combined.<sup>23</sup> Further, the International Monetary Fund (IMF) has become decisive in recent years in determining who can afford to spend on what in many developing countries. The United States holds the largest voting block and an effective veto in this "lender of last resort".<sup>24</sup> Another overt aid channel I will like to mention is the World Bank. Although technically multilateral, the United States is unmistakably the Bank's most powerful member, wielding 20 per cent of the votes and appointing the Bank's President.<sup>25</sup>

*Moral* : In a world of sheer interests the resources channeled through the powerful have the remote chance of putting the house of powerless in order.

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## Incomplete Partition Process : Kashmir and Self-Determination

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MASOOD HASAN

Alastair Lamb in his book *Kashmir* has established beyond doubt that when Indian troops landed at Badgam Airport, Srinagar on October 27, 1947 at 9 a.m. they were landing not on Indian territory but on independent Jammu and Kashmir State. Both V. P. Menon and Mahajan (Jammu and Kashmir Prime Minister) travelled by air from New Delhi to Jammu at 10 a.m. on October 27, 1947. Maharaja Hari Singh was enroute at that time in a car between Srinagar and Jammu. The Instrument of Accession was signed in the afternoon of October 27, 1947 and the Maharaja's letter to Mounbatten asking for military aid came thereafter — which was obviously signed under duress. The Indian troops landing at Badgam found that the Patiala Forces had already reached there. These forces were there since October 17, 1947. The crossing at Domel by the tribals was on October 22, 1947. Without going into details of Mounbatten's perfidious role and his message to the Punjab Governor to 'eliminate salient' and the August 8 - 12, 1947 fiddling of the Radcliffe Award it is clear that over the years Indian merciless oppression in Jammu and Kashmir has in the words of former Indian Foreign Secretary Ram Das Sathe that he did not know of any Kashmiri who wanted India in Kashmir. Dixit said "India has lost its grip over Jammu and Kashmir." Add to this what Justice Tarkunde, Lord Avebury, Kuldip Nayar, *London Economist* or *Statesman of India* have to say. It all adds up to the need for vacation of Indian occupation to be followed by a plebiscite under UN supervision. This in no way goes against the Simla Agreement.

Comparisons with Camp David (Egypt, Israel, PLO) is hardly relevant when there are over half a million Indian troops — about one for each ten of the population! The Kashmiris have not been displaced. They are yet there living in their homes and are being butchered through force of arms apart from

other unspeakable crimes. Indian cruelties are common everywhere. India has been killing its own people in the Punjab and Assam provinces.

To complete the process of partition there is a right course which needs to reach its logical conclusion on the basis of the approach of Pandit Nehru to the UN. The Berlin wall was demolished after so many years. One day North and South Korea would become one state. Bangladesh facing acute problems with India, it appears that Bangladesh would ultimately make a move for close relations with Pakistan.

There are 45 Tehsils of which 35 are Muslim, 9 Hindu and 1 Buddhist. Hindus are in a majority in the tehsils of Bhadarwah, Jammu, Akhnur, Samba, Udhampur, Ramnagar, Kathua, Basoli and Jasmargharh. The Buddhists are 88 per cent of Ladakh Tehsil, Muslims 12 per cent. The Muslims are in a majority of the rest 35 Tehsils. This includes Skardu Tehsil 100 per cent and Kargil Tehsil 84 per cent.

Over the years it appears India tried to bring about demographic changes. While at partition 80 per cent of the entire population in Indian held Jammu and Kashmir were Muslims in 1967 it appears to be 67 per cent and in 1981, 63 per cent.

No solution of Kashmir could be either reached without the consent of the people of Jammu and Kashmir as envisaged in the Resolutions of the United Nations which pledged to the Kashmiris the right of self-determination. The Indians could raise their image by implementing those Resolutions. That is the only rightful course for India for re-building its image in the community of nations.

A satisfactory settlement would also make nuclear non-proliferation a much simpler proposition, something that Pakistan is committed to on a parity basis with India.

Failure of the new government to push ahead in this direction will mean ditching almost the last chance that exists for anything near a satisfactory compromise. The happenings at Hazrat Bal indicate clearly Indian designs and if allowed to proceed what the shape of things to come will be. We need to understand that despite what the West have to say, their actions are usually directed against the Muslim world. This should help to increase our resolve to do what is morally right. To expect a handful of *Mujahideen* to face the might of the Indian military for so long can only mean all Kashmiris are *Mujahideen* themselves! Let us not fail them.

We need to look at the demographic record. The table below indicates the population by Jammu and Kashmir Tehsils at Partition.

Distribution of Population by District and Tehsils

(Percentage)

Districts/Tehsils	Population	Communities			
		Muslim	Hindu	Sikh	Buddhist
Gilgit Agency					
Gilgit	22495	99	1	-	-
Kuh Gizar	8512	100	-	-	-
Yasin	989	100	-	-	-
Ishkuman	4282	100	-	-	-
Panial	8164	100	-	-	-
Chilas	15364	100	-	-	-
Hunza	15341	100	-	-	-
Nagar	14874	100	-	-	-
Tribal Territory (Tangir and Darel)	(No data)				
Astore					
Astore	17026	100	-	-	-
Ladakh					
Ladakh	36307	12	-	-	88
Shardu	106271	100	-	-	-
Kargil	52853	84	16	-	-
Baramula					
Baramula	101704	95	3	2	-
Uitar Machhipura	274942	97	2	1	-
Sri Partapsinghpura	174583	97	2	1	-
Anantnag*					
Anantnag	203827	95	4	1	-
Kulgam	157372	95	4	1	-
Pulwama	156526	96	3	1	-
Sharkhas	33881	85	14	1	-
Doda					
Ramban	75793	71	29	-	-
Kishtwar	60893	59	41	-	-
Bhadarwah	44518	46	54	-	-

*Continued on Next Page*



Districts/Tehsils	Population	Communities			
		Muslim	Hindu	Sikh	Buddhist
Muzaffarahad					
Muzaffarahad	125585	90	3	7	-
Uri	80223	88	2	10	-
Karna	58863	98	1	1	-
Punch					
Bagh	101091	91	1	8	-
Sudhnutti	108300	83	13	4	-
Haveli	110733	93	5	2	-
Mendhar	162903	96	4	-	-
Mirpur					
Mirpur	113115	92	6	2	-
Kotli	111037	91	8	1	-
Bhimbar	162503	65	30	5	-
Riasi					
Riasi	117059	55	45	-	-
Rampur	140844	79	20	1	-
Jammu					
Jammu	156556	36	60	2	2 (others)
Akhmur	88821	37	62	1	-
Sri Ranbirsinghpura	96521	48	48	4	-
Samba	89464	40	58	2	-
Udhampur					
Udhampur	52937	21	79	-	-
Chineni	11796	81	19	-	-
Ramnagar	60076	13	87	-	-
Kathua					
Kathua	47378	36	64	-	-
Basoli	70624	17	83	-	-
Jasmergarh	59670	27	72	1	-

Source : Population Data, Census of India 1941, State Table 1, Vol. XXII, Jammu, 1943.

## Book Review

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**Hafeez Malik, *Domestic Determinations of Soviet Foreign Policy towards South Asia and the Middle East*, Macmillars, 1990, Price Rs. 2570.**

Hafeez Malik has gathered seventeen extensive research pieces and has shaped them into a book with a title: *Domestic Determinations of Soviet Foreign Policy Towards South Asia and the Middle East*. These contributions are from eminent scholars from U.S.A., Soviet Union, and Britain.

In their assessments, the scholars have shown a general agreement on the idea that the Soviet Union would not only maintain but also increase its interest in South Asia and the Middle East. This was what was the Soviet thinking just before its collapse. But this line could be defended and it could well be argued that the interest of Russia would be on the increase in these regions despite latest changes in Russia.

It has been alledged that there happens to be a considerable ambivalence in the Russian attitude in respect of its policy in these regions. But the hard reality is that Russia would not present its policy crudally. The sophistication in its approach has lent the scholars to describe it as ambivalent.

Soviet Union was the fifth largest Muslim state with a population of 45 million Muslims. After the independence of the Islamic Republics of Central Asia, the Commonwealth of Independent States has assumed a new role. The analysis and the conclusions drawn are relevant and most significant for understanding the new Russian policy towards South Asia and the Middle East. Russia had developed keen interests in these regions. It is natural to expect that the Muslim population of Central Asian States would re-establish

and consolidate its relations with the people who share common faith. These states have made a number of strides in this direction of their independence.

These articles provide rich material for understanding the Russian mind, past as well as present, with a view to charter a course of action to build relations with Russia. Pakistan has shown tilt towards the West, but it might like to learn of the new opportunities in Russia for strengthening its ties with that state and may like to review some of its assumptions on which it has based its policy in the past which it pursued for so long. This study may offer that possibility. The past may help guide Pakistan's external outlook in this direction which could mark a fresh start.

Prof. Dr. M. Aslam Qureshi

# Statements

## SOUTH ASIAN REGIONAL COOPERATION

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January to June, 1995

### SMRC INAUGURATED IN DHAKA

Dhaka, Bangladesh : January 2, 1995.

The SAARC Meteorological Research Centre (SMRC), established in Dhaka was formally inaugurated by Begum Khaleda Zia, Prime Minister of Bangladesh and Chairperson of SAARC on January 2, 1995.

In her inaugural address, the Chairperson stressed the need to strengthen regional cooperation amongst SAARC member states and said that climate condition is related to life and livelihood of the people and that meteorologists should work in concert for their welfare and development. She emphasised the importance of meteorologist scientists and said that they have a special role to play in tackling natural disasters, increasing agricultural production, ensuring safety in communication and air-travel, industrialisation and conservation of the environment.

Director SAARC Secretariat, Tahir Iqbal Butt presented a message of the Secretary-General at the inaugural ceremony.

The Centre will concentrate primarily on the research aspects of weather forecasting and monitoring rather than the operational aspects of the medium and long-range forecasting. The responsibilities of the Centre would include undertaking research relevant to weather prediction and compiling climatological information.

In addition to monitoring special weather phenomena, developing a networking system among the member countries, would also receive priority in its work. SMRC has a Government Board comprising a representative from each member state. The Director of the centre, M.H Khan Chowdhury from Bangladesh is the Member Secretary of the Board.

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**TECHNICAL COMMITTEE ON ENVIRONMENT MEETS****Islamabad, Pakistan : January 4 — 5, 1995.**

The second meeting of the Technical Committee on Environment was held in Islamabad on January 4-5, 1995. The meeting was inaugurated by National Assembly Member, and Chairman of Pakistan Environmental Protection Council, Asif Ali Zardari. Representatives from all member states participated at the meeting. SAARC Secretariat was represented by Director, Humayun A. Kamal.

The Committee recalled that its first meeting had examined in depth the recommendations of the 'Regional Study on Greenhouse Effect and its Impact on the Region' and had decided on certain modalities for their implementation by member states. It noted that this was an evolving issue, including means of sharing information for concerted action, where needed.

The Committee recommended that a workshop be convened to exchange information and formulate a collective position by member states prior to the Conference of the Parties on Framework Convention on Climate Change in Berlin. It also emphasised the urgent need to establish a networking approach through identified nodal points/institutions in each member country so that they may interact and share data and research material for mutual benefit. The Committee undertook an evaluation of its functioning since inception and noted that this Technical Committee was established in January 1993 and only two meetings had been held. It was therefore of the view that an evaluation of the functioning of the Committee was premature. It also noted that several important initiatives of crucial importance to the member states have been taken in the areas covered by the Committee, which would be carried out in the coming years.

Since the establishment of the Committee, short-term activities covering topics such as approaches to environmental legislations, regulations and standards in SAARC countries, rehabilitation of degraded lands, and wetlands assessment and management exchange of information and discussion on issues before the conference on UN Framework Convention on Climatic Change have been held.

The Committee formulated its Calendar of Activities for 1995-96 which included seven activities covering areas such as climate change and enhancement of environmental awareness, environmental legislation and its management, wildlife management, women in sustainable development, and urban air quality.

**NINTH MEETING OF CSFRP****Colombo, Sri Lanka : January 24, 1995.**

The ninth meeting off the Council for SAARC Fund for Regional Projects (CSFRP) was held in Colombo, Sri Lanka on January 24, 1995. The meeting was attended by all the member states. Director, Tahir Iqbal Butt represented the SAARC Secretariat. The General Manager of Nepal Industrial Development Corporation, M.P. Ghimire, who is the current Chairman of the Council presided over the meeting.

The Council approved the minutes of its eighth meeting and reviewed in detail, the progress made in completing the various feasibility studies which were approved earlier. It also examined the status of identifying sponsors for the studies which have been completed. After detailed discussions, it was decided that henceforth, preparation of feasibility studies would be assigned after identifying sponsors for those projects. The next meeting of the Council will be held in Pakistan in August 1995.

**ACTIVITIES FINANCED UNDER SAARC - JAPAN  
SPECIAL FUND****Colombo, Sri Lanka : January 24 — 26, 1995.****Seminar on Pottery and Ceramic Products**

A Seminar on Pottery and Ceramic Products in the SAARC region was held in Colombo on January 24 — 26, 1995. Delegates from Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka participated in the seminar.

Minister of Livestock Development and Rural Industries of Sri Lanka, S. Thondaman inaugurated the seminar. In his inaugural address, the Minister highlighted the need to develop the pottery and ceramic industry at the rural level where technological development was minimal and the strong traditional techniques maintained by the rural potter continue to exist. He added that the seminar would provide a valuable opportunity to share the vast knowledge and experiences found in the region, which dates back to over a few thousand years.

The three-day seminar provided the participants a valuable forum to discuss the problems faced by the craftsmen engaged in the field of pottery and ceramic products and to focus attention on the traditions, materials, tools technology of production, art and design, social economic factors and the market.

The participants were able to gather information on the institutions in SAARC countries that are engaged in design development, training and research in the field of handicrafts and industrial design. They were also able to study the activities, specialities and capabilities of these institutions in relation to areas of design development, technological exchange and skill development.

The seminar provided encouragement to designers and master craftsmen in promoting design development, research activities, publish research achievements and exchange these publications for mutual benefits. It also inspired them to achieve self-reliance in this field.

#### **Workshop on Distance Education**

A SAARC Workshop on Distance Education was organised at the Allama Iqbal Open University in Islamabad on 27—29 March, 1995. Delegates from Bhutan, Maldives, Nepal, Pakistan and Sri Lanka participated at the workshop. The participating countries presented their country reports and thematic reports on relevant subjects. The workshop made several recommendations under the following themes :

1. Identification of Clientele for the Distance Education :
  - (i) Surveys to be conducted to locate the need for the courses/programmes before launching them,
  - (ii) Courses to be periodically reviewed to determine the needs of the clientele.
2. Combatting illiteracy through Distance Education strategies for by-passing literacy for mass education in the rural areas :
  - (i) Establishment a pool of resources for technical assistance to develop and produce the Distance Education programmes in member countries.
  - (ii) Preparation and exchange of lists of published material of Distance Education institutions in the member countries.
  - (iii) Establishment of a full fledged working SAARC Open University with its wings in member countries.
3. Education of disadvantaged groups, particularly rural women through Distance Education :

- (i) Provision of educational opportunities, low cost self instructional material including A-V, home based self learning material to make the accessibility possible to the disadvantaged rural women.
4. Network of Distance Education, and non-formal educational institutions in the member states :
    - (i) Identification of Distance Education expertise;
    - (ii) Exchange of experiences of member countries through seminars, workshops and symposia.
  5. Sharing of Distance Education material, expertise, and resources of member countries through an institutionalised mechanism of cooperation such as a central SAARC Open University:
    - (i) Translation of material in English to benefit other member countries,
    - (ii) Development of a mechanism to facilitate complementary copies for the review and examination before adaptation by the user countries.

### **Workshop on Alternate Renewable Energy Sources**

A SAARC Workshop on Alternate Renewable Energy Sources was held in New Delhi from 9 to 11 March, 1995. Participants from Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka attended the workshop.

The workshop felt that the development of renewable energy in the region through sharing of experiences and technological developments is in the interest of all member states. During the three-day workshop, participants discussed the state of technology development in renewable energy in their respective countries. They identified common issues and areas of mutual cooperation, and exchanged information and experiences in these fields. The workshop provided a forum for the experts to interact and gain knowledge to latest technological developments in the field of renewable energy.

### **SAARC CHAIRPERSON VISITS SRI LANKA**

**Sri Lanka : January 25-26, 1995.**

Begum Khaleda Zia, Prime Minister of Bangladesh and Chairperson of SAARC undertook a consultation visit to Sri Lanka on 25-26 January 1995. During her visit as part of her tour to member countries before the



forthcoming Eighth SAARC Summit, the Chairperson met the President of Sri Lanka, Chandrika Bandaranaike Kumaratunga and held wide-ranging discussions on matters relating to SAARC.

The two leaders reviewed the progress made by SAARC following the Seventh Summit in Dhaka in April 1993 and expressed satisfaction at the progress made under the Integrated Programme of Action. They discussed the core areas of poverty alleviation and trade liberalisation in the region. They agreed that the completion of the first round of trade negotiations under SAPTA should be expedited in order to operationalise the Agreement on schedule.

The two leaders also discussed the on-going efforts to address the menace of drug trafficking and drug abuse and highlighted the important role of the SAARC Drug Offences Monitoring Desk set up in Sri Lanka in this regard. They noted the establishment of the SAARC Meteorological Research Centre at Dhaka, the fourth regional institution within the framework of SAARC. The two leaders also exchanged views on the co-operative arrangements already established between SAARC and other regional/international organisations and agreed that there was a need to further expand such cooperation.

During her visit, the Chairperson was accompanied by Foreign Minister, A.S.M. Mostafizur Rahman and other senior officials of the Government of Bangladesh. SAARC Chairperson is scheduled to visit Nepal and Pakistan during the second and third week of April 1995, respectively.

#### **SECRETARY - GENERAL ATTENDS THE SECOND CONSULTATIVE MEETING OF EXECUTIVE HEADS OF SUB-REGIONAL ORGANISATIONS**

**Asean, Jakarta : January 27—28, 1995.**

SAARC Secretary-General participated at the Second Consultative Meeting of the Executive Heads of Sub-Regional Organisations and ESCAP, which took place at the ASEAN Secretariat in Jakarta on January 27-28, 1995. The meeting was also attended by the Executive Heads of ASEAN, ECO, South Pacific Commission, South Pacific Forum and ESCAP.

In their first meeting held at the ESCAP Secretariat, Bangkok in February 1994, the Executive Heads of these sub-regional organisations had identified four areas for exploring possibilities of cooperation in the initial stages, namely, trade and investment; transport and communications; human resource development; and energy.

SAARC and ESCAP had signed a Framework Agreement in February 1994 aimed at strengthening cooperation and collaboration between the two organisations.

### FIRST MEETING OF GOVERNING BOARD OF SMRC

Dhaka, Bangladesh : January 28—30, 1995.

The first meeting of the Governing Board of SAARC Meteorological Research Centre (SMRC) was held in Dhaka on 28 to 30 January, 1995.

The Board Members from Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Sri Lanka participated in the meeting. Director, Tahir Iqbal Butt represented the SAARC Secretariat at the meeting. The meeting was inaugurated by Secretary, Ministry of Defence of Bangladesh, Mohammad Hasinur Rahman.

Brig, T. U. Muhammad Iftekharul Bashar, Joint Secretary, Ministry of Defence and Member of the Governing Board was elected as Chairman for a period of two years. During the meeting the delegates from participating member countries made brief statements in which they reiterated their commitment to the SAARC process and SMRC.

The Board after detailed discussions, approved the following work-programme of the Centre :

1. Contact National Meteorological Services of member states for collecting available lists of up-to-date climatological information for compilation.
2. Compile a directory of meteorological professionals and technicians available in the National Meteorological Services of member states.
3. Publish an annual Newsletter regarding activities and programmes of the Centre.
4. Collect required meteorological data from sources outside the region for its research programmes and to disseminate it to member states.

### FOURTH MEETING OF STC GOVERNING BOARD

Kathmandu, Nepal : January 31 to February 1, 1995.

The Members of the Governing Board of SAARC Tuberculosis Centre (STC) met at their fourth meeting in Kathmandu from 31 January to 1

February, 1995 and reviewed the progress made by the Centre since the third meeting of the Board in February 1994.

The Board noted with satisfaction that the Directory of TB Hospitals, TB Training Institutes/Clinics and Centres in the SAARC countries and Directory of TB and Chest Specialists in the SAARC countries have been finalised and printed in August 1994 by the Centre. It suggested that the revised Directory should also include lists of TB Control Programme Managers of the member states to make it more comprehensive.

The Board requested member states to furnish relevant information to enable the Director of STC to finalise networking arrangements on TB control programmes in the SAARC countries. It noted with satisfaction the publication of three issues of STC Newsletters, which were informative and useful to the member states. It suggested that the Newsletter may be published on a quarterly basis, provided relevant materials are available from member states.

The Board considered the recommendations of the first training programme for trainers in TB control programmes in SAARC countries as well as the seminar for Tuberculosis Programme Managers of SAARC countries held at the Centre and endorsed them for implementation by member states. The Board requested those member states which had not done so, to furnish the complete questionnaires and other relevant information to enable the Director to establish networking arrangement on primary health care and TB control programmes in SAARC countries. It also discussed the report of Joint Audit Team which audited the STC's accounts for the financial years 1992-93 and 1993-94.

The Board prepared the institutional cost budget and the programme cost budget for the year 1995-96. It prepared the following work programme for the year 1995-96 :

1. Workshop for preparation of health education materials to fulfil the need of the SAARC region (3 days).
2. Printing/production of health education materials.
3. Training programme for regional/district TB programme coordinators (5 days).
4. Multi-centric study on TB bacillus drug sensitivity.
5. Training for laboratory technicians on TB bacteriology (15 days).

6. Development of pilot demonstration site on TB control covering training, printing of guide book, drugs and logistic, and health education.
7. Study tour for Director/Deputy Director.
8. Printing of Newsletters.
9. Purchase of books on TB and related diseases.
10. Subscription to journals and newspapers.

### UNICEF LIAISON TEAM VISITS SAARC SECRETARIAT

February 2, 1995.

A six-member Liaison Team from UNICEF Regional Office in Kathmandu headed by Regional Director, Urban Jonsson met SAARC Secretary-General, Y.K. Silwal and Directors at the Secretariat on 2 February 1995. The meeting was held as a part of the continuing dialogue between the two organisations pursuant to the Cooperation Agreement signed between them in December 1993. The meeting deliberated in detail on matters relating to children and decided on the modalities for future course of action regarding implementation of the Agreement. The discussion focussed on the following :

- (i) World Summit for Social Development, 1995.
- (ii) Establishment of a database on children.
- (iii) UNICEF assistance in the SAARC process for monitoring the progress of children.
- (iv) SAARC workshop on marketing of breastmilk substitutes.
- (v) SAARC workshop on iodine deficiency disorders and universal salt iodisation in SAARC countries.
- (vi) SAARC symposium of integrated family planning and MCH activities in South Asia.
- (vii) SAARC Decade of the Girl Child.
- (viii) Possibility of linking MEENA and SAVE.
- (ix) Joint activity to mark the Tenth Anniversary of SAARC.

A second meeting between the officials from UNICEF and SAARC was held at the SAARC Secretariat on 20 March 1995 to work out details.

**WORKSHOP ON BUILDING OF LINKAGES AMONG  
MEMBER STATES IN THE FIELD OF DISABILITY****Kathmandu, Nepal : February 7—8, 1995.**

A Workshop on Building of Linkages among the member states in the field of Disability was held in Kathmandu on February 7—8, 1995. Participants from Bangladesh, India, Nepal, Pakistan and Sri Lanka attended the workshop and presented country reports on the subject. These reports highlighted, *inter-alia*, the various activities/programmes being undertaken in their respective countries in the field of Disability.

The three themes considered by the workshop during its group discussions were promotion of regional policy for delivery of essential services; observance of 1993—2002 as Regional Decade of Disabled Persons; and modalities for building linkages. Specific recommendations of the workshop included the following :

1. National sample surveys should be carried out by all member states to determine the number of people with disabilities, as well as, for the assessment of their needs.
2. Member states should incorporate Expanded Programme of Immunization (EPI) in their regular health service programmes to control communicable as well as preventable diseases.
3. More emphasis should be given to social, educational and economic rehabilitation.
4. Identification of jobs should be undertaken disability-wise, both in public and private sectors and people with disabilities should be provided training accordingly.
5. Member states should develop National Plans of Action, which should be reflected in their development plans.
6. Seminars/workshops on different aspects of disability should be held by member states on a regular basis for sharing of experiences and information among experts in the field.
7. Member states should work jointly for reducing the tariff, non-tariff and para-tariff barriers on production and export/import of devices.

**DISCUSSIONS ON SAARC - JAPAN COOPERATION****February 17, 1995.**

A four-member Japanese delegation led by Yoshihiko Kamo, Director, Ministry of Foreign Affairs of Japan paid an official visit to the Secretariat on February 17, 1995 and held discussions with SAARC Secretary-General and Directors on strengthening cooperation between SAARC and Japan. The two sides discussed, in particular, matters pertaining to SAARC - Japan Special Fund.

The Japanese officials were briefed about the SAARC activities held so far under the Fund. They were also informed about the other Agreements signed by SAARC with International Organisations in different areas of cooperation. The Japanese delegation reiterated Japan's commitment to cooperate with SAARC and hoped that the Fund would be utilised to finance concrete projects in areas such as poverty alleviation, etc. The meeting also deliberated in detail on the need for future dialogue between SAARC and Japan.

**CHIEF EXECUTIVES OF AIRLINES MEET****Colombo, Sri Lanka : February 27—28, 1995.**

A meeting of the Chief Executives of Airlines was held in Colombo on February 27—28, 1995 to discuss regional cooperation in areas of mutual interest in the field of airline operations and related matters. The meeting was attended by the Chief Executives of Pakistan International Airlines, Royal Nepal Airlines, Druk Air, Air Lanka, and the Senior Representatives from Biman Bangladesh Airlines, Air India, Indian Airlines, and Air Maldives. The meeting was inaugurated by the Minister of Media, Tourism and Aviation of Sri Lanka, Dharmasiri Senanayake who highlighted the importance of the meeting. Gen. D. S. Attygalle, Chairman of Air Lanka, was elected as Chairman for the year 1995.

The meeting was able to identify certain areas to establish mutual cooperation among the airlines of SAARC region and agreed to develop closer relations, improve communication and exchange of information, better utilize available resources and infrastructural capabilities within the SAARC region. These areas include human resource development, aviation security, communication technology and technical services.

As an initial step, it was agreed that Heads of Training Departments of SAARC Airlines would meet to discuss training requirements and facilities

available for such training in the region. Similarly Senior Communication Experts would also meet to decide on the specific areas of cooperation and update the existing communication systems and information technology.

The meeting also decided that the Aeronautical Authorities of the region should be requested to formulate guidelines to be followed by airlines in an effort to reduce the environmental pollution.

### **NEW DIRECTOR FROM SRI LANKA JOINS SAARC SECRETARIAT**

**February 9, 1995.**

Ranjith P. Jayasooriya from Sri Lanka has joined the Secretariat on February 9, 1995. He Succeeded N. Navaratnarajah who had completed his terms of office at the SAARC Secretariat.

As a career diplomat since 1981, he has served in the Sri Lankan High Commissions in Singapore and Malaysia. He has also held several responsible positions in the Ministry of Foreign Affairs, Sri Lanka, the latest being Acting Director (East).

### **TECHNICAL COMMITTEE ON HEALTH AND POPULATION ACTIVITIES MEETS**

**New Delhi, India : February 14—16, 1995.**

The thirteenth meeting of the Technical Committee on Health and Population Activities was held in New Delhi on February 14—16, 1995. The meeting was inaugurated by V. K. Shunglu, Secretary, Department of Family Welfare, Ministry of Health and Family Welfare of India. Representatives from all member states participated in the meeting. Director Humayun A. Kamil represented the SAARC Secretariat.

The Committee considered the report of the Malariology Training Workshop (New Delhi, September 26 — November 4, 1994) and endorsed its recommendations for implementation by the member states. It also considered the recommendations of the Meeting of Experts in the field of Malaria to work out modalities for an effective networking arrangement (Lahore, September 24—26, 1994). The Committee urged member states to fully utilise the networking arrangement for more effective strategies and measures as well as for control and eradication of malaria in the SAARC region.

While discussing the progress in the establishment of networking arrangement among institutions in the member states in the field of population research and training, the Committee decided to carry over the Work Plan to 1995—96, as it could not be implemented earlier due to various constraints. The Committee reviewed the efforts at harmonisation of national laws in the areas of health so to submit their status papers in the identified five areas, as soon as possible.

The Committee carried out the Annual Review of the Situation of Children in SAARC countries for 1994 based on the Annual Country Reports on Children submitted by all member states. Recalling that the survival, protection and development of children continues to receive priority by the member states, the Committee noted that there has been significant progress in the efforts of member states in ameliorating the condition of children in the SAARC region, with all indicators showing a positive trend. These included, *inter-alia*, gains in reducing infant mortality, decline in the prevalence of severe and moderate malnutrition and other communicable and non-communicable diseases and further progress in the Universal Immunisation Programme (UIP), leading to over 85 per cent coverage of eligible infants in the member states, resulting in appreciable reduction in morbidity and mortality. It was noted that further impetus needs to be given to the health care and development strategies, initiated by member states for mother and child by strengthening the existing services. It was further noted that the trend of enrollment in primary schools remained positive and significant strides in making water available in rural areas had been achieved, though much more needed to be done.

The Review emphasised that shortfalls could be corrected by giving higher priority and when necessary by increased allocation of resources with a view to achieving the illustrative goals identified by SAARC. It also underlined the need for affirmative action and re-commitment for accelerating the removal of gender-bias and improving the status of Girl Child in the member states.

While considering the draft MOU on SAARC-UNFPA cooperation, the Committee was of the view that adequate time would be required by member states to examine various aspects of the MOU and recommended that the draft MOU incorporating the views/comments of member states be examined at the next meeting of the Committee to finalise the matter.



The Committee undertook an evaluation of its functioning since inception and noted that several important initiatives have been taken and considerable work done by member states in the field of health and population activities. It was of the view that monitoring mechanisms for implementation of recommendations of the Committee, impact assessment by member states of their participation in various activities/programmes and follow-up action on meeting time-bound targets need to be further strengthened for greater regional cooperation.

The Committee finalised the Calendar of Activities for the year 1995, which covered subjects such as primary health care, integrated family planning and MCH activities, population research and training, legislation on infant milk substitutes and related matters, development of epidemiological services support for health and population activities and nutrition/micro-nutrients.

#### **DEPUTY FOREIGN MINISTER OF MALDIVES VISITS SAARC SECRETARIAT**

**Kathmandu, Nepal : February 17, 1995.**

The Deputy Foreign Minister of the Maldives, Salah Shihab visited the SAARC Secretariat on February 17, 1995, while on an official visit to Nepal. SAARC Secretary-General, Y. K. Silwal received the Deputy Minister and briefed him on the important issues before the Eighth SAARC Summit scheduled to be held in New Delhi May 2—4, 1995.

The early operationalisation of the Agreement on SAPTA and the on-going efforts towards eradication of poverty in the region figured prominently during their discussions.

In addition, they held extensive discussions on several SAARC-related issues with particular focus on the current developments in the region.

#### **SIXTH ARCHAEOLOGICAL CONGRESS**

**Kathmandu, Nepal : February 21 — 26, 1995.**

The Sixth Archaeological Congress was held in Kathmandu on February 21—26, 1995 with participation from Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka. The Minister of Education, Culture, and Social Welfare of Nepal, Modnath Prasit inaugurated the Congress. In his inaugural

address the Minister said that the countries of the region have many common strands in their culture, arts, ideas and emotions and unity in diversity was one such feature. He added that cooperation among the countries of the region would not only help in finding out hidden treasures but also foster a sense of cooperation and understanding among the intellectual groups. The Acting Secretary of the Ministry, Lokendra Man Pradhan also addressed the Congress at the inaugural session.

The delegates presented their country papers and technical papers on relevant subjects during the working sessions. Discussions at these sessions focussed primarily on laws dealing with monuments and antiquities preservation, illegal trafficking of cultural properties and principle of conservation of historical monuments and archaeological sites. At the end of its deliberations, the Congress passed fourteen Resolutions covering all areas of their discussions.

The programme arranged for the participants included visits to historical sights in Nepal. In addition to places of interest in the capital and neighbouring areas, the programme covered visits to the Ramagram Stupa, where Lord Buddha's relic had been buried and Lumbini, the birthplace of Lord Buddha as well as Kapilavastu, where Lord Buddha spent his twenty-nine years of life. The Seventh Congress is expected to be held in India.

## TECHNICAL COMMITTEE ON METEOROLOGY MEETS

**Dhaka, Bangladesh : March 6—8, 1995.**

The thirteenth meeting of the Technical Committee on Meteorology was held in Dhaka from March 6—8, 1995, with the participation of all member states. SAARC Secretariat, was represented by Director, Prabal S.J.B. Rana.

The meeting was inaugurated by Minister of Agriculture and Water Resources of Bangladesh, Maj. Gen. M. Majid-ul Hague (Retd.) In his inaugural address, the Minister noted with concern that natural calamities like tropical cyclones, floods, local severe storms, droughts, earthquakes, sea surges, landslides, etc., caused unbearable strain on the region's economy. In this context, he emphasised that "careful monitoring of the climate and its weather related events, collective research and its pragmatic applications are the prerequisite of our time to ease the strain on our economy and fulfill our common aspirations and goals."

The Committee reviewed the activities since its inception. It noted that meteorological tele-communication network is working satisfactory in most of

the member states under the WMO umbrella. The Regional Tele-communication Hub (RTH), New Delhi facilitates dissemination and exchange of meteorological data received from WMO to member states regularly on a daily basis. However, the Committee was of the view that there was further scope for improvement in this important sector.

Six state-of-the-art reports have been adopted on various subjects and two reports are pending for adoption. These reports have focused on subjects that are of vital meteorological interest to the region and have highlighted details of the technical advancements in such fields as well as future requirements for improvement. Ten regional awards have been presented to young scientists for their research and review papers on various meteorological topics of interest to this region.

Under the short term activities of the Committee, joint inter-comparison of barometers has been completed and all member states now have national standard barometers for their day-to-day use. The Committee has also organised various seminars/workshops on different meteorological aspects of special interest to the region. The topics covered include radar meteorology, local server storms, long range weather forecasting, winter season weather system, meteorological tele-communication system, numerical weather predication, agrometeorology, etc.

The Committee noted the establishment of the SAARC Meteorological Research Centre and the convening of its last Governing Board Meeting in Dhaka. While noting that the eleventh and twelfth young scientists awards are being finalised, the Committee formulated guidelines to grant similar awards to senior scientists.

The Committee formulated its Calendar of Activities for 1995-96, which covered expert group meetings and seminars in the areas of agrometeorology, climatology and data exchange, instrumentation, tropical cyclone and forecasting, and predictability of monsoonal rain ...

**SECRETARY-GENERAL PARTICIPATES AT  
"INTERNATIONAL ROUND TABLE ON POVERTY  
ALLEVIATION IN SOUTH ASIA"**

**Bonn : March 13, 1995**

Secretary-General, Y. K. Silwal, addressed the Opening Session of the International Round Table on Poverty Alleviation in South Asia organised by

the German Foundation for International Development, in Bonn on 13th March 1995. The German Minister for Economic Cooperation and Development, Carl Dieter Spranger also addressed the meeting. The meeting was attended by eminent personalities and scholars from the German Government and SAARC member countries, and provided a forum for exchange of experiences in national and regional efforts to eradicate poverty in South Asia.

In his statement, the Secretary-General underlined the fact that poverty created distortions across a broad spectrum of international relations, destabilised society and the state which inevitably jeopardized the emergence of a stable world order. He cited the SAARC efforts that were underway to eradicate poverty preferably by the year 2002. The Secretary-General further said that community mobilization and participatory approaches had been part of the tradition of the South Asian people and that a revival of that tradition with a modern autonomous framework, both structural and functional, could be effective in unlocking the productive potential of the poor and help them to climb out of poverty.

#### **WORKSHOP ON DEVELOPMENT STRATEGIES FOR POVERTY ALLEVIATION**

**Colombo, Sri Lanka : March 8—10, 1995.**

A Workshop on Development Strategies to Poverty Alleviation was held in Colombo on March 8-10, 1995. Sixteen participants from Bangladesh, India, Maldives, Nepal, and Sri Lanka attended the workshop. It was inaugurated by the Minister of Youth Affairs, Sports and Rural Development of Sri Lanka, S. B. Dissanayake. In his inaugural address, the Minister said that the workshop would provide a valuable opportunity to deliberate on the development experiences of the member countries and identify the critical elements in a future strategy for poverty alleviation in the region.

Country papers were presented by representatives of participating countries, which enabled them to understand better complexity of the issue and the specific poverty alleviation strategies adopted in the respective member countries. At the end of the three-day workshop, the participants arrived at the following broad conclusion :

1. Development strategies for poverty alleviation involves the whole society, the poor as the focal/target group, the non-poor and the government as the facilitators.

2. There should be appropriate policies both at the micro and macro levels.
3. The macro level policies should involve *inter-alia*, policies for economic growth, social development, creation of employment. The micro level policies should involve such important factors as social mobilization, credit, skill training, savings generation, self reliance and sustainability as strategy for social and economic development of the poor.

The workshop made recommendations relating to social mobilisation of the poor, social investment, increasing wage employment opportunities, financing and monitoring of poverty alleviation programmes, structural adjustment, and political commitment.

#### SECRETARY-GENERAL ATTENDS INTERNATIONAL SEMINAR ON "SAARC - 2000 AND BEYOND"

New Delhi, India : March 22—24, 1995.

Secretary-General, Y. K. Silwal addressed the Inaugural Session of the International Seminar on "SAARC - 2000 and Beyond" held at India International Centre, New Delhi from March 22—24, 1995. It was inaugurated by Vice-President of India, K. R. Narayanan. Portraying his vision of SAARC beyond 2000, the Vice-President in his inaugural address said that "cooperation would enable this region to rise to its full stature each one of us growing a little taller and eliciting greater respect from the rest of the world."

Secretary-General, in his address said that time had come for the leaders and the people at every level in the SAARC region to take stock of the past ten years of the existence of SAARC and to see how a new dynamism could be imparted to the organization so that it could meet the new challenges in trade, investment, economic integration and environment in an effective manner.

The seminar co-sponsored by the India International Centre, the Jawaharlal Nehru University and the Konrad Adenauer Foundation, New Delhi, brought together distinguished senior academics, diplomats and political personages from South Asia, ASEAN and Europe to deliberate objectively on issues which impede development cooperation in the region.

**MEETING OF LIAISON OFFICERS FOR  
SAARC REGIONAL CONVENTION ON  
SUPPRESSION OF TERRORISM**

**New Delhi, India : March 13—14, 1995**

The Second Annual Meeting of Liaison Officers for Exchanging information on the SAARC Regional Convention on Suppression of Terrorism was held in New Delhi on March 13—14, 1995. All member states participated at the meeting. The meeting was chaired by Joint Secretary, Ministry of Home Affairs of India, C. D. Arha. Country papers presented during the meeting provided information on the status of anti-terrorist measures taken in respective member countries. The two-day meeting held extensive discussions and made several recommendations, including :

- (i) Strengthening of the SAARC Terrorist Offences Monitoring Desk (STOMD) established in Colombo by providing relevant data on terrorist activities, tactics, strategies, methodologies and profiles on a need-to-know basis.
- (ii) Heightening vigilance and effective surveillance by member states on the points of manufacture, storage, transportation, supply routes and use of illegal arms / ammunition and initiate steps to stop this flow at all relevant points.
- (iii) Increasing training of security personnel in the existing security institutions of member countries.
- (iv) Convening at regular intervals the annual meetings of Liaison Officers in order to monitor, update, evaluate and improve counter terrorism strategies.

**FIRST TECHNICAL MEETING ON CARTOGRAPHY**

**Kathmandu, Nepal : March 14—15, 1995.**

The first SAARC Technical Meeting on Cartography was held in Kathmandu on March 14—15, 1995, with the participation from Bangladesh, India, Nepal, Pakistan and Sri Lanka. Acting Secretary, Ministry of Land Reforms and Management of Nepal, Bishnu Prasad Khatri inaugurated the meeting.

The meeting which was held as part of the Calendar of Activities under the Technical Committee on Science and Technology, adopted the following recommendations :

1. Preparing a SAARC directory on cartographic education and training.
2. Improving exchange of knowledge, technology and experiences in cartography among the member states.
3. Cooperation in the field of geophysical research, e.g., crustal movement, gravity and magnetic surveys of the region. Joint collaborative projects such as GPS survey may be carried out to strengthen the geodetic network of the region.
4. Preparing of regional atlas, maps and digital database. Compile and inventory of such data and maps which can be made available by the member countries in this regard.
5. Convening a seminar on LIS and large scale mapping to share the technology and experiences.
6. Establishing a SAARC networking arrangement in the field of cartography among the respective heads of the national survey and mapping organizations, which will coordinate and monitor the SAARC collaborative activities on cartography. Nepal shall coordinate the networking arrangement until the next meeting.

#### **NINTH MEETING OF SAIC GOVERNING BOARD OF SAARC AGRICULTURAL INFORMATION CENTRE**

**Dhaka, Bangladesh : March 20—22, 1995**

The ninth meeting of the Governing Board of SAARC Agricultural Information Centre (SAIC) was held in Dhaka on March 20—22, 1995. The Board Members from Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka attended the meeting. SAARC Secretariat was represented by Director, Prabal S. J. B. Rana. The meeting was inaugurated by Dr. M. S. U. Chowdhury, Executive Vice-Chairman, Bangladesh Agricultural Research Council (BARC) and chaired by Deputy Director-General (Extn.) ICAR, Dr. P. N. Mathur. The Board reviewed the on-going programmes of SAIC and expressed satisfaction at the progress made in this regard.

Following new programmes were recommended by the Board for 1995-96 :

1. Introduction of monthly current awareness service and selective dissemination of information in the form of current contents of selective/journals with abstracts or selecting information on topics/subjects.
2. Identification of agricultural institutions and organizations in member states which have developed new technologies in the field of audio-visual media production and reproduction of new technologies.
3. Compilation of the Agricultural Year Book of SAARC member states.
4. Translation of information on agriculture and allied subjects for the grass-root-level users.
5. Printing of a new SAIC Brochure.
6. Compilation of database on technologies currently in practice at different agro-ecological regions of member countries.
7. Undertaking studies, in member countries, on :
  - (i) Agricultural research and extension system.
  - (ii) Agricultural information systems and services.

The Board pursued the institutional and programme cost budget of SAIC for 1995-96 and recommended it to the Standing Committee for approval.

### WORKSHOP OF SAARC NATIONAL EXPERTS ON CLIMATE CHANGE

New Delhi, India : March 21—22, 1995.

A Workshop of SAARC National Experts on Climate Change was held in New Delhi on March 21—22, 1995. The workshop was inaugurated by the Minister for Environment and Forests of India, Kamal Nath. The Secretary, Ministry of Environment and Forest, N.R. Krishnan was elected as the Chairman of the workshop. It was attended by Bangladesh, India, Maldives, Nepal and Sri Lanka. Director Humayun A. Kamal, represented the SAARC Secretariat.

The Experts from member states presented papers on relevant topics such as methodological issues of greenhouse gas (GHG) inventories, methodological issues and policy implications, joint implementation and adequacy of commitments. Extensive discussions followed the presentation of these papers.



The two most important conclusions arrived at during the workshop are the following :

- 1 The emission level of greenhouse gases (GHGs) in developed countries (DCs) is very high compared to those of developing countries. Therefore, the DCs must reduce the levels of their GHG emissions.
- 2 SAARC countries would use simplified IPCC methodologies for preparation of GHG inventories. SAARC believes that the inventories of GHGs must be prepared by appropriate groups drawing upon its own statistical data. The concept of Joint Implementation is complex and is in the development stage. The concept requires a careful examination by developing countries. However, some cases which are not against the development process and poverty alleviation activities may be considered, examined, and undertaken on a voluntary basis without any carbon credits to the developed countries. The present commitments by the developed countries are insufficient. Further, the origin and the sources of climate change do not lie in the SAARC region. Efforts to deal with these global issues do need collective thinking and ready investments. For ensuring the participation of developed countries, availability of adequate, new and additional funds as well as 'clean' technologies and the removal of trade imbalances are crucial. This is a matter of global partnership in working towards making our planet healthier, safer and more productive.

#### **FIFTH MEETING OF IGG ON TRADE LIBERALISATION**

**Islamabad, Pakistan : March 26—27, 1995.**

The fifth meeting of the Inter-Governmental Group (IGG) on Trade Liberalisation was held in Islamabad on March 26—27, 1995 to finalise trade negotiations under the Framework Agreement on SAARC Preferential Trading Arrangement (SAPTA). It was inaugurated by the Commerce Secretary of Pakistan, Aslam Qureshi who emphasized the need for enhancing trade relations among SAARC member states in view of the existing low levels of trade between them. All member states participated in the meeting. SAARC Secretariat was represented by Director, Ashok K. Attri.

The Group reviewed the progress made so far in exchanging trade concessions and agreed to continue work in fulfilling their mandate to the

maximum extent possible in the light of available information. The Group reiterated its earlier decision to negotiate trade concessions on para-tariff and non-tariff barriers in addition to the tariff measures.

All member states have now exchanged their lists of products of export interest and the process of exchanging relevant trade information and trade concessions is also in its final stage.

The report of the Islamabad meeting will be considered by the fifth meeting of the SAARC Committee on Economic Cooperation (CEC) scheduled to be held in Dhaka on April 8—9, 1995. The CEC consisting of Commerce Secretaries of member states will, *inter-alia*, review the progress achieved so far in the implementation of the framework agreement on SAPTA and make its recommendations to the Twentieth Session of the Standing Committee scheduled to be held in New Delhi on April 27—29, 1995.

The Framework Agreement on SAPTA signed in April 1993 during the Seventh SAARC Summit in Dhaka, has since been ratified by Nepal, Sri Lanka and Bhutan. The procedures in the other member countries require that the national schedules of concessions should first be finalised before they can proceed to ratify the Agreement.

## TECHNICAL COMMITTEE ON COMMUNICATIONS MEETS

Male', Maldives : March 27—28, 1995.

The third meeting of the Technical Committee on Communications was held in Male' on March 27—28, 1995. The meeting was inaugurated by the Minister of Transport and Communications of the Maldives, Ahmad Zahir. Delegates from Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka attended the meeting. SAARC Secretariat was represented by Director, Nima Ome. The delegates presented country papers highlighting the current status of tele-communication and postal services development in their respective countries.

While reviewing the progress in the implementation of the decisions taken at the last meeting, the Committee noted that out of the four activities scheduled under the telecom sector, one was held, another will be held in May and the remaining two were re-scheduled.

The Committee noted that the digitalisation of inter-country links was at different stages in the member countries and more cooperation and faster responses were required in the implementation process. The present system of operation and maintenance of communication links was satisfactory. However, there was a need for regular testing of circuits and to exchange the results between the administrations of the member countries in order to effectively use the results to evaluate the quality of inter-country links and optimise the usage of these circuits.

The statistics presented by Nepal indicated that the Answer to Seizure Ratio (ASR) is very low in some countries in the region compared to other countries. It was agreed that the problem could be rectified through proper dissemination of data to the parties concerned.

With regard to revision of accounting rate, the Committee felt that the present methodology of sharing the accounting rate among the SAARC countries on a 50:50 basis was satisfactory and that any alteration of this ratio by linking the accounting rate with collection rate would complicate the calculation. However, to further promote greater cooperation among the member countries, the Committee felt that the tariff should be as low as possible. For implementation of this suggestion, the Committee decided that India would prepare a paper with inputs from all the telecom administrations in the member countries and submit it to their next meeting. The Committee also discussed the importance of establishing transit facilities. In this context, Nepal offered to undertake a study on the subject.

Under the postal services, the Committee noted that out of the five activities scheduled, two had been held and the remaining three were to be held soon. It decided that the recommendations made by the Experts on the Study on Concessional Mail Tariff in the SAARC region must be examined and an in-depth analysis made. For this purpose, it decided that the postal administrations of the member countries should make efforts to communicate their views and decisions on the recommendations to the fourth meeting. On the recommendation made by the Study on Mail-Transmission among member countries to set up a monitoring cell, it was decided that Maldives would prepare a paper on the feasibility of setting up such a cell in the postal administration of Maldives during its chairmanship.

The other issues discussed at the meeting included the introduction of uniform discount rate among the member countries for the mass media in the use of tele-communication services, and submission of the paper on Electronic

Tracking and Tracing on Expanded Mail Service (EMS) — as a possible project idea to the SAARC Fund for Regional Projects (SFRP). The Committee felt that there was an urgent need to disseminate information among the member countries and for this purpose it decided that Maldives would undertake a study on feasibility of establishing an information network utilising for eg. Internet for accessing existing database.

While evaluating activities since its inception, the Committee felt that its activities have gone a long way in bringing the peoples of SAARC region together and have benefitted the personnel of both the Tele-communication and Postal Administrations of the member countries. Through its activities, the interchange and exchange of information and experiences among the member countries in these fields have increased. The training programmes have benefitted the member countries, especially those from the smaller countries where such training facilities are limited.

The Committee also formulated its Calendar of Activities for 1995-96, which included activities covering seminars, workshops and training courses on postal marketing, postal services in rural, remote and hilly areas, acceptance testing of telecom network and equipment installation. In addition the Calendar also includes a letter-writing competition and a philatelic exhibition and seminar.

### **WORKSHOP ON PREVENTIVE EDUCATION WITH EMPHASIS ON CURRICULUM DEVELOPMENT FOR SCHOOLS**

**Colombo, Sri Lanka : March 29—31, 1995.**

Sri Lanka hosted Workshop on Preventive Education with Emphasis on Curriculum Development for Schools on March 29—31, 1995, in Colombo. The workshop emanated from the Technical Committee on Prevention of Drug Trafficking and Drug Abuse and was a part of its Calendar of Activities for 1995.

The workshop was jointly organised by the National Dangerous Drugs Controlled Board (NDDCB) and the Ministry of Foreign Affairs, Sri Lanka. Additional Secretary of Ministry of Defence, R. A. A. Ranaweera inaugurated the workshop. The three-day workshop drew up a core curriculum on Drug Preventive Education for schools in SAARC countries taking into account the theoretical and practical aspects of drug preventive education.

## SAARC MEETINGS RELATED TO POVERTY ERADICATION

New Delhi, India : May 1995.

Eighth SAARC Summit which was held in New Delhi in May, 1995 had established a three-tier mechanism to act as a forum for exchange of information on poverty eradication programmes in the member states.

Under this arrangement, the meeting of the first-tier consisting of the Group of Secretaries concerned with poverty eradication and social development in SAARC countries met in New Delhi on September 6—7, 1995. The meeting finalised a set of seven recommendations which, *inter-alia*, underscored the need to give a distinct status and top priority to pro-poor plans in member countries by ensuring specific commitment of adequate resource and organisational support. It also stressed the necessity to involve the poor in the formulation and implementation of plans meant for them through participatory institutions and processes at grass-root levels. The member states were also urged to evolve mechanisms to evaluate the efficacy of pro-poor plans and develop appropriate socio-economic indicators relevant for the purpose. On specific sectoral issues germane to poverty eradication, the meeting emphasised the need to pursue an integrated approach taking into account the critical linkages among various sectors.

The above meeting was followed by the meeting of the second tier consisting of the Finance and Planning Secretaries which was held in New Delhi on September 8, 1995. The meeting endorsed the recommendations emanating from the first-tier. The Finance and Planning Secretaries also emphasised that poverty eradication in member countries should be viewed in the overall context of accelerating economic growth resulting in employment generation in an environment of macro-economic stability with emphasis on overall human resource development. They also put special emphasis on the need to improving the implementation of poverty eradication programmes through devolution of power and appropriate decentralisation. A special mention was also made in the meeting on the need to ensure the sustainability of these programmes, especially through ensuring their recurring cost. This meeting of the second-tier would shortly be followed by the meeting of the Ministers of Finance and Planning of member countries which constitute the third-tier of the new mechanism.

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# Chronology of Important Events

## SOUTH ASIAN REGION

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January to June 1995

### BANGLADESH

*April 24* Pakistan and Bangladesh signed two Memorandums of Understanding (MoU) in Islamabad, one pertaining to the field of reciprocal promotion and protection of investments and the other dealing with the development of cooperation in the field of agricultural science and technology, agricultural production including livestock, fisheries and forestry.

Bangladesh Prime Minister Khaleda Zia called on President Farooq Ahmed Khan Leghari in Islamabad. She extended formal invitation to him to attend the forthcoming SAARC summit to be held in New Delhi in May. The two leaders also discussed matters of mutual interest and agreed to further increase economic cooperation and trade ties in the traditional and other sectors.

Bangladesh Prime Minister Khaleda Zia held talks with Prime Minister Benazir Bhutto in Islamabad and discussed various issues including repatriation of 250,000 Biharis, trade and economic issues. The two Prime Ministers also discussed security issues in South Asia.

### INDIA

*January 4* The Indian Consulate General was sealed in Karachi and its 18 staff members left for New Delhi via Bombay with their families.

*13* Indian Prime Minister P.V. Narasimha Rao said in New Delhi that India would accept the US help in settling its dispute with Pakistan over Kashmir, but that the two countries would eventually have to resolve differences themselves.

- January 14* India asked Pakistan to withdraw 15 staff members from the Pakistan High Commission in New Delhi.
- 16* India rejected preconditions for resumption of talks with Pakistan and said that its offer for dialogue was still open.
- 20* According to Press Trust of India, India blamed Pakistan for stalled dialogue and expressed its readiness to resume unconditional talks on disputes between the two countries.
- March 9* Indian High Commission in Islamabad rejected allegations of its involvement in the recent killings of two Americans in Karachi.
- 16* Responding to allegations made by Indian State Minister, R. L. Bhatia, a Pakistan foreign office spokesman described these allegations as false and clarified that 117 Indian nationals were undergoing imprisonment for their being involved in criminal activities and there were no prisoners of war.
- April 10* Indian Prime Minister P.V. Narasimha Rao said in New Delhi that India was ready to resume talks with Islamabad without any preconditions.
- 15* Indian Minister for External Affairs Pranab Mukherjee warned of a potential arms race in the sub-continent if Washington lifted curbs on supplying US warplanes to Pakistan.
- 18* Prime Minister Benazir Bhutto said in Islamabad that Pakistan was ready for substantive talks with India on the Jammu and Kashmir dispute.
- 19* Indian Minister for External Affairs Pranab Mukherjee said in New Delhi that he was ready for talks with Pakistan at any place, any time but the upcoming SAARC summit was not the forum for such bilateral discussions.
- 21* Indian Prime Minister P.V. Narasimha Rao, addressing the combined commanders conference in New Delhi, charged Pakistan with continued anti-Indian activities and asked Indian armed forces to remain on guard. He further said that Pakistan did not respond to India's offer for a bilateral dialogue to resolve all outstanding issues. However, he stated that India would continue with its quest for normalization of relations with Pakistan.
- Indian Minister for External Affairs Pranab Mukherjee said in New Delhi that India would be forced to adopt a counter-strategy if a US freeze on the sale of F-16 fighter jets to Pakistan was lifted. He added that India had expressed its deep concern to the United States authorities on the proposed review of the Pressler Amendment.
- May 23* Pakistan rejected Indian charges of its involvement in the recent burning of shrine and town of Charar Sharief in the Indian-held Kashmir.
- 25* The Indian Minister for External Affairs, Pranab Mukherjee concluded his Washington visit with the warning that India would match Pakistan's

increased defence capability if the blocked F-16 aircraft were delivered to Islamabad by the United States.

- May 30* President Farooq Ahmed Khan Leghari accused India of pushing Pakistan towards an expensive and non-productive missile race but said that Islamabad was in a position to counter this Indian threat. "The Prithvi missile can reach any Pakistani city and India can hardly use this missile against any other country", he told foreign reporters in Islamabad.

Pakistan was ready to discuss the Kashmir issue with India bilaterally, but such talks must be meaningful, the visiting envoy of Prime Minister Benazir Bhutto, N.D. Khan told a group of journalists in Dhaka.

- June 11* Foreign Minister Sardar Asif Ahmed Ali in Islamabad indicated that Pakistan would go ahead with indigenous missile production programme if India deployed Prithvi missile on the borders.

- 12 A Foreign Office spokesman in Islamabad expressed serious concern over Indian military build-up in Kashmir and called upon India to stop unprovoked firing along the Line of Control.

- 22 Pakistan warned that any act of hot pursuit across the border by Indian forces would endanger the security of the entire region. In a harsh reaction to the recent statement of Indian Minister Rajesh Pilot and Foreign Secretary G. N. Dixit, the Foreign Office spokesman said that Pakistan "regrets the mind set of some of Indian leaders and diplomats who appear intent on issuing naked and veiled threats."

- 26 India named one of its representatives to the United Nations as ambassador to Pakistan in a reshuffle of its top-level diplomatic corps. A spokesman for the Indian Ministry of External Affairs announced Satish Chandra as the next High Commissioner to Islamabad.

- 27 The Government of Pakistan regretted the incident of manhandling of an official of the Pakistan High Commissioner, Ibrahim Awan in New Delhi. The Pakistan official was physically assaulted and maltreated by the Indian police while travelling from Amritsar to New Delhi on June 25.

- 27 President Farooq Ahmad Khan Leghari said that Indian nuclear arsenal was geared towards the sole purpose of gatecrashing into the club of so-called major powers bullying and blackmailing all the way. He was addressing the faculty and students of Command and Staff College in Quetta.

#### SAARC

- February 19* Sri Lanka's Foreign Minister Lakshman Kadirgamar said in Colombo, that seven-nation South Asian summit scheduled for April in New Delhi had been postponed on the request of Pakistan.

*May 4* Indian Prime Minister P.V. Narasimha Rao said that there was difference of opinion with President Farooq Ahmad Khan Leghari on certain issues. The South Asian Association for Regional Cooperation (SAARC) could provide a forum to resolve issues among member-countries, "left unresolved by history." He was speaking at a news conference at the end of the eighth SAARC summit in New Delhi.

The Delhi Declaration adopted at the conclusion of the eighth SAARC summit held in New Delhi called upon the UN not to limit the focus of its attention to narrow and isolated range of objectives.

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*Note* : It has been replaced by *South Asian Minority Affairs*.

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