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## SOUTH ASIAN STUDIES

RAFIQ AHMAD

*Editor*

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# **SOUTH ASIAN STUDIES**

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# Pak-Nepal Economic Relations: Obstacles and Prospects

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AYAZ MOHAMMAD and TOSEEF AZID

In this present era, all economies, especially those of the third world, are trying to increase their level of development. Their policy makers, experts and scholars are of the view that the unity of the different countries is helpful in the speed of their growth. In all discussions, economic matters are attracting wide attention. The main reason of this importance is, that after the second world war all the under developed countries became politically independent but, unfortunately, they were and are economically still under the domination of the strong industrial economies of the North. So one can say the different agreements and treaties about cooperation among different developing independent states are the reaction against the North, e.g., Central American Common Market (1960), Carribean Free Trade Association and Common Market (1968-1973), Eastern African Community (1967), Arab Common Market (1964) and Gulf Cooperation Council (1981). These are a few examples of those associations which are based on regions. The motivation and objective of these associations is on a regional basis. As a group they endeavour by joint action to remove these dependencies and accelerate their economic development. In the late 70's, under the impression of increasing protectionism of the industrial countries and the

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strain of serious debt crises of a growing number of developing countries, the idea of collective self-reliance and mutual assistance became very popular among the countries of the South. As a result of this, the South Asian Association for Regional Cooperation was formulated. Closer economic cooperation must result in an increase of the intra-group trade and liberalization of trade is a precondition for closer economic relations. The same is true of the SAARC countries. But the problem is, for most governments, this is politically not acceptable. According to Diouf<sup>1</sup>

“Frustration and conflicts arise when a country perceives that its markets have been flooded by its partners’ products when it cannot make reciprocal gains on its own. Such fears are fully justified, for no country wishes to be a mere agricultural appendage to its more developed neighbours.”

On the other side, a classical school of thought has this idea, that the gains from trade will be increased if there is specialization and on the basis of comparative advantage ; the overall product of the trade partner countries must increase, which has a positive effect on the welfare of both partners.

SAARC consists of seven nations. Unfortunately, among them the rate of trade is not so significant which poses innumerable questions for the policy makers. Without intra-region trade it is impossible to accelerate the cooperation among the member countries. At present it is very difficult to sort out the reasons for this dilemma and then arrange the suggestions for the promotion of trade among all the seven countries. It is more plausible and, to some extent, an easy task to study and analyse the cooperation and advancement of trade between the two members (bilateral analysis). In this paper our intention is to study the economic cooperation between Pakistan and Nepal and how this can be augmented in the given situation.

We have arranged the paper in the following manner. In Section I, we are presenting the review of Pak-Nepal economic relations, in Section II, we are analysing the problems and prospects in

the development of these relations with special reference to trade liberalisation. In Section III, we are discussing the problems and prospects of this particular field, and in the last section we have given the conclusion and suggestions.

## **SECTION I**

Economic relations between Pakistan and Nepal can be divided into two phases. The first phase is from 1947 to 1970 and the second phase is from 1971 to 1986.

### **A. 1947 to 1970**

From 1947 to 1970, the development of economic relations between Nepal and Pakistan is as follows :

#### **Pacts or Treaties**

1. In 1962, a pact was signed for mutual trade and commerce. This pact provided :

- (i) Special arrangement to facilitate the movements of goods;
- (ii) Special payment arrangements ;
- (iii) Grants for trade fairs and exhibitions ;
- (iv) Visits of businessmen and trade delegations.

2. In 1963, a trade transit agreement was signed. This agreement exempted trade from custom and transit duties.

3. In 1965, Pakistan and Nepal reviewed the progress in the light of the trade agreements of 1962 but, unfortunately, due to the September 1965 war, satisfactory trade could not be started, because Nepal is a land-locked country and the external link lies through India.

4. In 1966, efforts were again made for the augmentation of trade, especially with East Pakistan and to reopen the land link through Radhikapur.

5. In 1969, some proposals were developed in this respect.

6. In 1970, the Government of Pakistan revised the import list and increased the number of items in this list.

#### **B. 1971 to 1986**

After the fall of Dacca, there was a need of new agreements, treaties and pacts. Now the geographical situation of Pakistan for Nepal had changed. Again, both countries took steps for strengthening their economic relations.

1. In 1977, some suggestions were made to explore the possibilities for the promotion of trade between these two countries.

2. In 1979, the Government of Pakistan felt the need for revision of the 1962 pact. The reasons were the following :

- (i) The trade was limited ;
- (ii) Balance of trade was against Pakistan ;
- (iii) Lack of smoothness in trade.

3. The new agreement was signed in 1982. According to this agreement :

- (i) To give each other the most favoured nation treatment ;
- (ii) To encourage and facilitate the visit of businessmen and trade delegations ;
- (iii) To help to hold trade fairs and exhibitions ;
- (vi) To explore possibilities of operating Cargo flights.

4. In 1983, Joint Economic Commission was signed and according to this agreement :

- (i) Both governments agreed to take all necessary measures to strengthen and promote economic and technical cooperation between the two.
- (ii) Such a cooperation was to cover the field of economy, trade, agriculture, water management, industry, education, culture, communication, science and technology, hydal power generation and tourism.

5. In 1984, the Joint Economic Commission reviewed the development of trade between the two countries and signed a protocol. The Joint Commission identified the following areas of cooperation on priority basis :

- (i) Exchange of germ plasma including those of crops and livestock ;
- (ii) Exchange of visits of scientists and participation in Seminars and Workshops ;
- (iii) Exchange of scientific information and literature.

Now, we will briefly discuss the trade direction between Pakistan and Nepal.

#### **Exports from Pakistan to Nepal**

Pakistan's trade with Nepal is not very significant. It is interesting to note that there was not a single commodity which was exported to Nepal continuously in the period from 1971-72 to 1986-87. Major exports in these years were wheat, medicaments, leather, envelopes, cotton cloth, carpets of wool, soap-making machines and uncanceled stamps. The trend of exports from Pakistan to Nepal is presented in Table 1.

#### **Imports from Nepal to Pakistan**

Major imports during the period 1971-72 to 1986-87 were tea, cardamoms small and large, lintels (dry and whole), spices, plants/parts for perfumes, katha, extracts of gambier, tanning extracts, bags and sacks of textile materials, etc.

TABLE 1  
Pakistan Export/Import to Nepal

(Rupees in Million)

Year	Export from Pakistan to Nepal	Import from Nepal to Pakistan
1971-72	—	2
1972-73	—	5
1973-74	—	2
1974-75	1	23
1975-76	1	12
1976-77	1	3
1977-78	4	7
1978-79	3	26
1979-80	1	43
1980-81	4	26
1981-82	—	12
1982-83	2	7
1983-84	1	9
1984-85	1	9
1985-86	6	47
1986-87	14	18

Source: Government of Pakistan, Finance Division, Economic, Advisor Wing, Islamabad, Pakistan, Economic Survey, 1987-88.

Table 1, shows that the balance of trade is entirely in favour of Nepal. In this trend, we have too much fluctuations. These fluctuations require some sort of cure and exact policy injunctions.

## SECTION II

In this section, we would briefly discuss the theory of economic integration with special reference to developing economies and in the

light of this discussion we will analyse the possibility and prospects of economic integration between Pakistan and Nepal.

It used to be an accepted tradition that economic integration is beneficial and should be encouraged. The logic behind this ran thus : free trade maximises world welfare ; a Customs Union is a move towards free trade ; a Customs Union therefore, increases world welfare, even though it does not maximise it. There is enough literature on this particular topic to date, and we have extensive research on this subject. These developments have led to the conclusion that economic integration in the advanced world is a very different matter from that in the developing world. Blassa<sup>2</sup> explains that the so-called dynamic effects relate to the numerous means by which economic integration may influence the rate of growth of GNP of the participating nations. These include the following :

- (a) Scale of economies made possible by the increased size of the market for both firms and industries operating below optimum capacity before integration occurs ;
- (b) Economies external to the firm which may have a downward influence on both specific and general cost structures;
- (c) The polarisation effect, by which is meant the cumulative decline either in relative or absolute terms of the economic situation of a particular participating nation or of a specific region within it due either to the fact that an area may develop a tendency to attract factors of production.
- (d) The influence on the location and volume of real investment ; and
- (e) The effect of economic efficiency and the smoothness with which trade transactions are carried out due to enhanced competition and changes in uncertainty.

El-Agrea<sup>3</sup> supported Johnson's<sup>4</sup> preference for a political economy approach to economic integration. He also claims that there is essentially no theoretical difference between economic integration in the advanced world and in the developing world. However there

is a major difference in terms of the type of economic intergration that is politically feasible ; the need for an equitable distribution of the gains from industrialisation and the location of industries is an important issue. This suggests that any type of economic integration that is being contemplated must incorporate as an essential element a common fiscal authority and some co-ordination of economic policies. But then one can argue that some degree of these elements is necessary in any type of integration. He further stated that economies of scale form the basis for an economic rationale for the formation of Customs Unions and that these are particularly feasible in developing countries since they form the basis for infant industries.

According to Nienhaus<sup>5</sup> :

“Fiscal compensation schemes which can be found in some existing integrations have been installed to compensate for foregone tax and tariff revenue. However, financial transfers cannot replace real plants.”

He also discussed planned industrial specialisation for compensation of integration losses. He stated :

“There are several variants of this planned common denominator ; one that in negotiations on the governmental level a comprehensive industrialisation programme is formulated which allocates to each country particular industries. The establishment of these industries shall be promoted exclusively in the appointed countries and they shall be protected as infant industries by a common external tariff.”

In an economic integration there are many problems. The problems are most serious in groupings where the members differ widely in their endowment with natural resources and productive factors and in their levels of development and industrialisation. Suppose these problems are solved and the member countries agree on a particular distribution of new industries, then the final criteria for this regional distribution are political than economic. Two

other main problems are the development of regional monopolies and trade deflections. Nienhaus<sup>6</sup> explains :

“The obvious problem is to find an institutional arrangement which yields advantages of trade liberalisation but avoids the negative consequences (industrial polarisation) of conventional integration approaches. What should be clear, however, is that it seems impossible to come to an absolutely equal distribution of costs and benefits among the integrated countries. It is more reasonable to look for a solution which ensures that no country would become worse off after joining an integration grouping than it had been if it would have continued its previous national development and protective customs policies.”

Less developed countries which lose industrial capacities in intra-group competition often complain that the more advanced countries gain manufacturing production at their expenses. Hence they demand some compensation or/and take recourse to restrictive practices (e.g., non-tariff trade barriers) with disintegrating effects. For the remedy of these problems Elkan<sup>7</sup> has presented the idea of Customs-Drawback Union (CDU) but it has been neglected so far. The idea of CDU is, the ‘conditional’ free trade shall be realised by the institutional arrangement. As distinct from free trade areas or Customs Unions, in CDU national protective tariffs are not abolished but maintained so that all imports, including the intra-group imports are formally subject to the same Customs duties as previously. But factually the tariffs shall lose their protective effects for the intra-group trade if this trade develops in a ‘balanced’ way. This means that a country may be defeated in some lines of production by intra-group competitors but is successful in other productions so that despite some efficiency-improving sectoral and regional reallocations the manufacturing sector will not shrink as a whole. In terms of intra-group trade this implies that additional imports are balanced by additional exports. The factual neutralization of tariff then will be achieved by a system of (imports) customs certificates which are

sold and purchased at a 'certificate exchange' functioning similar to conventional stock exchanges. Nienhaus<sup>8</sup> has explained the CDU as :

"The CDU ensures that no integrated country will be worse off after joining the group than it would have been if it had continued the previous national protective tariff and industrialisation policies. The CDU incorporates automatic incentives for a reversal of the direction of trade flows if the intra-group trade develops in an unbalanced way, and it sets incentives in favour of a location of new manufacturing industries in the less developed member countries of the grouping (which record an intra-group trade deficit). Further, a CDU could integrate existing free trade areas and Customs Unions without unreasonable violation of integration treaties in force at present (as it would be the consequence of traditional trade liberalisation forms). Thus, the CDU seems to be superior to free trade areas and Customs Unions in so far as it results in less costs of integration for the less developed group members without a sacrifice of substantial benefits for the group as a whole."

After reviewing some authoritative comments, we are in a position to explore major problems and prospects for economic relations between Pakistan and Nepal.

### SECTION III

Cooperation, however, should be based on and, in turn, contribute to mutual trust, understanding and sympathetic appreciation and sympathy for the national aspirations of partner country. It should contribute to national development through resolution of conflicts. It should be based on respect for the principles of sovereign equality, territorial integrity, political independence, non-interference in internal affairs of each other and mutual benefit. Fortunately both countries, Pakistan and Nepal, are strictly following the above mentioned rules. Both countries have a desire

to cooperate with each other, especially in economic matters. Now we will discuss, one by one, problems and prospects in the development of economic relations between Pakistan and Nepal.

1. If there is a formation of free trade association between these two countries, then the trade agreement could result in a loss of customs revenues, but here one can argue that the volume of trade between these two is very small, so the loss of customs revenue is negligible. On the other side, the problem of trade deflection<sup>9</sup> will be there. This phenomenon will occur with the entrance of India, who will export her products through Nepal to Pakistan because Nepal is a low-duty country as compared to Pakistan for Indian's exports.

2. The chances of Customs Union between Pakistan and Nepal are very limited because of the ideological differences between both countries. Pakistan is a Muslim country and has strong affiliations with other Muslim countries and is also a member of Organisation of Islamic Countries. Malik<sup>10</sup> is discussing this phenomenon from an other angle. He writes :

“Given the fact that political differences among the countries in the region (South Asia) exist, it seems improbable that all the countries will be willing to go for such an ambitious arrangement. Moreover, the tariff structure of South Asian Countries is significantly different from each other and it will be extremely difficult for them to agree on a Common Post Union tariff structure. If Customs Union is not possible then each country can eliminate tariffs and other restrictions on trade for the countries in the region and in this way a Free Trade Area can be established.”

3. If there is 'Customs Drawback Union' between these two countries, then we assume that in the mutual trades, Nepal has a balance of trade deficit and Pakistan has a balance of trade surplus. Nepal (deficit) issues Pakistan-Custom Certificates (Pakistan Certificates), Pakistan (Surplus) issues Nepal-Custom Certificates (Nepal-Certificates).

In the market there will be :

Excess demand for Nepal-Custom Certificates (Issued by Pakistan). Value high.

Excess supply of Pakistan-Customs Certificates (Issued by Nepal). Value low.

Since duties can only be paid by Customs Certificates (CCs) issued by the other country, then high value of Nepal-CCs means maximum duty paid by Nepal for imports (Deficit Country). Hence domestic industry of Nepal is protected.

Low value of Pakistan-CCs means minimum duty paid by Pakistan (Surplus Country). Hence it will be an incentive to import. In other words, since Nepal-CCs are short in supply and they are high value to the importers of Nepal, it means that Pakistani importers have an incentive to import more, because they can then sell the increased Nepal-CCs back to Nepal's importers. In this sense the revenue from those sales act as import subsidies of the surplus country/or export subsidies of the deficit country.

In this approach we have again some problems and there is need for some refinements :

- (a) If the purpose of expansion of trade is to enjoy economies of scale, better allocation of resources and other dynamic benefits of trade creation, then the CDU will certainly not provide the optimum solution and perhaps not even achieve the 'second best' situation. Although this can be more balanced liberalization of trade, it certainly is not the most efficient.
- (b) There are two problems with the 'new' distribution of benefits created by the CDU scheme. First import/tariff duties are a declining function of a balance of trade surplus, i.e., the lower the deficit the less duties collected by the government. Second the gains from buying and selling CCs go to private companies, individuals, or most likely to institutional investors. Multinationals in the surplus

balance of trade country could be the main beneficiaries.

- (c) Efficient operation of the CDU will depend on certain important institutional factors such as efficient market for the CCs based on complete information about the trade situation realistic exchange rate policy and for purchasing and selling the CCs. These are such factors which do not usually exist in Pakistan and Nepal.
- (d) Even if the above factors are considered less important, the complicated nature of the CDU scheme itself is a negative factor.

Now we have some alternative suggestions for the refinement of CDU :

- (a) For this purpose all the major factors which work as trade barriers must clearly be identified. Among these factors the CDU proposal concentrates only on tariff barriers. In fact, the main issue of Pakistan and Nepal is how to find solution to the problems of current account deficit and overall balance of payments equilibrium, rather than just trade balance.
- (b) CDU model is based on relative importance of tariffs as a trade barrier. In fact there are many other barriers for international trade. Tariffs are only one of them. The main obstacles to increase trade between Pakistan and Nepal are many non-tariff trade barriers and a lack of infrastructural linkages.
- (c) Currently, state trading is playing a major role in the development strategies of most of the South Asian Countries, and they control a substantial percentage of their international trade. Pakistan and Nepal should also start investigating how to increase closer economic cooperation through their state trade organizations.

#### **Poverty and Underdevelopment**

The rationale for such a cooperation was based on, firstly, the

common nature of the economic needs and secondly the compulsions of the international economic environment. The World Development report, 1987, categorises all member countries of SAARC among the 37 low-income group of countries. Bangladesh, Bhutan and Nepal are shown among the poorest seven ; India is in the middle ; and Pakistan and Sri Lanka are among the top ten of the low-income group of countries of the world. This implies that Pakistan and Nepal both are poor and they can develop themselves with the cooperation of each other, and if they expand their mutual trade, there exists no fear of regional monopoly and exploitation.

### **Infrastructure and Indian Policy**

It is observed that there is a scope for trade between Pakistan and Nepal, if infrastructural problems can be overcome. Nepal is basically a land locked country. His Majesty King Birendra Bir Bikram Shah Dev in his address to the Sixth Summit Conference of non-aligned countries held in Havana observed that "each country, is gifted with something unique to itself and the non-aligned nations will do well if they unite to help develop the latent potential of each country . . . . Nepal, for instance, is endowed with river systems which, if thoughtfully exploited, can help not only our own country but also the countries of our region." Similarly :

"The entire resources of the sea belong to man and that these resources form a common heritage of all nations providing for the right of Land Locked Countries to free access to the Sea."

Akram, A.I.<sup>11</sup> stated that :

"Nepal's friendship with Pakistan and China was strongly disapproved of. Its proposal of declaring Nepal a zone of peace was rejected (although India never officially said so) and Nepal's arm was twisted by strengthening land-locked small neighbour in matters of trade and transit. The swallowing of Sikkim in 1975 further frightened."

Akram, A.I.<sup>12</sup> further explained that :

“Nepal had always complained in the past about India’s unfair treatment in the matter of trade with the rest of the world and the transit of its goods through India. It asked that at least the current trade and transit treaty be bifurcated into two separate treaties, one dealing with trade and the other with transit, and this Indira Gandhi was not going to allow. Desai acceded to Nepal’s needs and converted the treaty into two separate agreements, which was in the interests of Nepal and led to an improvement in that country’s relations with India.”

Akram, A.I.<sup>13</sup> discussed the policy of Rajiv’s regime thus :

“With Nepal, India’s relations are just as cold as they were before, possibly a little colder. India refuses to accept the Nepalese plea for turning the country into a zone of peace, although this has now been accepted and endorsed by half the membership of the United Nations. Even on the question of the difficulties faced by Nepal in the matter of trade and transit with the world, there is no sympathetic response from India, and this leads to continued resentment in Nepal. Moreover, the rise of Gurka Sub-nationalism in Darjeeling area is likely to place an additional strain on Indo-Nepalese relations.”

The above sources supported the view that the infrastructure of Nepal (Land-locked Country) and the implicit policy of India are the main obstacles in the promotion of economic relation of Nepal with other South Asian Countries, especially Pakistan.

### **Economic and Psychological Orientation**

For the promotion of economic relations between the two countries, it is important that the economic and psychological orientation are alike. Fortunately, Pakistan and Nepal have the traditional economic and psychological orientation and are not much oriented

towards the West and Japan. They have also been active in promoting the North-South dialogue and in discussions on South-South economic cooperation.

### **Exchange Programme**

The development of economic relations are generally significantly dependent on the following variables :

- (a) Holding of seminars, workshops especially on the promotion of trade, research and training programmes.
- (b) They must share their experiences and each country will learn from the experiences of the other.
- (c) To open further opportunities for attracting tourists on mutual basis.

Provided effective coordination and strategies are implemented by tourist related agencies, and business in both countries, an increased flow of visitors between the two countries may increase the cooperation between Pakistan and Nepal.

### **Composition of Trade**

The composition of trade between Pakistan and Nepal necessitates that the trade between the two countries is mostly focused on raw material and intermediate goods. But the favourable point is, the traded goods are complementary goods. Exports from Pakistan to Nepal are wheat, medicaments, leather, envelopes, cotton cloth, carpet of wool, soap making machines and stamps uncanceled. And Exports from Pakistan to Nepal are tea, cardamoms small and large, lintel (dry and whole), spices, plant/parts for perfumes, katha, extracts of gambir, tanning extracts, and sacks of textile material.

So the source of complementariness between the economy of Pakistan and Nepal lies essentially in their endowments, natural or acquired, which can aid their mutual development. However, the

inadequacy of proper production, marketing channels and trade linkages between Pakistan and Nepal indicates lack of sufficient complementarity. This may hinder balanced interdependence and equitable sharing of costs and benefits of mutual cooperation.

### **Ignorance**

The greatest obstacle in the way of mutual cooperation between Pakistan and Nepal is the exceedingly meagre knowledge about each other in terms of their needs, perceptions and sensitivities. Despite physical nearness, policy-makers in Pakistan and Nepal have been far too isolated from each other and have given much greater care to relations with developed countries. This ignorance has led to a lack of interest and concern. Constructive interactions and communications, therefore, constitute a key element in promoting bilateral cooperation. The areas where cooperation is already taking place need to be identified and broadened. These areas where bilateral cooperation is feasible need to be carefully explored in the light of the prevailing obstacles.

It is clear from the above discussion, if there are problems in the promotion of economic relations especially in trade between Pakistan and Nepal on one side, there are many opportunities and prospects in the above field on the other. There is a need of correcting policy which should be based on actual information and statistics of these countries. Particular attention would also need to be paid to increasing commercial intelligence and trade promotion capabilities of diplomatic mission of Pakistan and Nepal.

## **SECTION IV**

After reviewing the literature, remarks from the authentic sources and brief discussion, we construct the following suggestions :

- (i) At this stage, product-by-product is practical and appropriate as it is flexible and can take care of needs of the partner countries. Both can prepare a list of products on which concessions are sought from the other country. At

the same time both countries can prepare a list of commodities on which they are willing to give concessions to the other. From these lists, after bilateral negotiations a list containing commodities and nature of concessions can be prepared acceptable to both countries. Concessions should be both in terms of elimination or reduction in tariff rates and removal or relaxation of non-tariff barriers.<sup>14</sup>

- (ii) Importers should be informed about the identification of the products and also the concessional policies of the governments which are adapted to encourage the traders.
- (iii) A Centre can be established which gathers relevant information concerning commodities of import interest for the removal of communication gap between the concerned countries.
- (iv) Exhibitions and fairs of export items of both countries can help in promoting trade. Such exhibitions should be held in both countries after regular intervals.
- (v) State trading organisations are playing an important role in Pakistan and Nepal. These organisations should develop close contacts with each other and try to meet other important demands.
- (vi) Better transport and communications links will certainly help in expanding trade between Pakistan and Nepal. The national airlines of Pakistan and Nepal should encourage trade by granting concessions for cargo and fare.
- (vii) Small traders are more inclined to meet their requirements from neighbouring countries. Therefore, issuance of import licenses to small traders will boost intra-regional trade. Small traders must be encouraged by the loan facilities to the exporters. A financial institution should be established in Nepal to encourage the Nepalese importers.

- (viii) If there is Union between Pakistan and Nepal, we believe that no meaningful progress in trade promotion is foreseeable unless some joint industrial base is established. Emphasis on only trade promotion between member countries is bound to create trade diversion. The only way to minimise trade diversion and to establish a healthy atmosphere about the movement of both financial capital and labour migration in a joint production between member countries.
- (ix) Another reason for the joint venture is the Indian behaviour. Because Nepal is a land-locked country and India is creating problems for her in the provision of infrastructure, hence regular trade is not smooth.
- (x) After discussing CDU, we suggest that rather than being an alternative to conventional integration systems, CDU model would profitably be applied to some extent simultaneously. Because to achieve its aim of expanding trade the CDU model would require that there is enough trade between member countries in manufacturing goods. But in reality the least developed countries hardly export any manufactured commodity.
- (xi) Integration schemes, especially at sub-regional level are seeking to coordinate industrial production plans and other macro policies such as monetary, fiscal and foreign exchange policies and joint venture programmes for transport and communications.
- (xii) Between the countries, the promotion of economic and social research to reduce the existing communication gaps and to narrow down the marked differences in economic, social, cultural and political setting.
- (xiii) India should play a fair game.
  - (a) By providing infrastructure to Nepal according to the international law.
  - (b) By the provision of peaceful economic atmosphere and also healthy competition.

Obstacles, however, must not stifle bilateral cooperation initiative. Every effort must be made to turn the obstacles into meaningful opportunities.

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# Multan as a Big Trading Centre between South and Central Asia during 13th & 14th Century A.D.

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AGHA HUSSAIN HAMADANI

The land trade between South Asia and Central Asia through the Western Frontier is very old. The frontier region, thus, acquired a distinct position in developing trade and has many trading routes connecting South Asia with Central Asia. There developed many cities as trading centres among which Multan was prominent during 13th and 14th Centuries for the following reasons :

- (i) It was situated on the highway on the Kandhar-Quetta route<sup>1</sup> and had been frequently used by the traders during those days.<sup>2</sup>
- (ii) Multan was served by the three rivers, namely, Indus, Ravi and Chinab—which provided transportation facilities for the trade.<sup>3</sup>
- (iii) The upper-route of the north-west frontier region was not safe because the tract was known as Jud hills, now Salt range, and was inhabited by the hill tribes, i.e., Khokhars, Janjuas, Awans and Ghakhars.
- (iv) The scarcity of substance and necessities in the tribal region might have been a reason for the traders not following the upper-route.<sup>4</sup>

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For being a headquarter of the western borderland of the Subcontinent, the Sultans of Delhi always used to appoint important personalities as governors of Multan, which might have provided security to the traders to follow this route.

Multan had a temple of the Sun God with an idol. The temple was situated in the centre of the city in its most crowded market place.<sup>5</sup> Being the temple city, Multan attracted thousands of people from far lands who used to offer the riches to it. During the Arab rule the idol was the chief source of revenue to the state, and the rulers met most of their needs from the income of the temple.<sup>6</sup> Al-Masudi says, "the income of the Amir of Multan mostly depends upon the sweet smelling wood which is sent to this idol from distant places."<sup>7</sup> Multan had also been a place of Sufi saints which attracted many pilgrims from various places. We find a reference of a 'qawwal' who sang before Shaikh Baha al-Din Zakaria.<sup>8</sup> The Shrines of Rukn-i-Alam<sup>9</sup> and Shaikh Muhammad Yousaf Gardezi in Multan were also an attraction for the people.<sup>10</sup>

Under such circumstances, Multan had become a great centre of international trade, passing not only through the inland route to Kandhar but also through the Indus to Arab countries beyond the seas. It was the inner key of India.<sup>11</sup> Al-Masudi tells us that Multan was the place where the *caravans* for Khurasan assembled.<sup>12</sup> The Arab geographers, who visited Indus valley during the Arab rule, report that Multan was a flourishing city and was the capital of the kingdom of the same name which extended from Aror to the confines of Kashmir. The country in and around Multan was fertile and had many gardens and fields. According to Al-Istakhri and Ibn Haukal, it was a busy town and had separate bazaars for various commodities and merchandise. The ivory and copper goods were conspicuous and crowded with customers all the time. Both Arabic and Sindhi languages were spoken. Basham also gives a picture about Multan, "Multan is smaller than Mansura but is more popular. Fruits are cheap. No corruption, no liquor drinking is there. In their transactions of sale and purchase people do not lie, nor do they

weigh less than that ought to be weighed. They treat a traveller courteously. Trade is in a flourishing condition. There is a sufficient luxury and trade is fairly lucrative."<sup>13</sup> The people living between Multan<sup>14</sup> and Mansura had camels which were much sought after in Khurasan and other parts of Persia.<sup>15</sup> The city of Multan was a great market and trading place for the trade *carvans* which frequented it from Tukharistan and Bubha and also those which led to al-Mansurah and other southern regions including Cutch, Kathiawar and Malabar Coasts. It is reported that every commodity whether local or foreign could be had in abundance and at cheap rates. Such was the state of prosperity that ones silver *Dirhami* could fetch 30 mounds of bread and three mounds of sugar at Multan. Multan was called by the people "Frontier place of the House of Gold" which was a large, thickly populated town.<sup>16</sup>

### Imports

We come across many references of the horses during the period of study. Ibn Batuta speaks of the horses which were imported from Dhofer, Qipchaq, Crimea and Azov.<sup>17</sup> People of Azaq in Turkistan specially bred horses for India and developed elaborate organisation for their safe carriage and attendance on the way.<sup>18</sup> The margin of profit in this trade was very high in India.<sup>19</sup> It was the custom at Multan that on every horse was levied a tax of seven dinars and one fourth of the other commodities brought by the merchants was appropriated by the state.<sup>20</sup> In *Khulasatul Tawarikh*, we find that the merchants used to come via Kandhar bringing horses of Arab-breed from Iraq and sell them at Multan.<sup>21</sup> We have references of the horses imported from Kis, Hormuz, Dofar and Aden which were brought via sea routes.<sup>22</sup>

Dry fruits were also brought from the countries like Khurasan, etc., through Multan.<sup>23</sup> Ibn Batuta presented some raisins and almonds to the Governor of Multan which was one of the greatest presents that could be made to the Indian chiefs since those could not be had in Hindustan.<sup>24</sup> Muhammad bin Tughlaq used to receive

dry fruits from Khurasan through foot-post (barid).<sup>25</sup> About the melons of Khawarizm, we are told that they were cut into pieces dried in the sun and packed in red-baskets and exported to the remotest parts of India and China. During his stay at Delhi, Ibn Batuta used to buy sliced melon,<sup>26</sup> whenever a party of travellers arrived.

Weapons were also among the imports. The Mongols themselves carried an extensive trade of many articles including arms.<sup>27</sup> Marco Polo tells us about the swords made from Indian steel in Kir which were exported to various countries including India.<sup>28</sup> Ibn Batuta tells us that Sayyid Abul Hasan al-Abadi of Iraq used to trade with the state money and purchase arms and merchandise from Iraq and Khurasan during Muhammad bin Tughlaq's reign.<sup>29</sup> Other articles like slaves, furs, gold, silver, copper, fine cloth, musk, falcon were also brought to India.

### Exports

The traffic with Persia which had been opened by the Arab conquests continued to flow via Multan and Kandhar. This is obvious from the above facts that Multan received various commodities from various parts of the country and abroad. It had large and crowded markets. Multan was such a busy and famous centre of trade and commerce that Multani became a word for Indian traders as Khurasani was a word for foreign merchants. Multan made cotton cloth and sold them in the countries around. During the period, the Industries of India produced plenty of textile goods, leather, sugar, silk, wool and indigo.<sup>30</sup> All the commodities were carried through land or from Sind to the parts of Arabia and Persian Gulf. Beautiful glazed pottery work, in blue and white patterns and in plain colours had been made at Multan from the time of the early Muslim conquest. The art was known under the name of *Kansi* or *Chini* and according to local traditions, was introduced from China through Persia by the Mongols.<sup>31</sup> Indian Muslims, cotton, pearls, and precious stones secured a ready sale in Europe. Marco Polo refers to Indian steel in Kirman<sup>32</sup> which was used to

make swords, daggers and other war material. The sword blades of India had a great fame all over the East. Steel was exported from Lahore.<sup>33</sup> Cultivation of indigo had ceased in Iran and it was imported from India as stated by the author of *Falaha*. We find the reference of aromatic roots which fetched good quantity of gold. In *Masalik ul-Absar fil Masalik ul-Amsar*, we find that for three thousand years India has not exported gold and what has been brought there from abroad has not gone out. The merchants come to India with gold from the entire world and take in exchange various kinds of aromatic roots, herbs and gums.<sup>34</sup> Babur also mentions the aromatic-roots.<sup>35</sup> *Carvans* heavily laden with spices and dyes went to Smarkand.<sup>36</sup> There is a reference of the masterpiece of the jewellers of Multan used by the ladies of Timur court.<sup>37</sup> The traders of Multan used to store *Misri* which was brought from Delhi or Lahore.<sup>38</sup> *Ghee* and cloth were brought from Sarsuti to Multan.<sup>39</sup> Foodgrains were also exported from India to various places.<sup>40</sup>

Although there is a controversy about the distance among various places but it is unquestionable that Multan was connected throughout with all the cities and trade centres of the period. Minhaj went to Multan via Hansi and Abohar.<sup>41</sup> We find a reference to Muslim traders from Lahore who used to go to Gujarat (presumably via Multan) at a time before the sack of Lahore by the Mongols.<sup>42</sup> Ibn Batuta gives us the distances of the various places, connected with Multan, e.g., Multan to Sehwan ten days journey,<sup>43</sup> Abohar to Multan two days' journey,<sup>44</sup> Multan to Depalpur three days journey.<sup>45</sup> Ibne Batuta followed the route from Multan to Delhi via Ajodhan, Sarsuti, Hansi and Masudabad.<sup>46</sup> From Multan it took 40 days to reach Delhi.<sup>47</sup> Hence we find Multan was the place whose Banias used to go for trade to Persia.<sup>48</sup>

Administrative cities like Multan, Lahore or capital cities like Delhi some times served as big clearing houses for the whole provinces. At the annual or periodical fairs of a neighbouring town, the retail merchants and petty shopkeepers of the surrounding

places obtained their new stock of goods or replenished the old one. Large scale business was a preserve of special classes or particular communities. The petty business of a town was similarly in the hands of professional merchants. The most important business community of India was the Multanis in the North and the Gujrati Banias on the West-coast.<sup>49</sup>

### Trading System

Merchants always used to travel in *carvans* which provided safety. Ibn Batuta tells us about the composition of *carvans*. He narrates that *carvans* consisted of camels for carrying water, provisions, food and medicines. *Carvans* also contained animated bazaars and great supplies of luxuries and all kinds of food and fruit.<sup>50</sup> He also tells about the trading activities of the *carvans* on their way.<sup>51</sup> Camels could be had on hire for travel and also lent on loan basis.<sup>52</sup> *Carvans* of the merchants served the rulers as a source of information for which the rulers were keen to grant security for it. The traders travelling in Central Asia were granted letters of protection by the Mongols.<sup>53</sup> Internal security and safe movement of travellers and merchants were facilitated by the building of (*Sarais*) and *carvan sarais*.<sup>54</sup> Travelling, exporting and wholesale merchants usually conducted their business in *carvan sarais*, which were situated on the outskirts of the town or in the bazaars itself.<sup>55</sup>

There were inspection houses, intelligence services and custom offices throughout Central Asia and India. Taxes such as on merchandise, toll and customs were called *mukus* in Iran.<sup>56</sup> *Tamgha* was also a tax levied on each business transaction and until the time of Ghazan Khan it was paid at the rate of 10 per cent of the value of each deal. *Tamgha* was retained in Iran, but at a reduced rate, until the reign of Tahmasp.<sup>57</sup>

Regarding the toll-collectors in India, Minhaj gives us an earlier reference during Nasiruddin Mahmud Shah's reign.<sup>58</sup> He writes that there were toll-collectors at different stations and stages. There were established tolls and fixed ceases at Multan Uch.<sup>59</sup> Ibn Batuta

says, "The King of India maintains in each town an intelligence officer, who writes a report, telling everything that happens in that town, and about every traveller that arrives in it. When a traveller comes, the record of the land he has come from, his name, description, clothes, companions, horses, servants, his manner of sitting and eating, and all of his affairs and activities and all that may be recorded about him in respect of good qualities or the opposite. In this way no new arrival came to the king without his being advised of everything about him."<sup>60</sup>

Reaching the river Indus, he writes: "From this point the intelligence officers wrote a report about us to the land of India and gave its king a detailed account of our circumstances."<sup>61</sup> From the province of Sind to the Sultan's capital, the city of Delhi, it is fifty days journey, but when the intelligence officers write to the Sultan from Sind the letter reaches him in five days by the postal service. When the new-comer reaches the town of Multan, which is the capital of Sind, he stays there until the Sultan's order is received regarding his entry and the degree of hospitality to be extended to him."<sup>62</sup>

About the checkpoint duties he says: "On the road to Multan and ten miles distance from it is the river called Khusrauabad, a large river that cannot be crossed except by boats. At this point the goods of all who pass are subjected to a rigorous examination and their luggage scratched. Their practice at the time of our arrival was to take a quarter of everything brought in by the merchants, and exact a duty of seven *Dinars* for every horse. Horses were taxed also at Shahnagar (16 miles north-west of Peshawar) at the rate of 7 *Dinars* per horse. The Sultan of Subcontinent Sultan Muhammad Tughliq abolished this practice and ordered that these should be exacted from the Muslim traders as *Zakat* and from the infidel traders the tenth."<sup>63</sup> The tax on trade was called *Kharaj-i-Muhtarfa-i-Mussalam*.<sup>64</sup> Later on Babur also mentions something by way of *Pesh'ash* (offering) which was taken from each trader at Kandhar.<sup>65</sup>

Monetary dealings were handled largely through the *Sarrafs*.

Nasir-i-Khusrau reports that there were 200 *Sarrafs* in one of the bazaars of Isfahan in 1052 A.D.<sup>66</sup> There is a reference to the prices being fixed by the brokers.<sup>67</sup> We also find a reference in praise of the brokers in Bukhara during the reign of Timur.<sup>68</sup> In India also big business inside the country was usually done with the aid of an organised class of brokers who skilfully raised the price of commodities charging their commission to both sides of a deal.<sup>69</sup> Barani tells us about the *Banjaras* who equally played an important role in the trading activities. They used to bring provisions from distant places.<sup>70</sup>

There emerged a class of money-lenders in India during the reign of Sultan Muhammad Tughlaq. Ibn Batuta says: "Every person proceeding to the court of this king must have a gift ready to present to him in person in order to gain his favour. The Sultan requisites him for it by a gift many times its value. When people became familiar with this habit of his the merchants in Sind and India began to furnish each person who came to visit the Sultan with thousands of *Dinars* as a loan, and to supply him whatever he might desire to offer as a gift, or for his own use such as riding animals, camels, and goods. They placed both their money and their persons at his service and stood before him like attendants. When he reached the Sultan he received a magnificent gift from him and payed off his debts and his dues to them in full. They ran a flourishing trade and made vast profits and it became an established practice among them. On reaching Sind, I followed this practice and brought horses, camels, white slaves and other goods from the merchants.<sup>71</sup> Traders were enjoying a good reputation in India as well as in the Central Asia. They were ranked among the nobles of the city. We find the rulers and nobility of Iran investing their money in the companies of the great wholesale merchants, called usually *Urtaq*. There used to be the ruler's own merchants, called *Tujjar-i-Khas* or trustworthy merchants.<sup>72</sup> There is a reference to a trader named Tajuddin Ibnul Kaulani during Muhammad Tughlaq's reign who was made commandant of the city of Cambay.<sup>73</sup> Mahmud Yalvach, wealthy merchant held ministership under Chengiz Khan.<sup>74</sup> Barani

speaks of the property of merchant class during Firuz Shah's reign.<sup>75</sup> We find from the conversation between Khawaja Nasiruddin Mahmud Chiragh-i-Delhi and a Sufi from Multan that there was no better profession than trade.<sup>76</sup>

Allauddin's attitude towards the traders does not seem to be favourable. They could not flourish during his reign due to his market control. They were employed to bring various commodities from distant places and were made incharge of *Sarai-Adal*.<sup>77</sup> After his death they became rich and did what they wanted.

Trading community used to remain aloof from any politics. In *Tabaqat-i-Nasiri*, we find the traders of Lahore who remained neutral during the invasion of the Mongols in 1241 A.C.<sup>78</sup> Their main motive was to make money only as told by Amir Khusrau in *Ijaz-i-Khusaravi*.<sup>79</sup>

### Means of Communication

There is little about the means of communication and transport, even though we find that horses, camels, mules, donkeys and oxen were used to carry the goods from place to place. An anecdote in *Fwaid al-Fwad* provides that there were wheeled carriages bearing passengers along stages of the route between Delhi and Ajodhan.<sup>80</sup> *Inshae Mahru* also refers to carts bringing fuel to Multan.<sup>81</sup> Trade was carried by boats also. *Inshae Mahru* also mentions about the river boats.<sup>82</sup> Ibn Batuta has also told us about the river boats in Khusrauabad.<sup>83</sup> The author of *Khulasatul Tawarikh* also describes that merchants carried their commodities in the boats from Multan and Bhakkar while going to Thatta. The Arabs have mentioned that the Hindus sailed from Punjab to the river Sind.<sup>84</sup> Near Multan the water of the Indus flowed with an astonishing current but all the rivers were largely used by shallow draught vessals. The industry of boat making was a flourishing one in the Punjab.<sup>85</sup>

### Conclusion

Under such circumstances when we find a developed trading system, due to the rulers' interest in traders enjoying a status and

security of trade route, Multan became the only leading trade centre during thirteenth and fourteenth centuries in the west of Subcontinent. The assessment made above shows that considerable trade was going on through Multan. Its famed temple, shrines of sufi saints, connected conveniently with internal as well as international routes attracted all sorts of pilgrims, travellers and traders which made it without a rival as the capital of western frontier of the Subcontinent.

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# Withdrawal of the Indian Forces from Sri Lanka

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Dr. FARHAT IMRANA ASLAM

Small nations when find themselves hedged in by powerful neighbours, they feel constantly unsafe against their aggressive designs. The differences whenever emerge amongst them, those lead ultimately to the loss of the smaller states at the hands of the bigger and powerful giant, provided they had not already made arrangements for their security and defence against such an aggression. This century has noticed this trend and to a big amazement to every one a reversal in this trend.

The Super Powers extended help to smaller nations and afford them a blanket of security through the system of alliances or by way of supply of armament to enable them to withstand attacks till the outside help becomes available. Small nations are vulnerable to foreign invasion. This uncertainly existed in the past and still is a continuing feature of the international relations.

The Super Powers have their limitations as well. The Americans suffered a setback in Vietnam and the Russians in Afghanistan. Both of them, in the hey days of their power, though reluctantly, agreed to opt out where they felt at a time as most invincible. The stake in Vietnam was of lesser nature as the Americans had no geographical contiguity with that country. With Afghanistan, the situation was different. The Russians had common frontier with

Afghanistan. They could stay on as long as they could maintain their position with the help of the military might. But the freedom struggle in that country has shown a new trend in the international politics. This is a trend which strikes a clear note that the small neighbours are not bound to be at the service and dictate of the mighty masters living next door. Evidently, this century has marked itself as virtually a century of freedom and the slavery of man by man or of state by state has lost its sway.

In Sri Lanka, the Indian forces landed in response to the invitation of the Government. This was formally solemnized through a Treaty which confers legitimacy to the Indian military presence in that state.

The eyes of the world were rivetted on the question : How long the Indian Army would stay in Sri Lanka ? In this connection, the Indian record of sending forces elsewhere provides little comfort. In Kashmir, their forces entered under the pretext of maintaining peace and on the basis of the agreement which stated that the fate of the state would be decided by its people. In Junagarh, Mangrol and Hyderabad, their record falls in line with that policy which promises roses but interprets the small difficulty when it comes to do what the Indian originally promised. Their absorption of the state of Sikkam is yet another example. The Maldev Government sought the help of the Indians and have still not found the way out how to force the Indians to pull out their Army.

The Indians paraded the argument that the Sri Lanka failed to cope with the Tamil rebels and, in order to keep the country intact, decided to seek the Indian support. From their viewpoint, the Tamils could not expect support from India as they could ill-afford to let the country fall as under as the international community would dub the Indians as playing the role which ultimately helps to establish the hegemony of India over this region.

This ethical presumption might still have weight as the Indians ultimately decided to withdraw a token force to indicate that they were not there for ever. But there were a number of questions which

need attention. What were the conditions of the Indian withdrawal? What would be the guarantee that Indian would like to have for the Tamil people of Sri Lanka? Who would be the political leaders that India would like to wield power in Sri Lanka? Would India like to have an unfriendly but fragmented Sri Lanka?

A brief look at the political problem of Sri Lanka may help us to solve some of the riddles. Since its independence in February 1948, the country was ruled by the United National Party and the Sri Lanka Freedom Party. Both of them failed to win the low castes Tamils as their policies provided no opportunity to them for better livings. The doors of higher education were virtually closed against the Tamils as they were unable to acquire proficiency in English which could have entitled them for higher jobs. In June 1983, this resentment of Tamils led to killing of 13 Sri Lankan Soldiers by the Tamil Tigers, a militant wing of Tamil people. The reprisals led to the killing of Tamils and their ultimate exodus to India. This marked a new trend and the Tamils started their struggle for a separate homeland.<sup>1</sup>

In India, there are 55 million Tamil people who offered them shelter and training facilities for a resistance movement. There is a long history of the Tamils' struggle for a separate homeland but it was treated by the Sri Lankan Government as terrorist movement which aimed at dismembering the homeland. More than once the Indians were blamed by the Sri Lankans for their interference in their internal affairs. However, the Indian Air Force continued dropping food supplies and it appeared Sri Lankan had no way to resist the Indian invasion. On 29th July 1987, the Sri Lankan Government entered into an alliance with India. This accord underwrote Tamil self-government within united Sri Lanka. The guarantors of this accord would be the Indian troops. As a result of this Treaty, the Indian forces entered Sri Lanka and the number increased to 60,000.

The analysis of the Indian Press Reports by S. M. Hayat, indicated that Indians were taking steps which were normally taken by

the imperial powers to dominate their colonies.<sup>2</sup> Similar fears were expressed by Mevyn De Silva.<sup>3</sup>

Mr. Robin Pauley reported to have stated that Sri Lanka Opposition Party would expel the Indian Army if it assumed power as it was not acceptable to the national thinking in Sri Lanka. The Indians were feared more as it also sent 1600 troops to quell Maldives Coups in early November 1988. These forces still have not been withdrawn from Maldev.<sup>4</sup>

Maldev is a country with a population of 1,82,000 which lived in 1200 coral islands. There appears to be no justification for a longer Indian stay in that tiny state. This may as well provide a clue as to what Indian intentions were on the withdrawal of their forces from Sri Lanka.<sup>5</sup>

The Indians indicated to withdraw their forces from Maldives but they also confirmed that their stay was required for un-specified period.<sup>6</sup>

When Mr. Rana Singhe Premedasa took-over as President of Sri Lanka in December 1988, the hopes were raised for a political settlement. Mr. Premedasa is 62 years old and comes from low born caste. As such, he could understand better the problems of poors, both Tamils and Sinhalese. However, his offer to the Tamil Tigers and the Nationalist Sinhalese failed to get positive response. His solution was that they should sit in the Parliament and through mutual discussions and debates resolve the conflicts. But this offer had been turned down by both of them.<sup>7</sup>

The indications were that Indians were likely to stay in Sri Lanka for a longer spell than originally thought. Michael Hamlyn predicted that the Indian withdrawal of forces from Sri Lanka would be not that easy.

There is a sour joke going the rounds in Colombo. An Indian soldier—known as a *Jawan*, a young man—tells his colleague who asks how long the Indian peacekeeping force will stay in Sri Lanka : “We will stay at least until my son goes to school.

Sri Lanka offers a good political lesson. The ultimate withdrawal of the Indian forces in March 1990 took place due to the total hostility of the people against the Indians. The small nations, if they stand up, then that is the real guarantee of their national sovereignty and freedom.<sup>8</sup>

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# Raja Ghazanfar Ali Khan and Pak-Iran Diplomatic Relations 1948-1952

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Just after its creation, Pakistan had to face the fear of being overwhelmed by India because the Congress leadership never recognized the idea of an independent Muslim State. Another important state in the neighbourhood was Afghanistan, which had raised the 'Pakhtunistan' stunt just after the announcement of the partition plan. Unfortunately, both hostile states started attacks on ideological, geographical and diplomatic frontiers. Pakistan shares most of its land frontiers with India and Afghanistan. Major cities of Pakistan are an easy target of hostile forces, and except the rivers of the Punjab there is no natural obstacle to a foreign aggression. Thus, Pakistan had to depend heavily on friendly relations with the only other country, Iran, with whom about 1/6 of her borders meet.<sup>1</sup>

Iran and Pakistan have had close links through centuries, and close social, cultural and spiritual ties were further strengthened between the sister dominions by the establishment of Pakistan. Iran had no claims on Pakistan's territories unlike India and Afghanistan. From the defence point of view all the naval bases and airfields of Pakistan were unsafe from an aggression. Thus the only route left for essential defence supplies could be from Iran and it was also one

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of many reasons which necessitated Pakistan to cultivate friendship with the Muslim states in order to strengthen itself against hostile propaganda from India and gain diplomatic support over different issues on international forums like the United Nations. Iran was the first Muslim country to recognise Pakistan and later on to accord her full support on all occasions and issues, i.e., Kashmir, etc.

Raja Ghazanfar Ali Khan had a long association with Quaid-i-Azam since 1924 when he was elected to the Central Legislative Assembly of India and joined the Independent Party in the Assembly, organised by the Quaid. He worked as the Secretary of the Party and took part in the Assembly discussions. In the absence of the Quaid, he spoke on his behalf. The Quaid was aware of his capabilities and when there was any difficulty to represent the nation, Raja was summoned to the occasion.<sup>2</sup> In the interim Government, he was selected by the Quaid to counter the Congress Leadership. He was the spokesman of the Muslim League and the most fiery but logical assertions were made by him in response to the Congress propaganda against Pakistan ideology.

After the birth of the country, the services of Raja were utilised for the most difficult tasks which Pakistan faced, i.e., the refugees problem and the Frontier's Faqir of Ippi's Ghost. In almost every test of urgency he proved his worth. When the task before the nation to achieve Pakistan was over and that of ministry-making lay ahead, the freedom fighters were expecting more and effective share in the affairs of the country. Raja was at the climax of his political career during the period just before the partition, for most of the important assertions came out from him to fight the case for Pakistan. He was the only member chosen from the Punjab to represent the Muslim League in the Interim Government.

But gradually, one could feel, while going through the events of the post-partition period, Raja's grip on the Government affairs was getting weaker day by day. By the beginning of 1948, three of his portfolios in the Central Cabinet of Pakistan, i.e., Health, Food and Agriculture were assigned to Mr. Abdus Sattar Pirzada and he was

left only with the tedious and painstaking job of rehabilitation of the refugees, which was not acceptable to H. S. Suhrawardy and Fazalur Rahman.

But when about fifty per cent of the refugee problem was solved and the most critical period of the new born country was over, Raja was deputed abroad on another difficult assignment, which might have been unacceptable and less charming to the power-seeking elites. He was appointed Ambassador in Iran, vide a press note which was issued by the Ministry of Foreign Affairs and Commonwealth Relations on May 16, 1948.<sup>3</sup> He was also appointed Plenipotentiary Minister in Iraq, and the order was issued on June 11, 1948.<sup>4</sup>

Although Raja accepted the order yet it is not known whether he was happy over the change or not. But surely it was a step down for him and the events and environments did prove that he was cornered and was dispensed with. In 1936, he had been superseded by Liaquat Ali Khan on the occasion of selection for Secretaryship of the All-India Muslim League and onwards, he was a constant danger to the power-seekers. Liaquat Ali Khan is on record to have said to Lord Wavell on October 31, 1948, "Ghazanfar Ali, who blotted his copy book as a Minister by too much jobbery and had been sent as Pakistan's representative in Iraq."<sup>5</sup> K. K. Aziz has also analysed how Liaquat Ali Khan cleared the ground for his own play and the old freedom-fighter and a person of high calibre like Raja Ghazanfar Ali Khan was helplessly sent on to a diplomatic assignment.<sup>6</sup>

There was no outstanding figure in national politics. Jinnah had died in 1948. Liaquat had identified himself with the Muslim League. Noon was serving as Governor in East Pakistan. Some of old guards, like Raja Ghazanfar Ali Khan and Haji Ishaq Seth, had surrendered their political ambitions, if they had any, for the ease and security of diplomatic life. Suhrawardy saw his opportunity and advanced in full confidence in his own ability, which none

denied, and his long political experience, which all acknowledged.

Some far-sighted analysts objected to the changed state of affairs. The daily *Inqilab*, from Lahore commented that Raja's services were not utilised when these were actually needed. He had to step down from high office. "Raja Ghazanfar Ali Khan, Zafarullah Khan and Justice Din Mohammad are a must to negotiate with India."<sup>7</sup>

By the end of July, 1948, Raja was relieved of his ministerial office to take charge of the diplomatic assignment at Tehran. He set for Karachi from Lahore on July 25, 1948,<sup>8</sup> after the death of his sick wife. Before leaving Karachi for Tehran, he appealed to the nation to stand together under the leadership of the Quaid. He further said, "at this stage the country cannot afford to dissipate its power in interparty or intergroup squabbles."<sup>9</sup> He left Karachi for Quetta on July 27, 1948, and prominent among present at Railway Station to see him off were, Zafarullah Khan, Khawaja Shahabuddin, Yousaf Haroon, Aminuddin Khan, Nawab Siddique Ali Khan and Hussain Imam.<sup>10</sup>

He reached Quetta on July 29, 1948, and met Liaquat Ali Khan there. The same day he addressed a mass meeting organised by the Baluchistan Provincial Muslim League.<sup>11</sup> Next day, Raja drove to Ziarat to see the ailing Quaid. He remained with the Quaid for one and a half hour who briefed him on the Pak-Iran relations and assigned him the task of nation's diplomatic representation.<sup>12</sup> Raja was supposed to counter the activities of Syed Ali Zaheer, the Indian Ambassador at Tehran. He was also entrusted with another assignment by the Quaid. Pakistan had placed an order for Fury Fighter aircrafts with a British firm, but the delivery was to be made on turn. The young country which was in bad need of the planes could not afford to wait whereas delivery of the fighters to Iran was quite at hand. The Quaid asked Raja to arrange to get the quota of fighters from Iran, to equip the Pakistan Air Force.<sup>13</sup>

In times of need, Iran is reported to have provided with a sanctuary for its aeroplanes and other war equipment in order to protect them against a possible enemy attack. Pakistan had also always attached top priority to its relations with Iran. The Shah had ordered his cabinet and other Government machinery to help Pakistan in every way and by all means. Iran was the first country which had recognised the young Muslim State. It was also the first country which accorded every possible help for the rehabilitation of the uprooted Muslim refugees in Pakistan.<sup>14</sup>

Raja set on his journey for Iran and reached Zahidan in August 1948. A heavy and royal reception was accorded to him and he was received by the Governor General of the area. Shouts of *Iran Zinda-Bad*, *Pakistan Zinda-Bad*, *Quaid-i-Azam Zinda-Bad*, were raised and formation of Iranian Air Force Planes dipped in Salute over-head.<sup>15</sup>

Syed Ali Zaheer had propagated that the Shia Community was in trouble in Pakistan. On reaching Tehran, Raja addressed a Press Conference and exposed the false Indian propaganda. Although Ali Zaheer's first Press Conference had ended in fiasco, the pressmen marched out. He again attempted to explain his point of view on Raja's arrival but the press and the general public were found to be unsympathetic and indifferent. The Indian Ambassador alleged "wide anti-Indian publicity by the Pakistan Embassy in Tehran." Raja remarked to that, "I can only sympathise with Syed Ali Zaheer."<sup>16</sup>

At the time of Raja's arrival at Tehran, the Shah of Iran was out on a visit to France. Raja Ghazanfar Ali Khan presented his credentials to the Shah on August 29, 1948 and took salute of a March Past of Royal Guards at the Saadabad Palace in Tehran.<sup>17</sup> Raja Ghazanfar Ali Khan was a popular figure in Iran. He was well-known throughout the country because of his constant association with the masses and because of his peculiar headgear. He was the only one in the country to wear a turban. Raja had a servant named Fazil who starched and dyed the turbans for him. With every

suit he used a matching turban—White, Grey, Blue, Brown, Cream and Crimson.<sup>18</sup> He participated in the daily life of the Iranians as if it were his own country. He was seen everywhere—the King or Cobbler made little difference to him. He joined the funerals and was seen in the Iranian Majlis sessions. He toured Iran extensively and approached remote areas. He enjoyed friendly relations equally with the Ministers, the religious leaders, legislators, editors, journalists and shopkeepers. He felt as deeply for Iran as he did for Pakistan.

The Iranian Ambassador to Pakistan, Ali Nasar, presented his credentials to the Governor-General on April 25, 1949.<sup>19</sup> Onwards, the joint efforts of Raja and Ali Nasar, the Pak-Iran relations were further cemented. The Pakistan-Iran Cultural Association was inaugurated by Khawaja Nazimuddin, the Governor-General of Pakistan, on May 9, 1949.<sup>20</sup>

Raja Ghazanfar Ali Khan looked after the diplomatic affairs in Iraq simultaneously and when Liaquat Ali Khan was out on a tour of the five Islamic countries in May 1949, Raja reached Baghdad to accompany the Premier. Liaquat Ali Khan reached Baghdad on May 12, 1949 as part of his campaign for the Islamic World Unity.<sup>21</sup> Raja went with him to visit King Faisal.<sup>22</sup> Raja "visualised a future of close cooperation and comradeship between Iraq and Pakistan." He further said, "there was no concept of nationalism in Islam and in the Muslim brotherhood, there was no difference in *Arabi* and *Aajmi*", while addressing the Pakistani Nationals in Iraq.<sup>23</sup>

Liaquat Ali Khan reached Tehran on May 14, 1949, and next day he met the Shah of Iran. Same day, on May 15, in Iranian Premier's dinner party, Liaquat Ali Khan declared that "Iran is closest to our heart and that Pakistan and Iran would stand together in prosperity and in adversity." He added that, "All Muslim countries are our affectionate friends."<sup>24</sup> Liaquat Ali Khan further acknowledged, "we shall never forget, that you extended us your hand of friendship and sympathy when our close neighbours were regaling themselves on the wrong notion that Pakistan would not survive."<sup>25</sup>

The visit gave people a new outlook in Iran and Iraq. Liaquat Ali Khan had informal talks with the Shah and discussed the problems facing the Muslim world. Raja was also present during the talks and luncheon at the palace. The meeting lasted for four hours.

They spent practically the whole day in the Royal Palace.<sup>26</sup> On way back home, Liaquat Ali Khan declared that Pakistani had a special soft corner for the Iranians.<sup>27</sup> Raja Ghazanfar Ali Khan assessed the outcome of Liaquat Ali's tour of Iran as under :

I remember most vividly the few days that he spent in Iran which was the first country to have extended an official invitation to the Prime Minister. Five days is a period too short to produce any result and yet in this short span of time Liaquat left such a deep impression on the people of Iran that every class which came into contact with him, the Shahanshah, the Ulema, the Press and the People, became such enthusiastic admirers of Pakistan that it became for them a symbol for faith, for purity and for progress.<sup>28</sup>

An important event also happened during Liaquat Ali's visit to Iran. Raja and other far-sighted leaders of Pakistan were not happy over the country's total alignment with the Western bloc. Maulana Shabbir Ahmad Usmani, Member of the Constituent Assembly and President of Jamiat-ul-Ulema-i-Islam, in a press conference charged that "Pakistan's foreign policy had reduced us to the ignominious position of Britain's camp-followers, while Britain had constantly been treating us shabbily and has seldom cared to take us as really at par with other members of the commonwealth."<sup>29</sup> Raja Ghazanfar Ali Khan also desired a neutral foreign policy for Pakistan. He tried to win over the Communist powers at his level and arranged a meeting between the Russian envoy in Iran and the Pakistani Premier. On May 15, 1949, Liaquat Ali Khan had a long conversation by the help of an interpreter with the Russian Charge d'Affairs in Tehran.<sup>30</sup>

The USSR invited the Pakistani Premier to visit Moscow and Liaquat Ali Khan accepted the invitation. The invitation was conveyed to the Pakistan Premier by the Soviet Ambassador in Iran

through Raja Ghazanfar Ali during the Prime Minister's visit to Tehran. The official announcement of the invitation and its acceptance was made by Zafarullah Khan on June 8, 1949. When asked by the pressmen, "if the Prime Minister's visit to Moscow would lead to the establishment of diplomatic relations between Russia and Pakistan," the Foreign Minister pointed out that the two countries had already agreed to exchange diplomatic representatives, but the exchange had not been possible so far on account of "shortage of personnel" in Pakistan.<sup>31</sup>

The friendly gesture of the leaders of the Soviet Union to invite the Premier and his wife to Moscow was a recognition of the unique geo-political position which Pakistan had come to occupy in the short span of less than two years. Pakistan's relations with the Western World, and particularly with the USA and the UK, were already well established. If the Premier would have paid a visit to Moscow as the guest of the USSR, relations based on friendly understanding and cooperation would have been established with Russia to the good of not only Pakistan but also for global peace. The people and the leaders of Pakistan hailed the Soviet gesture. In the clubs, cinemas and on the road side, the Russian invitation had become the main topic of conversation. Choudhry Khaliquzzaman, Choudhri Nazir Ahmad, Members of Parliament, Khan Abdul Qayyum, Mian Abdul Bari, Maulana Allauddin Siddiqi and Khalifa Shujauddin were among the leaders who felicitated the Prime Minister.<sup>32</sup> Afterwards Pakistan and Russia also signed trade pacts.<sup>33</sup>

India had given a top priority to establish friendly relations with the Russian bloc. Jawaharlal Nehru sent his sister Vijay Lakshmi Pandit to Moscow and sent the Indian Philosopher, Radha Krishnan, to Kremlin. But at the same time Pakistani Government totally ignored this front and left India free to propagate against Pakistan on the excuse of "non-availability of diplomatic staff" to be posted at Moscow. India showed its displeasure on Moscow's offer to iaquat Ali Khan for a visit. As a threat she inclined towards

America and this was a warning to Russia. The Indian displeasure on the changing atmosphere of the Pak-Russia relations was shown when she blamed the Russians that they were launching an anti-Muslim campaign. Although the Indian allegations were refuted by Russia at the United Nations, and the Soviet Union denied Indian blame, the Indian envoy, M. R. Masani, quoted several reports alleging that Russia had engaged in "an anti-Muslim and anti-Jewish purge since the end of the war."<sup>34</sup> Mr. Masani spoke in support of a proposal advanced by the United State's expert Jonathan Dayiels Daniels.

Russia, for its interests, could not afford the Indian hostility on international forums. She became very careful about its relations with Pakistan after facing the Indian opposition. Russian interests to advance communism in Asia had been encouraged after China emerged as a new Communist State in the Continent, whereas, Western powers like the U.S. were alarmed at the same time on the growing influence of Communism as a constant threat to their vested interests. The Soviet move could not bear fruits and the scheme was put in the cold storage. Although Russia had come a step forward when the Soviet Ambassador-designate arrived at Karachi on March 18, 1950, accompanied by his wife and nineteen members of his Embassy staff.<sup>35</sup>

Ghazanfar Ali Khan was called home for consultations in connection with the impending visit of the Shah of Iran to Pakistan. His unstinted efforts had been rewarded with the trip of the Shah to Pakistan. It was also learnt that the Shah had postponed the opening of the Parliament until after his return from Pakistan.<sup>36</sup> Raja reached Karachi on January 25, 1950, to advise the Pakistani Government on matters concerning the 15-day visit of the Shah to Pakistan.<sup>37</sup> A separate Secretariat was set up for this purpose under the supervision of Raja Ghazanfar.<sup>38</sup> After finalising the programme of the visit of the Shah, he returned to Tehran on February 3, 1950.<sup>39</sup> At Lahore he declared that Shah's visit to Pakistan was a manifestation of Iranian's affection for Pakistan.<sup>40</sup> He further said that on the issues of Kashmir and tribal areas Pakistan received a wider support

in the Iranian press.<sup>41</sup> The treaty of friendship between Iran and Pakistan was signed in Tehran on February 19, 1950 providing for neighbourly relations, for most-favoured-nation treatment between the two countries and for treaties about commercial exchanges, customs and extradition to be negotiated later.<sup>42</sup>

The Shah of Iran reached Karachi on March 1, 1950, with Raja accompanying him.<sup>43</sup> The Shah visited both wings of the country and all provinces of Pakistan. He was widely welcomed by the people of Pakistan and the brotherly relations already existing were further cemented. The visit of the Shah was aimed at "strengthening of old bonds and forging of new links."<sup>44</sup>

During the Oil Crisis in 1951, Iran was on the verge of bankruptcy. The Abanan refinery was closed down and it gave a severe blow to the Iranian economy. These were the days of 'gun-boat diplomacy', and the British were determined to oust Dr. Mussadeq who was very popular among the masses and was a constant threat to British interests in Iran. The Iranian Government called for funds and loans to meet her needs and economically the country was on the verge of great misery. The British Government had also frozen Iranian funds in England, and was unlikely to allow Pakistani funds in London to flow to Iran. As a member of the Commonwealth, Pakistan could not dare to have an open conflict with Britain.

Raja Ghazanfar Ali Khan insisted on an announcement of Pakistan's willingness to part with funds, (even though they might not reach their destination. But Raja Ghazanfar could not make a dent in what he complained was a brick wall). He was the only foreign Ambassador at Tehran who made a substantial donation from his pocket. He was deeply moved by the suffering of Iran and wanted the Pakistani Government to help her. Pakistan must make a gesture, he pleaded, even though symbolic, and announce a loan of a few million pounds.<sup>45</sup>

By the beginning of 1951, Liaquat Ali Khan tried to create a deadlock in the Commonwealth Premiers' Conference. It was his first

attempt to create the situation.<sup>46</sup> He insisted on putting the Kashmir question on the agenda of the Conference which was unacceptable to some of the members. In the circumstances, Liaquat Ali Khan thought it useless to participate in it. But after an assurance to solve the problem, he decided to join it. In the prevailing state of affairs, the Premier came to know that salvation of the Muslims lay in the closer relations between Islamic countries.<sup>47</sup>

Ghazanfar Ali Khan had revealed that the murder of Liaquat Ali Khan took place just when he and the Premiers of two other Muslim countries—Nahas Pasha of Egypt and Dr. Mussadeq of Iran—were finalising a joint plan which would have solved many problems of the Muslim world, like evacuation of the British forces then stationed at Suez, Iran's right of nationalising the Anglo-Iranian Oil Company, the dispute of Kashmir and last of all, the problem of Palestine. According to Raja, he had been instructed by Liaquat Ali Khan to keep ready to come to Karachi for consultations about the drafting of the proposed joint communique.<sup>48</sup> In his last confidential letter to Raja, Liaquat Ali Khan had written that he should reach Karachi immediately after Premier's Rawalpindi visit to discuss and finalise the programme of the Muslim Premiers' meeting.<sup>49</sup> The correspondence in between Liaquat Ali Khan and the Iranian Government was routed through Raja on Oil Crisis and other disputes.<sup>50</sup>

After the assassination of Liaquat Ali Khan,<sup>51</sup> the policy of favour for Iran and Egypt was given up. His successor, Nazimuddin showed lack of interest in the project. Raja had suspected that all this happened under a British conspiracy to change the policy of Pakistan. Although Raja had some ideological differences with Liaquat Ali Khan and the latter had a clear inclination towards the Western Bloc, but on the question of cooperation with the Muslim World, both of them had the same feelings and policies.<sup>52</sup>

Raja Ghazanfar Ali Khan cabled the new Prime Minister to go through the confidential file of the case but no encouraging response came. Sir Zafarullah Khan and Shahabuddin had issued strange

statements on the problems under question. They asserted that they intended not to interfere into the problems faced by the Muslim World and were in favour of Britain.<sup>53</sup> Zafarullah Khan was known to be pro-British. (He was also the teacher of Raja Ghazanfar Ali and taught him at the Law College, Lahore). Raja deeply distrusted Zafarullah Khan for his pro-British and pro-Western policies and debated directly with Liaquat Ali Khan and then Ghulam Mohammad and other heads of State.<sup>54</sup>

Raja Ghazanfar Ali in a state of desperation, decided to visit Pakistan to convince the Prime Minister to seek help for Iran in the Anglo-Iranian conflict and indicated the dates. Provincial elections were being held in the Punjab at that time. Raja was told that the Prime Minister would not be available in Karachi during the period of his proposed visit. Raja retorted that he knew the way to Lahore and left without waiting for the official sanction. To make matters worse, he made a few fiery speeches at the Punjab University and Islamia College, Lahore, condemning the British for their exploitative policies in Iran and strongly supported Mussadeq for launching the struggle, of whose success he had no doubt. He called upon the people of Pakistan to support their brethern in Iran morally and materially. He was apparently trying to bring pressure to bear upon the Prime Minister by enlisting public support for the cause he was passionately to plead with Khawaja Nazimuddin.<sup>55</sup>

Raja Ghazanfar, while addressing the students and lecturers of the Punjab University on 'Iran Today', explained at length the circumstances that had preceeded the struggle in Iran. He stressed that practical help should be extended to Iran and Egypt in their hour of trial. The mere expression of sympathy, he added, was not enough. He made a passionate appeal to forge ties between the various Islamic countries. He said that the religious leaders of Iran, who enjoyed great respect and reverence in Iran, were in the thick of fight and whole-heartedly supported the struggle against the Anglo-Iranian Oil Company.<sup>56</sup> Again, speaking on 'Journalism in Iran', at the Senate Hall, Lahore, he said that Pakistani and Iranian Press

were responsible for cordial ties between the two countries and each was a source of strength to the other.<sup>57</sup> While speaking to a packed house at the Islamia College, Lahore, "he advocated the development of Pan-Islamic outlook wherein lay the real strength of the Muslim World." He further said that "it was a pathetic fallacy to expect any justice from the modern diplomacy."<sup>58</sup>

Raja was able to get an interview with the Premier after great difficulty. In the meeting, he spoke for one and a half hour but the latter was as cold as a stone. At last, Raja was able to understand the position of the Premier. Although he tried to tackle the problem in another way and proposed that the Premier would contact Britain to win the faith of Egypt and Iran so that Pakistan may be in a position to help Britain. The Premier promised to do the needful.<sup>59</sup> This strategy did not succeed and the Foreign Office circulated an office order forbidding ambassadors to make public speeches contrary to the policies of their Government. "Raja objected to the circular and took a stand that such restrictions be applied to the career ambassadors and that he would not submit to them. If the Government thought otherwise, they could consider the communication as his letter of resignation."<sup>60</sup> The Foreign Office never replied.

Raja Ghazanfar Ali Khan was on a tour to Baghdad. On reaching Baghdad at night, the Charge d'Affairs, Dr. Siddiq (of Pakistan Embassy) told him that an urgent telegramme from the Foreign Minister of Pakistan was being received in parts in the Cypher Room. It was a message from the Prime Minister of Pakistan for his counterpart in Iran. Raja was supposed to return to Tehran and deliver it in person to Dr. Mussadeq. He declined to do so and sent home a telegramme that he did not agree with the contents and if the Government insisted on the same message, they could send another envoy to deliver it.<sup>61</sup> On his return to Tehran, Raja had a series of meetings with Dr. Mussadeq and the Shah of Iran. Dr. Mussadeq was extremely suspicious of foreigners, especially the British.

The Anglo-American proposals for the settlement of the Anglo-Iranian Oil dispute, which had been rightly rejected by Dr. Mussadeq,

did not materially differ in their basic approach to the problem. *The Dawn*, commented that the Anglo-American policy in Iran had succeeded only in increasing the instability in a vital area at a time when the greatest stability was needed there.<sup>62</sup> The continuance of the policy of economic strangulation was bound to drive the self-respecting Iranian people to desperation. Dr. Mussadeq rejected an Anglo-American "Worst offer ever made" to Iran to solve the Anglo-Iranian Oil dispute.<sup>63</sup>

The Anglo-American axis was bent upon to remove Dr. Mussadeq from the political scene of Iran, but he was very popular among the masses and enjoyed the Ulema's confidence also. The Iranian Ulema like today, were very influential those days. A person like Ayatullah Kashani was very much at the back of Dr. Mussadeq. The Western powers tried to topple the Mussadeq Ministry but the would-be coup was exposed and Mussadeq dismissed ten Senior Generals of the Iranian Army.<sup>64</sup> He warned the Britain of diplomatic break-off and got a vote of confidence from the Majlis.<sup>65</sup> Raja Ghazanfar Ali Khan was very much close to the revolutionary anti-British leadership of Iran, which was a constant threat to the pro-Western leaders in Pakistan and Imperialist interests internationally. He called on Ayatullah Kashani, the Iranian divine on September 17, 1952, and remained for some time with him.<sup>66</sup> Although details were not disclosed. During the sensitive hours of worsening Anglo-Iranian relations, Raja's activities were being strictly watched by the Western powers. The next day Raja Ghazanfar Ali met Dr. Mussadeq again. Although he had been meeting the Iranian Premier extensively but at this juncture his frequent meetings with the anti-British forces did not go unnoticed. In due course Ayatullah Kashani threatened *Jehad* against Britain. He demanded the end of blockade. Dr. Mussadeq also planned a five-day ultimatum.<sup>67</sup> Iran also proposed to snap ties with Britain but at the same time she declared her readiness for "oil-deal on fifty-fifty basis."<sup>68</sup> But it was rejected by Britain and Dr. Mussadeq's ultimatum was dismissed.<sup>69</sup>

Raja Ghazanfar Ali Khan had to pay a heavy price for his

alignment with the nationalist leadership of Iran. He was transferred to Turkey, a less volatile place. A press note of the Ministry of Foreign Affairs and Commonwealth was issued on October 17, 1952.<sup>70</sup> He was transferred from Iran due to his difference of opinion with Zafarullah Khan and Khawaja Nazimuddin. Raja was not a career ambassador. He had not joined the diplomatic corps to earn his livelihood. But he was on a sacred mission and went out of his way to carry out his task. He never obeyed the white-collared bureaucracy. He had rubbed shoulders with the ruling elites of the country of his time. He did not care much for the official instructions and never obeyed the protocol and worked according to his ideals and conscience. He directly talked to the Governor-General, a junior colleague of himself in the Pakistan Cabinet.

It was understood that his popularity with the Iranians at the time of Anglo-Iranian head-on collision was not quite in consonance with the Foreign Office bosses at Karachi. Hence the shift was intolerable. At this point it was feared that the difference of opinion may not have deteriorated into a full-fledge repute between Raja and the Foreign Office. Efforts were also made to persuade him to accept the position in Ankara and to cool down, for, after all, such things kept on happening off and on. Eventually Ghazanfar Ali Khan accepted the new assignment and after three weeks, left for Ankara by an Air France plane on October 28, 1952 to take his new charge.<sup>71</sup>

Raja Ghazanfar Ali was present in Tehran when Iran severed diplomatic ties with Britain on October 16, 1952.<sup>72</sup> He stood by his Iranian brother even at the risk of his prestige and never cared for the unjust opposition that he faced from his parent country. He had his own principles and ideals. He strengthened friendly relations between Iran and Pakistan and established relations of love and friendships with Iranians of all walks of life in a befitting manner. He established relations with religious dignitaries, scholars and literaturers throughout Iran and from top-most circles to the common workers. He was given farewell parties by

the diplomatic circles in Tehran, Ulema of Iran, Ministers and other dignitaries. He said in a farewell dinner given in his honour at Tehran by the Turkish Ambassador in Iran, that "Going from Iran to Turkey is like going from one home to another home."<sup>73</sup> The Indian Ambassador to Iran gave a farewell dinner to Raja. The Iranian Foreign Minister was also among the participants.<sup>74</sup> Dr. Fatimee, the Foreign Minister, paid rich tributes to Raja in a farewell Lunch arranged by him on October 27, 1952. Raja made a speech in Persian on the occasion. The function was attended by the members of the Iranian Majlis and Members of the Cabinet. Heads of Diplomatic Missions in Tehran were also present.<sup>75</sup>

Raja Ghazanfar Ali was never regarded as a foreigner by the Iranians. Where ever he was sent as Ambassador, he was able to win over trustworthy friends for his country. During his stay in Iran, he welded these two countries together in everlasting bonds of brotherly love and friendship.

The Shah of Iran was the first head of a Foreign State to pay an official visit to Pakistan. Iran was the first country to invite Pakistani Prime Minister on an official visit. Iran was very helpful to Pakistan in resolving her refugee and defence problems and also the first country to sign a treaty of friendship with Pakistan. All these remarkable gestures on the part of Iran originated during Raja's tenure as Ambassador.

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30. *Ibid.*, May 17, 1949.
31. *Ibid.*, June 9, 1949.
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33. *Dawn*, June 14, 1949.
34. *Ibid.*, June 18, 1949.
35. *Ibid.*, March 19, 1950.
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37. *Ibid.*, January 26, 1950.
38. *Ibid.*, January 28, 1950.
39. *Ibid.*, February 4, 1950.
40. *Ibid.*, January 25, 1950.
41. *Ibid.*, February 1, 1950. Around Bushire in Iran, floods and series of earthquakes disrupted the life. Pakistan rushed aid to the affected area for the relief of the flood and quake victims.
42. *Ibid.*, February 21, 1950.
43. *Ibid.*, March 2, 1950. In about all the pictures taken on the occasion of the Shah's visit and parties arranged in his honour, Raja could be seen prominently seated near to the Shah. He also arranged a private dinner for the Shah at the residence of Mumtaz Daultana at Lahore. (Interview with Mr. Javed Daultana).
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45. *Ibid.*, December 11, 1950.
46. *Ibid.*, February 10, 1951.
47. Syed Noor Ahmad, *op. cit.*, pp. 388-389.
48. *The Morning News*, Karachi, December 30, 1965.
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50. *Ibid.*, April 30, 1964.
51. *Ibid.*, May 1, 1964. Liaquat Ali Khan was assassinated on October 16, 1951, Sardar Nishtar, Governor of the Punjab, tried to contact the Federal Minister of Interior and Information, Khawaja Shahabuddin, on secraphone. But he was only available after two and a half hours' struggle. Shahabuddin was busy bargaining with a fellow Minister Fazlur Rahman on the question of distribution of portfolios. He was able to convince Fazlur Rahman to give up his claim for the office of Premiership in favour of Khawaja Nazimuddin. Till then the official announcement of the murder of Liaquat Ali Khan was delayed.
52. *Ibid.*, May 2, 1964.

53. *The Mashriq*, May 2, 1964.
54. Interview with Dr. Afzal Iqbal.
55. *Dawn*, December 11, 1981.
56. *The Pakistan Times*, January 14, 1952.
57. *Ibid.*, January 16, 1952.
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62. *Dawn*, September 5, 1952.
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65. *Ibid.*, September 17, 1952.
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71. *Ibid.*, October 29, 1952.
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# Manpower Planning and Labour Force Strategy for the New Socio-Economic Order in Pakistan

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Dr. (Mrs.) SHAHEEN KHAN

One of the socio-economic indicators that continue to place Pakistan in the ranks of the poor developing countries is under-employment, that is, insignificant participation of people in the labour force. In the past the planning efforts for our economy placed primary reliance on overall economic growth through heavy investment, which led to accelerated output but failed to generate sufficient productive employment opportunities. Consequently, we have been unable to raise the rate of economic activity and rather small portion of population constitutes the civilian labour force in Pakistan. The best available projections of labour force growth predict a rapidly widening divergence between the number of people wanting jobs and the number of jobs available. The participation rate (percentage of working population) has almost remained constant since 1951.<sup>1</sup> The size of civilian labour force has progressively increased throughout and in the foreseeable future the labour force is estimated to increase faster than the population. This is because the decrease in birth rate will not affect the supply of labour for sometime.

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The following table presents the participation rates by age and sex groups for 1973 and 1978.

TABLE 1  
Labour Force Participation Rates for Pakistan  
By Age and Sex

Age Groups	Total		Males		Females	
	1973	1978	1973	1978	1973	1978
15	8.2	5.3	12.9	4.9	3.0	0.8
15 — 19	42.0	37.7	67.0	64.6	8.0	5.6
20 — 24	51.0	48.5	87.0	88.4	10.0	6.6
25 — 29	53.0	51.3	94.0	96.2	8.0	7.4
30 — 44	54.0	53.6	96.0	98.0	8.0	8.5
45 — 49	54.0	54.9	96.0	97.5	7.0	7.9
50 — 54	49.0	56.8	90.0	95.7	9.0	7.2
55 — 59	50.0	51.9	90.0	92.1	7.0	6.4
60 — 64	60.2	53.9	90.0	87.7	10.0	5.6
65+	43.0	36.8	65.0	59.7	8.0	3.2
15 — 24	46.0	21.5	76.0	76.5	9.0	6.1
20 — 29	52.0	43.1	90.0	92.3	9.0	7.0
30 — 59	54.0	54.3	95.0	95.8	8.8	7.5
Total :	32.7	29.5	55.4	52.1	6.0	4.3

Source : Housing, Economic and Demographic Survey 1973, Labour Force Survey 1978-79.

Low labour force participation rates in the country can be attributed to the population having a young age structure as in 1978, 34 million (45 per cent) are below the age of 15 years and to the extremely low female participation as females share of the population is 36 million (48 per cent) and their participation in labour force is only 4.3 per cent. The extremely low participation of females is responsible for low overall rates in all age groups. Over time the participation has decreased for both males and females and this is presumably due to increased schooling (drastic fall for age group under 19) and reduction in retirement age (the 65+ age group).

There are marked differences in the labour force participation of urban and rural population. Agriculture absorbs greater number of people, particularly in the younger and older age groups, while for rural area we find greater education and early retirement. In the case of women, the urbanization process seems to be an important factor affecting the supply of labour. The overall female participation rate in rural areas is almost double the rate observed in urban areas.<sup>2</sup>

Changes in the total participation rate reflect both changes in each particular age group as well as modifications in the population's age structure. A standardization approach is adopted in Table 2 in an attempt to quantify each main age group's contribution to the change in the overall participation rate.<sup>3</sup> By applying the participation rates of 1973 to the same age groups in 1978, a measure of labour force is obtained, assuming no change in the participation by age had occurred between these two years. The difference between this rate and the actual 1973 overall rate of participation gives the change in the latter caused by changes in the age structure of the population (row 1, Table 2). Thus it is possible to calculate the share of the total change in the overall participation of each group. To do this each group is taken, one at a time applying its 1978 participation rate while other groups are taken at the initial 1973 rates. The difference between the overall rate net of changes in the age structure, gives the change due to the particular age group chosen.

The figures shown are for 1973—1978. The most noticeable point of Table 2 is that 77 per cent change in male participation is due to the changing age structure during the period. The drastic fall in overall and female participation is due to decrease in the economic activity of 15—24 age group. The contribution of prime aged group 30—59 is not very significant as expected (given the relatively small changes in its participation behaviour). Looking at the older age group, their decreased participation is significant for females.

TABLE 2

Variations in Participation Rates of Total, Males and Females from 1973 to 1978  
in relation to Changes in Participation of different Age Groups

Variation in Participation Rates Groups	Total			Males			Females		
	In per cent Points	In Relative Terms (%)		In per cent Points	In Relative Terms (%)		In per cent Points	In Relative Terms (%)	
1. Attributable to changes in the age distribution during the period	-0.25	3.03		-4.95	80.88		0.02	1.33	
2. Attributable to changes in the participation by 15—24 age group	-7.40	87.89		0.15	2.45		-0.88	58.67	
3. Attributable to changes in the participation by 25—29 age group	-0.20	2.38		0.25	4.08		-0.07	4.67	
4. Attributable to changes in the participation by 30—59 age group	-0.14	1.66		0.37	6.05		-0.23	15.33	
5. Attributable to changes in the participation by 65+ age group	-0.43	5.22		-0.40	6.54		-0.30	20.00	
Total :	-8.42	100		4.58	100		-1.46	100	

Source : Participation rates are from Table 1 and population data from Appendix Table 1A.

Changes also occurred in the distribution of the employed labour force by sector of economic activity. Following table presents the sectoral distribution of employment in 1975 and 1978.

TABLE 4  
Structure of Economically Active Population

(Percentage)

Industry	Employers and Self-Employed	Employees	Unpaid Family Helpers	Total 1975	Total 1978
Agriculture	56.5	20.0	80.5	71.9	54.0
Manufacturing	12.0	23.4	8.6	—	13.4
Energy	—	2.1	—	—	0.5
Construction	4.8	7.2	0.7	—	4.1
Sales	16.2	5.9	6.2	5.3	10.9
Transport and Communication	4.2	10.9	1.2	17.0	4.8
Services	6.0	9.9	2.5	5.6	9.1
Unclassified	0.4	0.4	0.2	0.1	0.3
Unemployed	—	—	—	—	1.7
Total :	100	100	100	100	100

Source : *The Fifth Five-Year Plan and ILO, Yearbook of Labour Statistics.*

The share of employment in agriculture and transport and communication has fallen drastically from 1975 to 1978 and it has increased in manufacturing, sales and services sector. The manpower planning and labour force strategies in the Sixth Five-Year Plan should take due consideration of the changing employment generation patterns, along with their particular prospects for certain demographic groups. The development expenditure allocation should be distributed in such a way that it serves the dual purpose of economic growth in accordance with the basic needs ideology and provides job opportunities for the important groups in the labour force.

Most of the employment related problems are the basic elements of under-development and the cure would lie in transforming the country from a developing to a developed nation, therefore, instead of recommending a complete remedy, we would like to make some suggestions for the following specific target groups in the labour force during the next plan.

### **Female Employment**

Recently, the question of female employment has received constant focus and attention from theoreticians and policy makers.<sup>4</sup> Pakistan's initiative in hosting a workshop of women experts from 13 Asian countries relating to women work and training in collaboration with ILO and the Swiss Government, is evident of the importance that can be attached to this group of labour force.

Female employment, although traditionally low, has been completely ignored in the past due to the low female literacy rate and dominant traditional aspects relating to women's place in the society. Increased female education and the increasing contributions of women in many sectors like education, services and public administration has brought to the forefront the importance of female labour force. Efforts should be made to encourage the participation of women in all kinds of economic activity, particularly in view of the fact that share of agriculture in the total employment over the years has been declining. Agriculture provided opportunities to rural females to work as unpaid family helpers along with their domestic responsibilities. Consequently, the measures relating to enhancement of women participation should be closely related to the distribution of employed labour force by sector of economic activity.

As explained above, low female participation is largely responsible for overall low activity rates and creation of jobs for them can help in utilizing the hitherto idle manpower. The government can encourage the private sector in employing females (particularly educated females) by offering the employers relaxation for certain fiscal controls like tax concessions or subsidies. The family planning

programme would also help in encouraging female participation, and here a related measure could be encouragement of refresher courses for trained married women who would like to join the labour market when their children are of school going age (this can particularly help in eliminating the shortages of female teachers in certain areas). In addition, attention should be given to development of specific skills for females by incorporating provisions for their inclusion in the vocational training programme which would help to integrate women into the main stream of economic activity.

### **Disguised Unemployment**

Of all the variables characterizing the conditions in the labour market of developed economies, measures of unemployment provide the most useful indication of employment conditions. Low rates of unemployment demonstrate the capacity of the labour market to satisfy potential labour force participants preferences for employment. In addition, relative full employment leads to improvement in the terms on which employments are offered. Unfortunately, for less developed countries, open unemployment rates do not give useful indication of the extent to which labour resources are unutilized.<sup>5</sup> The low unemployment rates ranging from 1.4 to 2 per cent (the reported unemployment rates are quite unsatisfactory due to measurement biases) suggest that unemployment is a luxury which only few privileged groups in the society can afford.<sup>6</sup> The poor, unable to maintain themselves during a prolonged period of unemployment, are forced to seek and accept any job, however, low the returns. Consequently, the major problem in Pakistan is not of open unemployment but of under-employment (particularly during certain seasons) and low productivity and earnings in the jobs performed. This under-employment can be traced in the high participation rates for males (almost above 90 per cent from 20 to 64 age groups). In other words, the target group for under-employment is the prime aged males. This reflects the pressure on the economy of absorbing an ever increasing labour force.

For the disguised unemployment, which in urban areas takes the form of employment in the informal sector and in rural areas the seasonal employment, the social welfare programmes can be linked to employment generation. The construction of schools, hospitals, electrification of villages, water supply and drainage schemes (which have been given top priority after agriculture in the declared objectives of the Sixth Five-Year Plan) are expected to create employment opportunities. The manning of primary schools and health centres will increase the employment of educated persons.

The problem of educated unemployed has become significantly worrying in the last few years, as their unemployment rates continue to be higher compared with national average.<sup>7</sup> Furthermore, expansion in higher education and increasing propensity to seek employment amongst educated women makes this a potentially serious problem. Another closely related facet of the unemployment problem relates to skilled workers like technicians, mechanics, artisans and engineers, in the case of whom the situation has reversed from surplus to shortages due to imbalances in the education and training programme and out-migration of skilled persons towards the Middle East countries. The ultimate solution of these shortages is to closely link the education system with the development needs of the economy, while in the immediate future the shortages in particular professions can be eliminated by appropriate restrictions on the out-migration of skilled people.

### **New Entrants into Labour Force**

New entrants in the labour force are represented by the age groups of 15 to 19 and 20 to 24. Most of the youngsters in these groups are free to work, particularly in view of the fact that enrollment rate for intermediate and higher education is less than 20 per cent. Their low participation rates portrays the lack of job opportunities and the conservative attitude towards young female employment. Their low overall activity rate of 43 per cent is mainly due to the low female participation (6.1 per cent). The importance

of new entrants in labour force in the years to come is further enhanced by the increased emphasis on education and vocational training. Solution of the employment problem for the new entrants can be tackled by directly relating the educational courses to the emerging job opportunities in the economy. Here three measures can be specifically effective.

Firstly, encouragement of on the job training by the employers specially for mechanical and technical skills. Employers should be induced to contact local schools and colleges to select their trainees. Secondly, programmes of vocational training should be launched particularly for the less or uneducated youths. Here it is worth mentioning that the entrance qualifications for existing vocational courses are in most cases matric or higher secondary schooling (only some industrial homes or driving schools enroll persons without qualifications) which makes majority of youngsters ineligible for training. It would be most commendable to increase the number of vocational training centres (and to increase the admission capacity of the existing ones) along with reducing the entrance qualifications to the minimum for some skilled occupations, as it would improve the condition of numerous uneducated youngsters. And finally for the female group of potential entrants into the labour force, encouragement can be sought through programmes of adult education (which can help to broaden the conservative social attitudes) and dispersion of information about female employment conditions and opportunities.

# APPENDIX

## STANDARDIZATION PROCEDURE FOR TABLE 2

The standardization procedure is illustrated by the use of mathematical symbols :

$p^j$  = Population over a certain minimum age above which labour force participation is defined, in  $j$ th year.

$a_i^j$  = Participation rate of the  $i$ th age group in  $j$ th year.

$x_i^j$  = Population in  $i$ th age group in  $j$ th year.

Then 
$$p^j = \sum_i x_i^j$$

and the overall participation rate in the  $j$ th year.

$$b^j = \sum_i \left[ a_i^j \frac{x_i^j}{p^j} \right]$$

The overall change in participation between the two years, 1 and 2, may be expressed as :

$$b^2 - b^1 = \sum_i \left[ a_i^2 \frac{x_i^2}{p^2} - a_i^1 \frac{x_i^1}{p^1} \right]$$

$$b^2 - b^1 = \sum_i \left[ (a_i^2 - a_i^1) \frac{x_i^2}{p^2} + \left( \frac{x_i^2}{p^2} - \frac{x_i^1}{p^1} \right) a_i^1 \right]$$

The above comparison is composed of two terms :

$$(1). \quad M = \sum_i \left[ \left( \frac{x_i^2}{p^2} - \frac{x_i^1}{p^1} \right) a_i^1 \right] = \text{changes in the over-}$$

all participation rate, attributable to changes in the age structure of the population.

$$(2). \quad \sum_i Z_i = \sum_i \left[ (a_i^2 - a_i^1) \frac{x_i^2}{p^2} \right] = \text{changes in the}$$

overall participation rate, attributable to changes in the participation behaviour of all age groups.

Clearly, the change in participation rate attributable to changes in the participation rate of the  $k$ th age group is equal to the  $k$ th element in (2) :

$$Z_k = (a_k^2 - a_k^1) \frac{x_k^2}{p^2}$$

TABLE 1A

Population of Pakistan by Age and Sex 1973 and 1978

(In thousands)

Age Group	Total		Males		Females	
	1973	1978	1973	1978	1973	1978
— 15	26,175	33,989	13,792	17,698	12,382	16,314
15 — 19	5,505	6,887	3,114	3,697	2,390	3,198
20 — 24	4,338	5,685	2,327	2,827	2,011	2,858
25 — 29	4,237	4,921	2,193	2,442	2,044	2,480
30 — 44	9,795	11,650	5,131	5,874	4,665	5,799
45 — 49	2,431	3,122	1,283	1,633	1,149	1,489
50 — 54	2,326	2,684	1,352	1,520	974	1,156
55 — 59	1,283	1,769	1,645	915	638	854
60 — 64	1,770	1,981	1,073	1,157	697	824
65 +	2,649	2,895	1,601	1,648	1,048	1,247
15 — 24	9,843	12,575	5,442	6,524	4,401	6,056
20 — 29	8,574	10,606	4,520	5,269	6,055	5,338
30 — 59	15,836	19,225	8,410	9,942	7,425	9,298
Total :	60,510	75,600	32,511	39,395	28,000	36,205

Sources : *Housing, Economic and Demographic Survey, 1973.*

*ILO, Yearbook of Labour Statistics, 1979.*

TABLE 2A

## Labour Force Participation Rates by Age, Sex and Area 1974-75

(Percentage)

Age Group	Total		Males		Females	
	Rural	Urban	Rural	Urban	Rural	Urban
10 — 14	24	10	39	18	4	1
15 — 19	43	27	73	49	7	2
20 — 24	51	44	93	79	7	5
25 — 34	52	51	97	96	9	5
35 — 59	55	54	97	96	9	4
60 — 64	55	47	90	76	6	5
65 +	38	32	61	53	3	3
Total :	46	39	80	70	8	4

Source : The Fifth Five-Year Plan 1978-83.

TABLE 3A

## Unemployment Rates by 1961-75

(Percentage)

Year	Male	Female
1961	1.8	0.6
1966-67	1.4	0.1
1967-68	1.8	0.4
1968-69	2.0	3.4
1970-71	1.6	2.3
1971-72	2.0	2.3
1974-75	1.7	0.04

Source : *Employment Planning and Basic Needs in Pakistan*. Report of a National Conference held at Islamabad, May 15-18, 1978.

TABLE 4A

Enemployment Rates by Literacy Level of Education and Area, 1974-75

(Percentage)

Level of Education	Pakistan	Rural	Urban
Illiterate	1.1	0.8	2.2
Literate (no education or less than primary)	1.2	0.2	3.4
Primary education but less than matric	2.8	3.0	2.6
Matric but less than degree	5.7	8.4	4.0
Degree (general education)	5.6	14.9	3.2
Degree+Postgraduate training	2.6	—	3.1
All Groups	1.7	1.3	2.7

Source : *Labour Force Survey, 1974-75.*

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1. Total labour force participation rates were 30.7 in 1951, 32.4 in 1961, 32.7 in 1972 and 29.5 in 1978, *Census and Labour Force Surveys*.
2. Table 2A in the Appendix.
3. The standardization procedure is outlined in the Appendix.
4. Bowen and Finegan (1969), Cain, (1966-67), Cain and Watts (1973) and Greenhalgh (1977).
5. Burton (1978), Lewis (1974), Mazumdar (1959) and Sen (1966).
6. Table 3A in the Appenpix.
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# The Impact of Biotechnology on International Commodity Trade with Reference to Developing Countries

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PROF. GERD JUNNE

## I. INTRODUCTION

Commodity prices are set to decline overall in the 1990s. Biotechnology "is quite certainly called upon to act as a further factor reducing the overall demand for primary products from developing countries." (OECD, 1989, 80/81). The introduction of new technologies has always led to shifts in the international division of labour. New products replace old ones. New production processes make the production of specific goods cheaper in one region than in another and accordingly lead to shifts in world supply. Although it may not be as revolutionary as other new technologies (Buttel, 1989), biotechnology is no exception. It will have a considerable impact on world trade. Replacement of commodities as a result of the introduction of new technologies is not a recent phenomenon only. It has occurred again and again in history. Cases in point are the replacement of *indigo* and other pigments by colours produced on a petrochemical basis, the replacement of natural fibers (especially *sisal*) by synthetic fibers and the competition between natural *rubber* and synthetic rubber. Nevertheless the present situation may differ significantly from historical experience in that (a) switches to a new raw material base may actually be effectuated much quicker than in the past, (b) a large number of commodities will undergo

major changes in supply and demand at the same time, and (c) alternative sources for foreign exchange earnings may be more limited than at other historical junctures (Jenne, 1988; Jenne, Komen and Tomei, 1989). The present contribution will discuss different types of substitution processes (Part II) and their impact on trade (Part III).

## II. DIFFERENT SUBSTITUTION PROCESSES

Biotechnology will affect international trade, but the impact will be different in different areas of application. Though most biotechnology research takes place in the health sector, the impact on trade flows will be much larger in agriculture, for three reasons: (a) The pharmaceutical industry sends "a surprisingly small proportion" of its output across national frontiers.<sup>1</sup> (b) Even if the impact on trade in pharmaceuticals and agriculture was similar, shifts in the trade in agriculture would have more important implications for world trade, since trade in agricultural products has a value of more than ten times the value of trade in pharmaceuticals (GATT, 1988, Vol. II, 11 and 26). (c) The repercussions of shifts in international trade, too, would be more important in the case of agriculture than in the case of health products. Shifts in the exports of pharmaceuticals would not be a major problem for exporting countries which almost all are highly developed countries. A decline of agricultural exports, however, could have serious consequences for those developing countries relying almost exclusively on exports of such products as a source of foreign exchange.

The present contribution will therefore mainly deal with trade in agricultural commodities, because it is this field in which the trade impact of biotechnology will be felt most. "These trade impacts are nearly all of a trade substituting character" (OECD, 1989, 80, 85–90). A recent OECD study distinguishes between shifts in the structure of trade as a result of:

- (i) The creation of entirely new substitutes for previous products;
- (ii) The introduction of new production processes, and
- (iii) The reduction of material inputs to production (*dematerialisation*):

out of which (i) and (iii) are expected to be relevant results of the application of biotechnology. This distinction should be refined to get a better understanding of the processes involved. Furthermore, shifts resulting from the introduction of new production *processes*, seen as less relevant in the OECD study, should not be underestimated.

Four major types of substitution processes will be described below, referring wherever possible to the example of sweeteners, vegetable oils and cocoa. The first three processes apply mainly to North-South trade relations, while the fourth relates to processes whereby exports from one developing country are replaced by exports from another developing country :

- (i) Shifts in trade as a result of the *introduction of additional characteristics into existing plants.*
- (ii) Shifts which result from *changes in food processing.*
- (iii) Shifts due to the *industrial production of plant components or substitutes.*
- (iv) Shifts due to the *unequal distribution of new production processes.*

### 1. Shifts as a result of new plant characteristics

Though genetical engineering of plants has proved much more difficult than the genetical manipulation of micro-organisms, biotechnology has already had a considerable impact on plant breeding by applying 'modern' rather than 'new' biotechnology,<sup>2</sup> especially tissue and plant cell culture. This has helped to speed up traditional plant breeding and to reduce the lead time to develop new plant varieties considerably.

The greater ease with which new characteristics can be added to plants (or existing ones deleted) contributes to a "separation of the plant from its original environment."<sup>3</sup> Plant varieties are selected that are more resistant to different stress factors such as low or high temperature, day length, soil salinity, dry or wet climate, etc. This

has made it possible to shift the geographical limits up to which specific crops could be grown. As a result, the area where some products formerly exclusively produced in a subtropical or moderate climate, has expanded more and more towards the North. An important example is the production of maize, which since decades has been made suitable for more and more temperate zones in North America and Europe, a trend which can probably be speeded up with the help of biotechnology. Another case in point is the development of forage grass that grows actively even in cold weather. If successful, such a development would make it possible to shift some cattle production from South America and other Southern countries to North America and Northern Europe. (*New Scientist*, July 28, 1988).

This trend may be especially relevant for vegetables and fruits and might undermine the recent diversification of some developing countries into vegetables production for the world market.

The same effect could be achieved if the resistance of plants against a colder climate is not the results of manipulating the plant itself but its environment. An example is the application of 'ice minus' bacteria to protect crops against mild frost. If this turned out to be economically feasible and politically acceptable, important substitution processes could be the result. If orange plantations in Florida, for example, could be protected against the risk of freeze, some of the orange juice exports to the U.S. (which have become a very important for Brazil) might be replaced by domestic production.

## **2. Trade shifts as the result of changes in food processing**

Important early shifts in international commodity trade will not so much result from advances in the genetical manipulation of higher organisms such as plants, but from applications of new and modern biotechnology to micro-organisms, a field in which more experience has been accumulated. Micro-organisms have been applied to food processing for centuries. Advances in food processing, especially in fractioning plant products into different components and

'reassembling' these components into final food products have led to *separation of plants from their specific characteristics*. Many crops have become interchangeable. This has tremendously increased direct competition between producers of crops that hitherto used to produce for different markets. (Ruivenkamp 1989). The most outstanding example is, of course, the increasing competition between sugar and starch producers.

One of the results of the cultivation of maize becoming possible in more and more moderate zones has been an increasing overproduction of corn in North America which has stimulated producers' interest in alternative uses of their produce. As a result, research intensified in the 1970s on the enzymatic transformation use of starch into High Fructose Corn Syrup (HFCS). The tremendous expansion of HFCS production between 1975 and 1985 and the resulting decline of sugar imports by the United States is the largest trade impact that biotechnology has had hitherto (cf. III).

HFCS is not an entirely new product. Since the early 19th century it had been known that starch could be transformed into a sweetener. By 1850, this process was in commercial use in the United States, using potato starch. 'Corn sugar' or dextrose was first produced in Buffalo (New York) in 1866. Since 1920, dextrose and corn syrup have accounted for about 10 per cent of the North American sweetener market. (ICCSASW 1987, 3). But advance in the application of immobilized enzyme technology reduced production costs to such an extent that a switch from sugar to HFCS became a profitable option,—at the high domestic price levels for sugar in the United States and Japan (see III).

Beside the price advantage (depending on the domestic price level for sucrose), HFCS has a number of other advantages, but also some disadvantages. Since its production is based on corn, but consumes only 10 per cent of the corn harvested in the US, (ICCSASW, 1987, 8) its price tends to be more stable than that of sugar. Since corn can easily be stored, production can continue the whole year instead of concentrating on a three to five months in the case of cane

or beet sugar. Given HFCS's liquid form it is especially suited for industrial applications, since it requires less labour for handling than sugar which is usually sold in bags.<sup>4</sup> It also permits a better conservation of food compared with sugar. (OECD, 1989, 86). On the other hand, it is only stable between 27 and 39 degrees and cannot be stored indefinitely nor transported over long distances and therefore normally is not exported (except from Canada to the US). (ICCSASW, 1987, 11).

The commercial potential of HFCS increased when the immobilization of enzymes in 1972 made production less costly. In 1978, another technical breakthrough enlarged HFCS's field of application. A process was found to produce 90 per cent fructose syrup. Until then, the upper limit had been 42 per cent, since at that point the enzyme stops transforming the dextrose. A blend of (90 per cent and 42 per cent syrup, containing 55 per cent fructose, was found to be well suited for the soft drink industry. As a result, most large American soft drink producers, especially Coca-Cola and Pepsi, shifted to sweetening their drinks with HFCS. The two large cola-producers alone used to consume over 1.7 million metric tons of sugar annually in the United States only (ICCSASW, 1987).

Total replacement of sugar in the United States by HFCS has reached around 6 million short tons of sugar, about half of that produced domestically and half of it imported. (US sugar imports dropped from 5.3 million short tons in 1970 to about 2.2 million in 1987). This substitution process has levelled off, because penetration of those areas where technical and economic conditions allow it, has reached almost 100 per cent. Large scale introduction in countries outside the United States and Japan is not to be expected (see III).<sup>5</sup>

While its liquid form has been one of the advantages of HFCS for industrial users this very advantage, on the other side, has prevented the penetration of the consumer market for household use. Only a very small percentage of HFCS reached the market in a crystallized form, because the energy costs of drying it made it uncompetitive to refined sugar. However, several less expensive

procedures have recently been developed which may imply another round of substitution. If crystallized HFCS reaches a large market share, this would imply the end of US sugar imports (ICCSASW, 1987, 15).

Enzymatic conversions may also have an important impact on other commodity markets than the sweeteners market. Enzymatic conversions of plant oils, for example, to produce structured lipids or tailored fats could in the future eventually ease the coconut oil and other seed oils out of the market.<sup>6</sup> The cheapest vegetable oils (probably soya and palm oil) could then replace most other seed oils that hitherto could defend their own market niches due to specific intrinsic properties which correspond to specific consumer demands.<sup>7</sup>

An important example for such substitution processes is the development of improved cocoa butter substitutes (Svarstad, 1988, 171—180). While such substitutes have been on the market since the beginning of the century, most of them did not sufficiently meet the specific desired properties or were too costly for commercial production. With the help of biotechnology, researchers hope to modify enzymes in such a way that they become fit for the production of cocoa butter substitutes.<sup>8</sup> If commercially viable and not banned by legislation, such a development would have an obvious impact on international cocoa trade.

### **3. Shifts due to the industrial production of plant components or substitutes**

Biotechnology has not only increased the substitutability of one agricultural product for another, but also increased direct competition between agricultural and industrial products. Again, sweeteners provide a good example. Cane and beet sugar not only lost ground to HFCS, but also to industrially produced low-caloric sweeteners. Chemical sweeteners such as saccharin and cyclamates have been used for decades, but have remained highly debated and are only suitable for specific applications. Biotechnology has made it possible to produce different new low-caloric sweeteners. A very important

role has been achieved by *aspartame*, made from two amino acids coupled by natural enzymes, now used in many low-caloric soft drinks. Its sweetening power is about 150 to 250 times as potent as sugar, depending on the formulation. As a result, relatively small plants can produce an enormous sweetening power, compared with a similar volume of sugar. Though the market share of low-caloric sweeteners in industrialized countries has quickly increased, global aspartame demand, for instance, for more than a decade could easily be met by a few factories of one company.<sup>9</sup> This is an obvious example for the ongoing process of 'dematerialization of production' which implies that the same 'use value,' can be created with an ever smaller amount of material inputs, (cf. OECD, 1989, 77). This trend works very much to the disadvantage of raw material exporting countries.

A number of low-volume, high value compounds which are traded internationally, and which could not (or only against exorbitant costs) be produced by chemical synthesis, can now be obtained from either microbial fermentation or cell suspension culture. This is the expression of a third separation tendency, the trend towards the separation of the production of plant components from the land (Ruivenkamp 1989) and an increasing *industrial* production of such components. Industrial production has a number of advantages: (a) It is less tied to specific seasons but can continue all year long; (b) it can better assure equal quality than production influenced by the vagaries of nature; (c) it normally takes less time because growing conditions can be optimized; (d) it is less labour intensive, because steps like planting, nursing the young plants, harvesting, etc., can be avoided; and (e) it allows for more flexible production than natural processes, especially in the case of perennial crops, the production of which cannot easily be adapted to market conditions.

The most suitable candidates for industrial production are such high-value, low-volume substances as compounds of pharmaceutical value, fragrances, flavours, pigments and insecticides (see table in *Genetic Engineering and Biotechnology Monitor*, 25, 1988/IV, 59).

A good example is the plan to produce the peptide sweetener thaumatin by a *E. coli* bacterium, which could lead to a substitute for the substitute thalin, the thaumatine-based sweetener marketed by Tate & Lyle. The intensely sweet protein comes from plants grown in the Ivory Coast and Ghana. The ripe fruit is frozen and shipped to Europe where the protein is extracted and purified. This very expensive process could be replaced by producing the protein in a microbial fermentation process. (RAFI, 1987*b*). There are projects under way to produce vanilla flavours via plant tissue culture. (RAFI, 1987*a*). An example for the production of plant components of pharmaceutical value is the production of *Echinacea purpurea* cultures in large fermentation processes. More far-reaching plans by the same company to grow tobacco cells with special aromas proved to be unfeasible. Specialists estimated that it will take 20-30 years before money is earned with large scale plant cell culture.<sup>10</sup> While it may not be impossible to produce, e.g., cocoa butter from cell culture, the price would probably be by far too high. (Svarstad 1988, 171).

#### **4. Shifts as a result of the unequal distribution of new production processes**

In the case of the industrial production of plant compounds or breakthroughs in food processing technology, it is relatively easy to identify substitution processes and the contribution that developments in biotechnology do make to these processes. But as far as agricultural technology in general is concerned, it is much more difficult to delineate the consequences of applications of biotechnology. Applications of biotechnology form part and parcel of the general development of agricultural technology, and it becomes more difficult to identify which changes have been due to advances in biotechnology and which are the result of other technological (or organizational) developments.

Biotechnology can in many ways be used to make agriculture more productive, be it by breeding new plant varieties with added

characteristics (see above), by delivering large numbers of identical seedlings which facilitates harvesting, by reducing the amount of necessary inputs (e.g., by the use of soil bacteria increasing nitrogens fixation), or by replacing chemical by bio-insecticides. The diffusion of these new technologies (as of all other new technologies), however, will not take place at the same speed in all countries. Countries which are able to introduce the new technologies at a faster pace will consequently be able to increase their own market share, replacing other countries as exporters. Such shift are actually taking place in the field of palm oil and cocoa.

The diffusion of biotechnological advances, however, does not only differ from country to country, but also from crop to crop. Some crops (especially from industrialized countries) have received much attention in international biotechnology research, while others have received much less. Where different cash crops compete with each other (which is more and more the case, see Ruivenkamp, 1989), breakthroughs with the help of biotechnology to increase production (reduce material or labour inputs, increase resistance against stress factors, facilitate handling and processing, etc.) for one crop may be at the expense of another. Since the production of different crops is distributed unevenly over different countries, even the geographically equal dissemination of new technologies would have uneven effects on the trading position of different countries. It can suddenly change price differentials between competing commodities (e.g., different seed oils) and in this way encourage the replacement of one by the other.

### III. CHANGING TRADE PATTERS

What are, then, the concrete changes in international trade flows that the depicted substitution processes give rise to? Before we look at changes in trade of specific countries, some general observations can be made :

1. Biotechnology increases productivity in agriculture. Where productivity rises faster than demand, self-sufficiency is

enhanced or, where already attained, surplusses are generated. Countries that have hitherto been importers of agricultural products, can become more selfreliant with the help of biotechnology. This implies that increasing surplusses are chasing after fewer markets. As a result, prices decline. When exporting becomes less attractive, countries will look for alternative uses of their agricultural produce and may use it as a substitute for products hitherto imported.<sup>11</sup> In this way, a chain reaction may be triggered off which can affect a number of commodities from different countries.

2. If world demand for a specific commodity declines as a result of substitution processes, different exporting countries will not all be hit in the same way. Production cuts will probably be distributed very *unequally*. To identify the consequences of substitution for international trade flows, more has to be done than just to identify the main exporters of the commodity in question. Where a free market prevails, marginal producers will drop out first.<sup>12</sup> Trade in many commodities, however, is governed by long-term contracts. Most of Cuban sugar exports, e.g., are sold to the Soviet Union and other (formerly) socialist countries at prices agreed in advance. Cuba, therefore, is hardly hit by the substitution of HFCS for cane sugar. Other factors that will protect specific exporters (at the expense of others) from the direct consequences of declining demand are:
  - (i) The degree to which vertically integrated transnational corporations continue to import from their own affiliates even if competing exporters offer a lower price.
  - (ii) Specific political or economic ties between countries which result in a preferential treatment by importing countries.<sup>13</sup>
  - (iii) Willingness and the capacity of exporting countries to *subsidize* their exports.

Additionally, an export decline which otherwise might be

expected with good reasons does of course not take place when competing exporting countries are hit by either climatic or political disasters which limit their harvests, transport capacity or otherwise have a negative impact on exports.

3. If we want to get an idea of the trade impact of biotechnology, it is worthwhile to have a look at those trends that influenced developments *before* biotechnology has made itself felt. These trends are determined by the dominant forces and interests in international trade. These very same forces will have considerable impact on applications of biotechnology. As a consequence, biotechnology will probably contribute to developments that go into the same direction. The shift in world exports of food products is a case in point. While in the early 60's, the share of industrial and developing countries in the world export of food products was about the same (44.5 per cent vs. 46.2 per cent), industrial countries in the early 1980s accounted for almost twice the share of developing countries (67.7 per cent vs. 34.2 per cent ; Kelly et al., 1988, 28). Biotechnology has not yet influenced this development much, but may contribute to it more intensively in the future. It is analytically very difficult to separate shifts 'caused' by biotechnology from other ongoing changes in international trade flows. Biotechnology may often be used just as an instrument to bring specific changes about, but not be 'cause' in its own right.
4. Applications of biotechnology to agriculture intermingle in many ways with agricultural policy in general which, in most industrialized countries, has encouraged surplus production. Subsidized exports have led to trade disputes which in turn have caused additional farm support and restrictions on market access through border measures like quotas and variable levies. With traditional agricultural policies increasingly under domestic as well as international

pressure, governments in industrialized countries expect some relief from the development of new technologies. An important motive of support for biotechnology research on applications in agriculture is to protect national agriculture from foreign competition in case of a reduction of subsidies and tariffs.<sup>14</sup> Advances with the help of biotechnology would then be able to provide protection by other means.

5. It is difficult to be precise about the degree, timing, and pace of the expected substitution processes and about the extent of compensating alternative demand (e.g., from increasing South-South trade) for the commodities in question. The reason for this lies not only in the fact that it is difficult to forecast the pace of technological development and future economic conjuncture (e.g., the price of energy). An additional element of discontinuity is introduced by political decisions, on which the development and application of biotechnology depend to a large extent. These are not only decisions on the regulatory environment. Important decisions are also taken in the sphere of funding specific directions of biotechnology research and in creating a general economic environment which is supportive for the application of the results. These decisions can put the 'normal' sequence on its head with first specific (bio)technological developments taking place, which then have some implications for international trade. Instead, it often works the other way round. Governments restrict international trade in order to create an incentive for domestic supplies to spend money on research for the development of substitutes. An example is the artificially high price for oil seeds in the EC, which the European Commission also introduced to encourage the development of protein rich oil seeds in the Community.<sup>15</sup> Trade flows are not only affected by substitution processes that result from *past* technological developments, but also by political decisions that *anticipate future*

technological possibilities and want to push the development into a desired direction. This effects the time scale of eventual biotechnology related impacts on international trade. While it would take considerable time for the technology development as such to cause significant changes in trade patterns, political anticipation of possible changes and actions based on these anticipations affect international trade right now.

#### **Political rather than technical determination of substitution processes**

It is the interaction between technical developments, economic considerations, and political pressure power which gives shape to real changes in trade flows. This is well demonstrated by the largest trade displacement that biotechnology has hitherto 'caused'. The substitution of domestic HFCS production in the United States for imports of cane sugar. In fact, "it is difficult to identity any significant periods in the last 250 years during which sugar production and trade were not substantially directed by government policies" (Maskus, 1989, 85).

The substitution of HFCS by sugar has by and large been a United States (and to some extent Japanese) phenomenon exclusively. It is estimated that 1986 HFCS consumption in the US was around 5.5 million short tons, and about one million tons more in the rest of the world, principally Japan. There are some good economic reasons why HFCS production concentrates on the US. The US are by far the world's largest producer of corn.<sup>16</sup> This special advantage, however, is not sufficient to explain why the substitution of HFCS for sugar has only taken place in the US and not also in Canada, where almost identical conditions prevail.<sup>17</sup> Canadian HFCS production has growd only modestly since the late seventies. The reason is that Canada is one of the very few industrialized countries which allows its refineries to buy sugar on the free international market where prices are normally below the world average cost of production. There is, therefore, no reason for domestic industrial sweetener users to switch from sugar, and virtually all Canadian HFCS production

(in the hands of one subsidiary of an American HFCS producer) is exported to the United States (ICCSASW 1987, 8-9).

Prices for raw sugar in the US have remained well above world market level, especially since 1981 (see graph in Maskus, 1989, 87). The American quota system had been abolished in the early 1970s when high world market prices for sugar guaranteed sufficient income for American producers, too. After seven years following more or less world market prices, the US Government enacted a new support scheme in 1981, when world market prices plummeted. Since then, the average price differential between world and domestic sugar prices have been 353 per cent (reaching a maximum of 776 per cent in June 1985; Maskus, 1989, 86).

The rapid decline of world market prices in May 1982 led to the introduction of an 'emergency' system of import quotas, and sugar imports fell from 4.54 million tons in 1981 to 2.63 million tons in 1982. While the price for raw sugar was purposely set to provide a remunerative return to domestic farmers, "the quota programme has established a powerful lobby in favour of its retention among domestic corn growers and millers, who supply 97 per cent of the American market for corn sweeteners" (Maskus, 1989, 88). It is only behind the wall of the quota system that HFCS production has been profitable in the current period of low world market prices for sugar.

The import quota were subsequently cut down at a quick pace, from 2.6 million tons in 1982-83 to 0.9 million tons in 1986-87.<sup>18</sup> Although the US claims that sugar quotas' are allocated in a non-discriminatory way consistent with Article XIII of the General Agreement on Tariffs on Trade (GATT), there have been many exceptions to this rule where quotas' have obviously been allocated for political reasons. An example is the reallocation of quotas after the establishment of Corazon Aquino's Government in the Philippines. The U. S. Congress transferred South Africa's sugar quota to the Philippines as part of sanctions legislation in October 1986 (Maskus, 1989, 89-93). Recent US sanctions against Panama is another example.

The reduction of quotas and of their net dollar value is given in Table 1. Three countries account for almost half the total of all quotas (Dominican Republic, Brazil and the Philippines). The rest is distributed over 38 other countries.

TABLE 1  
Basic Quota Allocation, Initial Quantities and Net Dollar Values  
Quota Years 1982-83 and 1986-87

	Quantity (Thousand tons)		Net dollar value (\$ million)	
	1982-83	1986-87	1982-83	1986-87
Total	2,621.8	908.6	1,104.4	389.3
Brazil	368.2	119.7	133.2	50.2
Dominican Rep.	447.0	145.3	161.6	62.8
Philippines	342.8	130.4	124.0	56.4

Source: Maskus, 1989, 90.

The quota system has come under increasing pressure at the national as well as the international level (and so has, as a consequence, the price advantage of HFCS over imported sugar). At the national level all those interests that would profit from a general liberalization of international agricultural trade, one of the major proclaimed objectives of the US Government during the 'Uruguay Round' of Multilateral Trade Negotiations, point at the high degree of protection enjoyed by the producers of sweeteners as a major obstacle which undermines the credibility of the American negotiation position. Internationally, the quota system has been challenged as being incompatible with GATT rules. At the request of Australia, a GATT panel was established in September 1988 which recommended to demand the United States either to terminate these restrictions or to bring them into conformity with the General Agreement. The US agreed to the adoption of the report<sup>19</sup> although it may have significant implications for the US sugar industry. (GATT FOCUS 63, July 1989, 2).

The present protection of US sugar interest may be reduced when the actual provisions have to be revised which were extended through to the 1991-92 crop year by the Food and Security Act of 1985. The flexibility to shift back to increased imports of cane sugar, however, is limited, since closures have reduced annual cane-refining capacity in the US by an estimated 2.5 million short tons in the past few years. (*Financial Times*, September 27, 1988).

The only other major sugar importing country where HFCS has made important inroads is *Japan*. Japan HFCS production grew from 84,000 tons in 1977-78 to an estimated 650,000 tons in 1987-88 (*International Sugar Journal*, 1989, 213). Japan has to import both, sugar and corn. Crott (1986, 114) assumes that "the inroads of HFCS might have been favoured by a difference of the taxation of sugar and isoglucose in import duties and subcharges." The import of corn to produce HFCS instead of importing sugar has the political advantage of reducing the large balance of payments surplus that Japan has with the US which continuously leads to political conflict. There is no comparable political pressure to reduce Japan's trade surplus with sugar exporting developing countries.

The substitution of HFCS for imported sugar, however, expanded only until 1982 when a surcharge was placed on HFCS. The proceeds were used to help finance the domestic sugar support programme which resulted in a doubling of domestic beet and cane sugar output to 950,000 tons. The surcharge has made sugar more competitive with HFCS. Since the surcharge was imposed, there has been a recovery of sugar consumption and an end to the rapid growth of HFCS use.<sup>20</sup>

HFCS contributed about two third to the substitution of sugar imports of about 700,000 tons between 1978 and 1984.<sup>21</sup>

Since sugar imports from some countries (e.g., Australia) were tied by long-term contracts, decreases of imports concentrated on Cuba, Thailand and the Philippines, while imports from other countries remained more or less steady. This is another example of the

unequal geographical distribution of import cuts which result from substitution.

While political decisions were decisive for the substitution of HFCS for sugar in the US and Japan (and the later slowdown of substitution in Japan), policy measures *prevented* any large-scale substitution in the European Community (EC). Though the EC in contrast to the US is a net exporter of sugar and a net importer of maize, prospects for isoglucose production seemed attractive in the 1970s because of the high sugar price in the EC. With prices of about 40 per cent above the US level, isoglucose production would have been profitable in spite of the considerably higher costs of imported maize as the major starch source. To protect beet farmers against additional competition and to limit the costs of subsidized surplus sugar exports, isoglucose was brought under the sugar quota system after several years of litigation, and a production ceiling of 200,000 tons for isoglucose was introduced (Crott, 1986, 116).

Beside the replacement of sugar imports, the OECD mentions *Single-Cell Proteins (SCP)*, "from industrial substrates and potential competition with agricultural protein animal feed" as a second example of present or currently predictable trade impacts in agriculture, (OECD, 1989, 87-88). Again political and economic factors are of primordial importance, since the introduction of new single-cell products is actually "limited more by economic, market and regulatory considerations than by technological constraints." (Litchfield, 1989, 81). Hardly any substitution has taken place up to now (except in the Soviet Union) in spite of the fact that it would have been technologically feasible.<sup>23</sup>

Normally the oil price rise after 1973 is made responsible for the commercial failure of SCP production. Beside problems with the economical foundation of the different production processes, political power may also have played a role (Byé, Mounier, and Magnaval, forthcoming). The crucial position of a number of American companies in the world 'protein chain' (Rousseau, 1986, 134) may have reduced the chances of alternative supplies. SCP would first of all

compete with soya protein, for which world exports are dominated by the United States which used to account for almost two third of world exports during the period which was crucial for the large scale introduction of SCP on the world market. It is interesting that American companies hardly played a role in the development of SCP, where European multinationals (like BP, Hoechst and ICI) took the lead.

### **Expected impact on the trade of individual countries**

On the basis of the observations made above, some cautious estimates can be presented with regard to the impact of biotechnology on the trade of individual countries.

It should be kept in mind that the US and the EC are the world's largest exporters of agricultural products, while the EC and Japan are at the same time the world's largest food importing countries (trade blocs). It is therefore obvious that applications of biotechnology in agriculture which can make importing countries more self-sufficient and may lead to different productivity increases in different countries can have a far-reaching effect on agricultural trade among the highly industrialized countries (cf. Junne, 1985, 1986a). However, since "there is strong evidence that developing countries, notably those heavily engaged in agriculture, will bear the brunt of trade impacts for a long time to come" (OECP, 1989, 81), the following remarks will concentrate on developing countries.

In a crop-wise analysis, Panchamukhi and Kumar (1988) have presented a crude estimate of the likely annual loss of export earnings as a result of advances in biotechnology, which could amount to about US \$ 10 billion by 1995 (compared to export incomes in 1980). The percentages of exports which may be replaced that underly the estimate may be by far too high. But given the fact that already a much smaller decline of effective demand can have a far-reaching impact on the price of the commodities in question, the estimated decline of export income may nevertheless not be too unrealistic.

### **Impact on Trade of Latin American Countries**

Trade in the three most important agricultural export commodities of Latin American countries probably will not be seriously affected by biotechnology in the foreseeable future: These are coffee,<sup>24</sup> bananas,<sup>25</sup> and soya.<sup>26</sup> But biotechnology will have some negative and some positive impact on several other export commodities.

An obvious negative impact will be the substitution of sugar imports which will be especially problematic for the *Carribean* sugar exporters, but much less for *Brazil* which actually has some difficulties to produce enough sugar for its ethanol programme and meet its export obligations at the same time. Especially hard hit is the *Dominican Republic* for which income from sugar exports sometimes reached up to 50 per cent of total foreign trade earnings. Sugar exports to the US declined by more than 75 per cent in only six years, from 780,000 short tons in 1981 to 161,000 short tons in 1987 (ICCSASW, 1987, 13).

Exports negatively affected probably include *Argentina's* meat export which declined already by about half during the 1980s. (IMF, 1988, 13) Biotechnology will help to increase overproduction in industrialized countries of products that can be used as animal feed. Overproduction in agriculture in general will lead to a more extensive use of soil in large areas, which probably will increase livestock production. It will lead to a better growth of fodder grasses in colder climates (see above). Besides, applications of biotechnology to livestock (re)production will reduce the feed/output relation and thus make cattle raising less expensive in highly industrial countries. *Brazil's* orange juice exports might eventually suffer, too, if the danger of frost damage to orange yards in the US can be reduced with the help of biotechnology.

In general, however, *Brazil* probably will be one of those countries which will increase their export earnings with the help of biotechnology. It belongs to the small group of developing countries which will be able to employ new technologies faster than other developing countries and thus attract a larger share of total

agricultural exports. Cases in point are the fast increase of cocoa and palm oil production in Brazil. Production can take place at a large scale which makes it feasible to invest in (the acquisition of) new technologies.

Another area where exports from some Latin American countries could profit from biotechnology is the application of mineral leaching to copper production which may be especially suitable for *Chile* and *Peru* (Warhurst, 1985, 1987, and forthcoming).

### Impact on Trade of Asian Countries

For the densely populated and population rich countries of Asia, biotechnology may help to increase food self-sufficiency. This will be at the expense of the large food exporters, especially rice exporters like *Thailand*, *Burma*, and *Pakistan*. The increase of vegetable oil production in *India*<sup>27</sup> will probably lead to declining palm oil imports from *Malaysia*.<sup>28</sup> Besides, advances in tissue culture are expected to help India to recapture the country's position as the largest producer and exporter of cardamom, a position it lost to Guatemala due to non-competitive prices, higher costs of production, low productivity and a strong domestic demand.<sup>29</sup>

The *Philippines* will have to endure the strongest impact on its exports, because two major export commodities are hit at the same time, sugar and coconut products. Coconut oil may more and more be replaced by cheaper oil and fats on the world market.<sup>30</sup> After an absolute decline of exports earnings from coconut products for the Philippines (from an average of SDR 630 million in the years 1980—1984 to an average of SDR 428 in 1986-1987, IMF, 1988, 551), exports have been rising again, however. The decline of income from sugar exports was even more dramatic: While sugar exports had been responsible for about one quarter of total export income in the 1970s, they declined from a share of 10 per cent to about 1 per cent between 1980 and 1987 (with an absolute decline from SDR 480 million to 46 million in the same period, IMF, 1988, 551).

A good example of the chain effects of substitution processes is

provided by the impact that the reduction of tapioca imports of the EC from *Thailand* (unrelated to biotechnology) had on sugar exports: Thailand had to look for new markets for its starch rich cassave and increased exports to *South Korea* (Berkum, 1988, 49), where starch based sweeteners already in the mid-1980s accounted for 18 per cent of total sweetener consumption, (Crott, 1986, 117).

Like Brazil in Latin America, some Asian countries have a tradition in running large-scale plantations and have built up the capacity to introduce technological advances quickly into production. They will probably be able to increase their share in the total of developing countries' agricultural exports. A case in point is Malaysia,<sup>31</sup> which has not only increased palm oil production, but also expanded the large-scale production of cocoa (which in Africa is mostly produced by small farmers). This was not due to biotechnology, but the resulting large-scale production makes it easier to diffuse any productivity increasing technology. Any advance in biotechnology applicable to these commodities (like the cloning of oil palms) thus will increase the advantage of the country in comparison to its competitors in the world market and will lead to increasing 'South-South substitution.'

### **Impact on Trade of African Countries**

The victims of this 'South-South substitution' will be first of all African countries. Only *Cote d'Ivoire* seems to be able to keep or even increase its market share in world cocoa exports, because the country has built up considerable expertise in diffusing improved technologies in this field to the farmers. *Ghana* cocoa exports have profited from the special quality of Ghana cocoa, but this advantage may be lost as a result of biotechnology applications which might be used to 'upgrade' less valuable cocoa from elsewhere so that it matches the quality of cocoa from Ghana. Cocoa exports revenues for *Cameroon* have declined considerably in recent years (IMF, 1988, 110).

Applications of biotechnology to oils and fats will probably also

affect the export potential for groundnut oil. Export incomes from groundnut products have shown a tremendous decline in *Sudan* and *Mali* (IMF, 1988) and may also affect *Senegal*. The same negative effect may make itself felt in the case of palm kernel exports from countries like *Sierra Leone*. The production of low volume, high value substances (like flavours, fragrances, pigments, insecticides) may have negative effects on countries like *Madagascar* (cloves, vanilla), the Comoros (Vanilla), and Kenya (pyrethrum). *Sudan* has already suffered from the decline of gum exports.

Beside agricultural exports, some mineral exports may be affected. A case in point is the export of phosphates (crucial for *Morocco*, *Togo*, and *Senegal*), since the demand for phosphates has decreased as a result of the use of enzymes in washing powder. The need for phosphates in fertilizers and animal feed<sup>32</sup> may also be affected by biotechnology. Another mineral affected may be copper. Latin American exporters may be better able to use new technologies (including mineral leaching) to decrease their production costs than African exporters (*Zaire*, *Zambia*). Already in the period of low world market prices during the first half of the 1980s, Zambia lost much ground to Chile which has expanded the country's market share aggressively. Declining incomes from copper exports will make it difficult to invest in new technologies.

While the impact of biotechnology on Latin American and Asian trade will have some negative, but also some positive aspects, African countries will for a long time to come only feel the negative impacts. It will take much more time to use biotechnology to increase local self-sufficiency in food importing African countries because of the many bottlenecks in the diffusion of research results from international research institutions to agricultural extension services and African farmers, (Junne, 1987b).

#### IV. CONCLUSION

The impact of biotechnology on trade flows is hard to measure. Even the trends are difficult to define (OECD, 1989, 79). Uncertainty

regarding the speed of technological development is not the main reason for the necessarily speculative character of most analyses. The main reason is that the impact depends to a very large extent not only on advances in technology, but also on economic factors and on principally discontinuous political decisions. Biotechnology has no *direct* impact on commodity trade. The influence is always mediated by economic and political variables, such as the strategies of large companies that organize the international division of labour, and political decisions of governments which set the parameters for world trade. Political decisions can push as well as delay substitution processes. They are also decisive for the regional distribution of the effects of substitution. The best guess with regard to trends to be expected is that biotechnology will strengthen trends that have already existed before the introduction of biotechnology. Applications of biotechnology have a higher chance to be realized if they serve the strategies that major economic and political actors pursue. For this reason, several references have been made in this text to ongoing trends in international trade, even if many of these changes have not (yet) been a consequence of biotechnology.

Applications of biotechnology will first of all affect trade in agricultural products. It will make many importing countries more self-sufficient and increase trade conflicts among overproducing countries. While overall agricultural exports from developing countries will probably stagnate, biotechnology will help to substitute products from specific (more developed) countries for commodities from other (less advanced) developing countries, contributing to a stronger concentration of agricultural production for the world market on fewer developing countries. While countries known as 'Newly industrializing countries' (NICs), given their technological capabilities, will also be able to boost their *agricultural* production, the less advanced countries (especially in Africa and the Caribbean area) will bear the brunt of the adjustment of trade flows. Divergent effects on commodity trade of different developing countries as a consequence will make it even more difficult for them than in the past to coordinate their position in international trade negotiations.

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1. "In the case of pharmaceuticals the present low impacts on international trade patterns implied by the current value of output [of products developed through recombinant DNA and monoclonal antibody technology] is reinforced by the particular pattern of production and commercialisation. The industry is one in which foreign direct investment has played an important part for many decades. Almost all companies of any significance have adopted a transnational form of organisation. They not only maintain sales forces in many countries, but manufacture drugs in a number of them and also carry out research abroad. [...] In 1980, world sales were about \$ 85 billion in value, of which \$ 8 million—less than 10 per cent—entered international trade in the form of finished drugs, and a further \$ 6 billion in the form of intermediates. Local production by affiliates of multinational enterprises was over twice the size of direct imports in the year. Despite the *potential trade creating effects* of new biotechnology, it is likely that *the growth of output of biotechnology products and their commercialisation* will, within the OECD area, probably *precede* by many years *any significant impact on trade flows*," (OECD, 1989, 84/85, emphasis in the original).

2. 'New' biotechnology refers to 'third generation' biotechnology that has become possible since the breakthroughs in genetical engineering in the early 1970s, while 'modern' biotechnology also embraces 'second generation biotechnology,' i.e., the advances in enzyme, tissue culture, and large scale fermentation technology since the beginning of this century.

3. I owe the concept of the three separation tendencies as a result of applications of biotechnology (i.e., "separation of the plant from its original environment," "separation of the plant from its intrinsic characteristics," and "separation of food production from agriculture" to G. Ruivenkam.

4. Liquid sugar in 1983 accounted for about 96 per cent of total industrial sugar use in the US, or about two thirds of total sugar use, (OECD, 1989, 86).

5. HFCS is also produced in some Eastern European and some developing countries (Argentina, Bulgaria, Egypt, Hungary, Indonesia, Pakistan, Romania, Uruguay, Yugoslavia, but this will not affect the world sugar markets (ICCSASW, 1987, 10). Recently, plans have been made in China to USA, HFCS as a major sweetener, since China produces now enough grain. Although the country has considerably extended its sugar beet and sugar cane area, rising production

cannot meet soaring domestic demand. Sugar consumption has been rising by about 500,000 tons a year, due to improved standards of living (*International Sugar Journal*, Vol. XC, 1988, No. 1087, p. 193; Rosario, 1989). China still is the second largest importer of sugar, only behind the USSR. Because of the rising demand, even a fast expansion of HFCS production would for a long time to come not significantly reduce China's present import needs.

6. Cf. Ruivenkamp, 1989, 169—179, and Halos, 1989, 4, "Structured lipids or tailored fats would allow the industry to produce oil formulations that simulate the desirable properties without the concomitant unwanted properties of various seed oils and natural fats. These simulated products could therefore, be highly competitive with coconut and could displace it from its share of the seed oils market."

7. The peanut trade, for example, originally was the result of French consumers' resistance to yellow soap from palm-oil. Marseilles soapmakers had discovered that peanut oil plus olive oil made a blue marble soap. French resistance to palm-oil products ended in 1852 with the discovery of a chemical method to whiten yellow soap. (Wallerstein, 1989, 148). Biotechnological conversion methods will contribute in a similar way to add wanted or take away unwanted characteristics of specific seed oils, making them replacable by cheaper oils.

8. While protease enzymes usually break down fats, *Genencor* has altered one of the amino acids in an enzyme which as a result has instead become a fat producer. One of the research targets has been enzymes that make cocoa butter substitutes. The Japanese company *Kao Corp.* has filed two patent applications with the European Patent Office which both involve genetic engineered enzymes for making cocoa butter substitutes (Svarstad, 1988, 174, 75).

9. ICCSASW, 1987, 16, *Nutrasweet Company*, owned by Monsanto, since 1988 has to face competition from *Holland Sweetener Company*, a joint venture of the Dutch company DSM and the Japanese firm Toyo-Soda which developed their own process to produce aspartame under the brand name 'Senecta.'

10. When the French chemical company Rhone-Poulenc bought the German phytopharmaceutical company Nattermann with one of the largest plant cell culture laboratories of the world the laboratory was dissolved because of these cautious expectations, (*High Tech*. 7/1989, 38/39).

11. An obvious example is provided by European agricultural policy. With a decline in world market prices for agricultural goods, export subsidies become very high and swallow a larger part of the EC's budget (of which about two third are spent on agriculture). As a consequence, the EC stimulates biotechnology

research (e.g., on protein-rich rapeseed varieties) which would help to make a less costly use of the soil actually producing for exports. If successful the research will create a substitute for products hitherto imported and thus start a new round of substitution processes.

12. The marginal producers are not always those with the highest production costs. A producer with lower costs than another may be more 'marginal,' if alternative income opportunities make him leave the market at a price level at which other producers that lack comparable alternatives will still continue to sell.

13. An example is the legislation introduced into the U.S. Congress to strengthen the US, Caribbean Basin Initiative (CBI). One of the considered provisions would freeze US sugar import quotas for CBI countries, thus shielding Central America and the Caribbean from anticipated future cuts in the US global sugar import quota, GATT, 1989, 111.

14. The decline of trade policy as an instrument to protect national producers has also been a strong motive for a more active technology in other sectors, (Junne, 1984).

15. EC subsidies for soyabeans and other oilseeds have come under attack in the GATT which has recently ruled that the EC has to make its regulations conform to the rules, *Financial Times*, January 24, 1990.

16. Corn is a surplus commodity and the cost of this input is generally quite low. The size of the plant is second only to the cost of the corn in determining overall production costs. Since the bulk of the world's HFCS production concentrates on the US, the largest plants have been installed there. As costs tend to go down as plant size increases, the resulting economies of scale have contributed to making HFCS production especially profitable in the US (cf. ICCSASW, 1987, 2-4).

17. Average HFCS production costs are estimated to amount to just 67 per cent of average world sugar production costs in the United States against 71 per cent in Canada. The comparable figures for West Germany and the United Kingdom are 135 per cent and 145 per cent. ICCSASW, 1987, 4.

18. Quotas have recently been increased again and almost doubled in 1989. *Latin American Commodities Report*, October 15, 1989.

19. The fact that the US Government agreed to the adoption of the report may not imply that it really will abolish the protection of domestic sugar interests. Already at an earlier occasion, it did not block a panel report regarding US sugar quotas, but refused to meet the GATT Council's request. The issue was the reduction of Nicaragua's quota from 53,300 tons to a token 5,400

tons, followed by its total removal in 1985. The ensuing panel agreed that the GATT obligations had been violated and called on the United States to restore Nicaragua's share, (Maskus, 1989, 94).

20. *International Sugar Journal*, Vol. XCI, (1989), No. 1091, p. 213. Japan protected domestic agriculture also with a second measure: Corn wet millers in Japan are required to produce 1 ton of starch from domestic potatoes for every 7.6 tons of starch produced from imported corn. Imports of corn for wet milling used above the blending ratio are subject to a prohibitive duty. By 1992, however, the ratio will be raised to 9:1 and the tariff reduced from 15,000 to 12,000 yen per ton.

21. The decline has not continued much further since then. Between 1979-80 and 1988-89, sugar imports dropped from 2.6 to 1.8 million tons; *International Sugar Journal*, Vol. XCI, (1989), No. 1091, p. 213.

22. Another example for the political prevention of substitution processes possible as a result of advances in biotechnology is the restriction of the use of cocoa butter substitutes in chocolate products. Within the EC, only Great Britain, Ireland and Denmark, allow the use of a small percentage of other oils and fats to be used in chocolate products, Svarstad, 1988, 186.

23. Even if SCP sales had been much larger, it is a question whether this would have led to a real decline of soyabeans exports. It is estimated that agriculture alone may not be able to cover the demand for feed protein in the coming decades, since (a) there is a shortage of suitable farmland in Northern and Southern America (partly because of the programmes for the production of fructose from corn in the USA and of ethanol from sugar cane in Brazil); (b) efforts to produce soyabeans at a competitive price in Europa, Africa, and Asia have had little success, and (c) the average yield of soyabeans per hectare at least in the USA has stopped to increase since 1969. According to FAO estimates (of 1978) almost half the future worldwide need of crude feed protein will not be met by agricultural production (Senez, 1987, 240). Even a considerable expansion of SCP production, therefore, would not necessarily interfere with the export volumes of the three major export countries (although it probably would affect their export earnings).

24. Applications of biotechnology to coffee in the next few decades will probably facilitate a fundamental shift from smallholder production to large-scale coffee growing estates/plantations. The greatest losses will be suffered by robusta-producing African peasant farmers rather than the Latin American coffee producing nations, RAFI 1989.

25. There may be some shifts in banana exports to Asia. Banana has

recently landed in the top ten commodity exports of the Philippines (Ofreno, 1987, 115). There is also a kind of 'banana war' among Caribbean producers (*Financial Times*, February 8, 1990). Both are not a direct but an indirect consequence of biotechnology. With sugar exports declining as a result of US import substitution, the former exporters have to switch to other crops. Banana is a promising alternative for the two most affected countries: the Philippines and the Dominican Republic. Increases of production for export in these countries has a negative impact on the export potential of traditional Latin American producers.

26. Soya exports will not be exposed to much competition from SCP production, but may be affected by the improvement of other oil seeds with the help of biotechnology, especially in Europe.

27. A first batch of oil palm plants developed through tissue culture by the Bhabha Atomic Research Centre in India were delivered in late 1989 marking the beginning of an ambitious programme to cut edible oil imports which costs the country large amounts of foreign exchange every year: *Financial Express*, October 25, 1989.

28. Indian purchases of palm oil from Malaysia fell by 65 per cent in 1989 to 263,000 tons; Pakistan bought 12 per cent less at 464,000 tons. The emergence of China, Indonesia and Egypt as major new buyers (taking 429,000, 325,000 and 211,000 tons respectively) has partly compensated for this decline. *Financial Times*, January 25, 1990.

29. Hybrids have been developed by the Indian Cardamom Research Institute which are said to give yield of up to 900 kg. of cardamom a hectare. At present, Guatemala has a productivity of 250 kg. and India of 65 kg. a hectare. *Financial Express*, October 24, 1989.

30. Taxes on coconut exports by the Philippine Government may have contributed to this decline, (cf. Kramer, 1988, 181-194).

31. Indonesia may join this category, since the decline of oil revenues has led to increased efforts to boost agricultural exports and to allow foreign companies to run plantations.

32. The Dutch company Gist-Brocades has done extensive research on the enzyme phytase, which releases phosphate from phytin, thereby obviating the need for phosphate additions to feed and reducing the phosphate content of manure by about 40 per cent, *Biotechnology in the Netherlands*, 1990-1, p. 9.

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## Book Review

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**Emma Duncan**, *Breaking the Curfew : A Political Journey Through Pakistan*, London, 1989, pages 313.

Emma Duncan is a political journalist. She studied Political Science and Economics at Oxford for two years. Afterwards, she worked at Independent Television News. Thereafter, she took up assignment with *The Economist*. She covered the subjects relating to business, science and foreign policies. She took a journey in the Gulf area and the Sub-continent for covering Iran-Iraq War, as well as the Afghan War. Since January 1986, she has taken over as *The Economist's* South-Asia Correspondent in Delhi.

Emma Duncan stayed in Pakistan for eight months and met a number of people in high places. She went to the extent of even attending the marriage of Benazir Bhutto on December 19, 1987. While in Pakistan, she observed the downfall of Junejo Government on May 29, 1988. She had also the opportunity of reading the people's mind on the crash of General Zia's plane on August 17, 1988.

The book is cast into two major parts. In its first portion, it deals with the subject of how Pakistan looks like to a foreign observer. The second half of the book is devoted to the study of power politics in Pakistan in which politicians, civil servants, soldiers, businessmen, landlords and the tribal chiefs are discussed.

In order to make the book interesting, Emma Duncan has quoted freely her discussions with eminent men in Pakistan. Mr. Mumtaz Bhutto has said to have stated to her, "our biggest mistake . . . was

to build a Presidential Palace in Islamabad. Now we all want to live in it." This is the way that she would take the expression of an individual politician to depict their character as if they are all power hungry. Power, of course, is the temptation for every politician, whether in Pakistan or elsewhere, but Emma Duncan takes the opportunity to paint Pakistani politicians as more power hungry than others. This attitude indicates how deeply prejudiced she is against Pakistan and Pakistani leadership.

Amazingly, she discussed Pakistani exports, such as cotton and other items. In this category, she throws light on Pakistani labour working abroad as well as smuggling of heroin from Pakistan to the outside world. Her criticism of Pakistani labour working abroad shows lack of understanding about the hard work the Pakistani labour is doing abroad. She is also showing her ignorance about the Pakistani effort in curbing the drug-trafficking. Pakistan had done a tremendous work and has even earned appreciation of outside world of which the author is totally ignorant. She is extremely crude in her assessment of Pakistani character.

In her view, Pakistanis maintain double standards and they are "telling lies to each other, and to themselves." Despite her studies of Political Science and other related subjects, she had probably ignored what the West has written on human character in general. She has probably not understood the Hobbesian theme. She should have at least the courage to describe Pakistanis as loveable persons. This fact is the hard reality because she herself has moved from one family to another which is not possible in any country for foreigners.

The purpose of the book seems to be picking up any subject which could bring slur on Pakistan and Islam. She talks ill about the marriages of the Holy Prophet (Peace be upon him). She is totally ignorant of the Islamic society and its values, and the respect which Islam confers on womanhood. People like Emma Duncan could never understand the real strength of Islam in this regard.

Emma Duncan is not mentally prepared to do justice to the subject of Islam, spirit of which, she, as a non-Muslim, could never

understand fully. Her criticism of Zulfikar Ali Bhutto having based the Constitution on the Islamic principles is unfair. She had probably not understood the spirit which ultimately led to the creation of Pakistan. Islam is all around and all-prevailing in the polity of Pakistan. Because of this misunderstanding, or having purposely done so, she criticised the Islamic Summit of 1974. She is unable to understand the love of Pakistanis for the *Muslim Ummah*, a concept which stands for unity of Muslims all over the world.

Her remarks about Quaid-e-Azam Mohammad Ali Jinnah were also intolerable. Quaid's life is an open book, and even the opponents of Quaid-e-Azam never had the opportunity of criticising his character. This is a blatant untruth that Quaid-e-Azam had the Western style and Western spirit in him. Viewed from all angles, Quaid-e-Azam had lived the life of a true Muslim and had rendered unsurmountable services to the cause of Islam by creating an Islamic State of Pakistan.

The book is full of factual mistakes. She describes the Faisal Masjid in Islamabad as having been based not on a dome but on a pyramid. The fact is that this mosque symbolises an Arab's camp. She compares Pakistan and Israel and describes both the States as having been created in the name of religion. She calls Chaudhry Rehmat Ali as an eccentric student at Cambridge and has also not any fine words about the movements which ultimately led to the setting up of the State of Pakistan.

Books like these could hardly be considered more than a trash. This has become a common feature with the Western travellers to depict Pakistan as a traditional and close society. They are embedded in the past and they live in the period when Islamic forces clashed with the Christians. That animosity lingers on in their mind and they exhibit that in their writings. If this would have been about the country of her origin, no one would ever have given any attention to such a travelogue.

A few general remarks about the social aspect of Pakistani society may be of some value, but there is nothing new about them

as a great deal has been written on the subject. Judged on the yardstick of a travel account, the narrative is a poor rendering of the contemporary men and matters in Pakistan.

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# Statements

## *SOUTH ASIAN REGIONAL COOPERATION*

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**SPEECH OF MOHTARMA BENAZIR BHUTTO  
PRIME MINISTER OF PAKISTAN, ON THE OCCASION  
OF THE SEVENTH SESSION OF THE SAARC  
COUNCIL OF THE MINISTERS**

**Islamabad, November 8, 1989**

Underlining Pakistan's commitment to peace in the world in general and South Asia in particular, Prime Minister Mohtarma Benazir Bhutto said that Pakistan is prepared for negotiations to prevent proliferation of nuclear weapons in our region on a non-discriminatory basis.

She was inaugurating here on Wednesday the seventh session of the SAARC Council of the Ministers which is being held to review the progress in the cooperation in the fields of economic cooperation and other areas identified in the Fourth SAARC Summit.

The Foreign Ministers from all the member countries were present at the session.

Begum Nusrat Bhutto, the Senior Federal Minister, several Federal Ministers and Advisers, the ambassadors from several countries and senior officials attended the opening session.

The Prime Minister said that "we seek to work together as neighbours to avert the dangers of armed conflict, particularly the danger of a nuclear arms race."

She said that the gathering of neighbours and friends demonstrated that "we in the Association have a spirit of working together

and are determined to find solutions to our common problems so as to improve the welfare of our people.”

Mohtarma Benazir Bhutto urged the SAARC countries to reflect on their present capabilities and devise the means to achieve the goal of alleviating the poverty and under-development for one billion of mankind.

### MISTRUST

The problems of under-development, she said, must not be compounded by misgivings and misperceptions. She emphasised the need for overcoming the legacy of mistrust, suspicion and genuine security concerns.

While emphasising the need to build a tomorrow of promise and of dreams fulfilled, a tomorrow of hope and encouragement for the peoples of the SAARC, she said that such a tomorrow could come “if we have the determination to shed prejudices, to stand and act together against common problems.” She emphasised the need for the courage and the vision to look into the future.

In her speech, the Prime Minister made a reference to many problems and challenges confronting the South Asian region, saying that the majority of the one billion people of SAARC eked out a miserable existence, deprived of basic necessities. With the exception of Sri Lanka, literacy rates in the countries of the region are unfortunately below 40 per cent, she added.

Talking about high infant mortality rates and population growth in the SAARC countries, she said that it was sad to see a UN study which has found that one third of all children deaths occurred in just three SAARC countries namely, India, Pakistan and Bangladesh.

Referring to inadequate health cover and lack of drinking water with only one-third of the rural population having access to it, the Prime Minister described this situation as dismal saying that “we find within ourselves the will and tenacity to take on the challenges.

### **ECONOMIC POWER**

The Prime Minister said that South Asia had the potential of becoming an economic power. Our region, she said, is rich in resources and skills and our countries offer a vast internal market for goods and services.

She said that South Asian countries could achieve economic power if they tried to solve and not create problems for each other and if they could work out a partnership which met their security concerns as well as their social and economic needs.

She set high premium on a partnership of mutual trust and commonality of interest to carry forward SAARC countries forward into the 21st century.

Focussing on the winds of change that are blowing across the world, the Prime Minister said that East and West are coming closer together. She cited the rapprochement between the Soviet Union and China and the developments in Angola and Namibia and in Iran and Iraq, saying that the world is witnessing the dawn of a new era where cooperation not confrontation is the theme where hope and not fear is the password. She called upon the SAARC countries to welcome these developments concretely by playing their role in promoting world peace.

### **IMPLEMENTATION**

She called upon the Council of Ministers to review the progress in implementing the decisions taken at the SAARC summit. She cited the decisions relating to declaration of 1989 as the year for combating drug-trafficking and drug abuse, launching of the programme 'SAARC 2000' and streamlining of the SAARC activities. The Prime Minister called upon the Council not only to ensure implementation of past decisions but also to provide a basis for new SAARC initiatives at the next summit.

Mohtarma Benazir Bhutto said that in line with the declaration of the Fourth SAARC Summit, Pakistan has given high priority to

prevention of drug abuse. In this connection, she referred to the setting up of the Narcotics Control Ministry and the action taken against drug smugglers and pushers.

The Prime Minister said that it was the duty of the SAARC countries to provide a frame-work in which the creative abilities of the people are released to meet the challenges of the under-development.

She expressed her thanks to the outgoing Secretary-General of SAARC Abul Hasan for his contribution to the organisation. As the first Secretary-General, she said, he has played a significant role.

She welcomed Mr. K.K. Bhargava of India as the new Secretary-General. She hoped that with his vast diplomatic experience he would make valuable contribution to the organisation.

**COUNCIL OF MINISTERS' SESSION ENDS.  
PRIME MINISTER TO CONSULT SAARC HEADS  
ON SUMMIT ISSUE**

Prime Minister Ms. Benazir Bhutto will now consult the remaining SAARC countries to finalise the dates of fifth summit as the Council of Ministers concluded its session here on Thursday without reaching at a decision in this regard.

The last minute efforts by the Indian officials to persuade Sri Lanka to host the summit within this year could not produce any result, it is gathered, and the tiny island at the foot of India finally caused a major blockade in the mandatory annual summit for the first time since the inception of South Asian Association for Regional Cooperation in 1985.

Sri Lanka has announced that it would be unable to host the summit till a complete withdrawal of Indian troops from its strife-torn territory.

Obviously, Sri Lanka and India are the two main countries with whom Prime Minister Benazir Bhutto, also Chairperson of SAARC,

is likely to discuss the issue of holding a summit before the end of the year, in order to save the Association from its first major setback. Withdrawal of Indian troops from Sri Lanka, or any other bilateral issue, for that matter, though, does not fall within the scope of SAARC. India has already signed an agreement with Sri Lanka according to which all its troops are supposed to return before December 31.

The just concluded session of the Council of Ministers was originally to be held in July, in Islamabad, but at that time Sri Lanka had simply refused to attend it.

India had not agreed to withdraw then. This time, mainly because of the signing of the agreement and partly because of Pakistan's persuasion, Sri Lankan Foreign Minister participated in the meeting. But, he expressed his country's inability to host the summit in very clear terms.

Sri Lanka had offered to be the host during the fourth summit in Islamabad last year and the offer was accepted. Now, a decision to cancel the annual summit for 1989, or to change the venue, just in case, are all major things, and if any such decision is taken after Prime Minister Benazir Bhutto's consultation with the remaining SAARC countries, it will in fact amount to amendment in the Association's Charter. The Charter, though does not provide for amendments, but it says that all major decisions will be taken unanimously.

The Foreign Office is yet not clear over the mode of the Prime Minister Benazir Bhutto's consultations with the remaining six member countries of the Association. "A contact can be made over the telephone, or through an emissary, or directly, which means that she will visit these places," said a spokesman of Foreign Office, who briefed newsmen over the outcome of the session of SAARC Council of Ministers here on Thursday evening.

"The Council agreed to recommend the matter of fifth summit to the Chairperson of SAARC, Prime Minister Ms. Benazir Bhutto, to decide it through consultations," he announced.

"We have endeavoured to play a moderating role during our tenure as SAARC Chairperson," the spokesman said, adding, "the consultations must be undertaken before December 31."

"We view the reconvening of the Council of Ministers session with satisfaction," the spokesman remarked, and also told a questioner that the Sri Lankan Foreign Minister did not formally inform the Ministers' session of the reason behind his country's inability to host the summit."

Mr. Kant Kishore Bhargava, the newly-elected Secretary-General of SAARC, who was also present at the briefing, said he would not be able to add anything to what had already been said over the summit issue, "normally, we get the budget of the Association approved in the summit," he said.

### **SAARC BODY ADOPTS FIVE TECHNICAL COMMITTEES' REPORTS**

**Islamabad, November 7, 1989**

The standing committee of the SAARC Tuesday adopted the reports of five technical committees on education, rural development, science and technology, telecommunication and transport.

A Foreign Office spokesman told newsmen that the Foreign Secretaries committee had emphasised for a qualitative change in the nature of SAARC activities so as to facilitate the sharing of information and experiences could become effective, instrument for transfer of technology.

He said that at the last SAARC summit on Pakistan's initiative it was agreed to establish a regional resource centre for human development in Pakistan and it was asked to prepare a concept paper on the proposal. Pakistan prepared and circulated the concept paper on the establishment of the proposed centre.

The spokesman said that member countries Tuesday also announced their financial contributions to the SAARC. Pakistan this year

increased its contribution from Rs. 17 million to Rs. 20 million while India committed Rs. 20 million in Indian currency.

Meanwhile, the standing committee finalised the draft agenda for the Council of Foreign Ministers meeting. The report contained several recommendations for adoption by the Foreign Ministers.

The spokesman said that the Council of Foreign Ministers meeting to be opened by the Prime Minister Mohtarma Benazir Bhutto on Wednesday would review the progress achieved in the implementation of the decisions of the Fourth SAARC Summit in Islamabad. The decisions included the special SAARC document and travel within the region without visa by the Parliamentarians and the Judges of the Supreme Court. The council meeting would also consider the dates for the next SAARC Summit and the dates for the next Council of Foreign Ministers meeting.

A special meeting of the senior officials of the SAARC member countries was held on Tuesday in Islamabad and considered the question of the SAARC document and finalised its report to be considered by the Council of Ministers on Wednesday.

In reply to a question the spokesman said that Sri Lanka had agreed to the fifth SAARC Summit at the last Summit meeting and the position so far remained unchanged.

### **COUNCIL TO PROMOTE SAARC SPIRIT**

In his vote of thanks on behalf of the Foreign Ministers of the SAARC countries to Prime Minister, Mohtarma Benazir Bhutto, the Foreign Minister of Nepal, Shailendra Kumar Upadhyay said that the meeting of the Council of Ministers would be fully committed to promoting the SAARC spirit of regional solidarity, mutual understanding, goodwill and cooperation.

He was confident that the invaluable counsel outlined by the Prime Minister of Pakistan would set an appropriate tone and necessary guidelines to the deliberations of the Council. He said that the summit under the guidance of Mohtarma Benazir Bhutto

witnessed many remarkable achievements. The Islamabad Summit, he said, added yet another milestone to the SAARC journey which started from Dhaka four years ago. If the Bangalore Summit gave SAARC a new momentum, he said, the Kathmandu Summit was able to consolidate the gains thus far achieved. He said that the Islamabad Summit to the satisfaction of all of us gave a new dynamism to the nascent organisation.

He described the SAARC Convention on Suppression of Terrorism, the South Asian Food Security Reserve, and the establishment of the SAARC Agricultural Information Centre as some of the achievements of the last summit. He said that the Islamabad Summit provided a further thrust to our efforts to move into core economic areas for meaningful cooperation.

He said that pursuant to the directives of the fourth summit, the possibility of a regional convention on drug control is also being examined which he said, could be a major step forward in the concerted campaign against drug abuse in the region.

The Nepal Minister said that the launching of SAARC 2000 is another manifestation to promote regional cooperation within the framework of a long term perspective and to harmonise efforts to ensure tangible benefits to the people of the region as a whole. He expressed the hope that the Council of the Ministers would make further concerted efforts to minimise mutual differences and strive towards promoting solidarity in its real sense.

He proposed that the inaugural address of the Prime Minister be adopted as a document of this conference. He thanked the Pakistan Government for warm reception and generous hospitality accorded to the Ministers.

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# Chronology of Important Events

## SOUTH ASIAN REGION

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July to December, 1989

### BANGLADESH

- July 10* The legislature approved constitutional amendments limiting the tenure of the President to two terms of five years.
- 19* President Hussein Mohammad Ershad carried out a reshuffle of the cabinet.
- August 1* The third meeting of the Pakistan-Bangladesh Joint Economic Commission (JEC) concluded in Dhaka both in which sides agreed to widen and diversify the existing bilateral trade and economic relations.
- 13* Mr. A.K.M. Noor-ul-Islam was appointed as Vice-President of Bangladesh.
- September 22* President Hussein Mohammad Ershad sent a message of felicitation to the Prime Minister of Pakistan Muhtarma Benazir Bhutto.
- October 2* The Pakistani Premier, Mohtarma Benazir Bhutto, paid an official visit to Dhaka.
- 3* Pakistan and Bangladesh signed a 3-year cultural protocol.

### INDIA

- July 7* Talking to British Editors and Senior Journalists, Pakistan Premier, Mohtarma Benazir Bhutto, suggested that arms control talks between Pakistan and India, reduction in their expenditure on defence. She also said that it was her government's policy not to make nuclear bomb device.

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The above Chronology has been prepared by Mrs. Mussarrat Javed Cheema, Research Assistant of the Pakistan Study Centre, University of the Punjab Lahore.

- July 11* An Army delegation of Pakistan held discussions with their Indian counterpart in New Delhi on Siachin.
- .. The Pakistani and Indian military commanders ended two days of talks in New Delhi, on a mutual troop withdrawal from the strategic Siachen Glacier, without issuing any joint statement.
- 16 Prime Minister of India Mr. Rajiv Gandhi met President Ghulam Ishaq Khan to promote friendly relations.
- .. The Indian Prime Minister arrived in Islamabad on an over night visit to Pakistan.
- 18 The Indian Parliament hotly debated the Bofors gun scandal.
- .. The inaugural session of the third meeting of Pakistan-India joint commission was held.
- 24 71 opposition members of Lok Sabha tendered their resignations to the Speaker.
- .. Pakistan Foreign Minister held talks with the Indian Foreign Minister, to convene the ministerial council meeting.
- August 9* At least 17 people were killed, in a bomb blast in a bus near Karnal.
- 15 A series of bombs explosions took place in Srinagar, occupied Kashmir.
- .. The Indian Prime Minister, Mr. Rajiv Gandhi, launched the Election campaign.
- 18 The military representatives of India and Pakistan held talks on Siachen.
- 29 The opposition called for an all-India strike demanding Rajiv Gandhi's resignation.
- September 14* An Indian Embassy official was expelled.
- 21 India stopped construction work on Wular Barrage.
- 25 Four persons were killed by Indian troops on Pakistan border.
- October 4* Many muslims were killed in the communal riots in Assam.
- 7 The Indian Defence Secretary asked Pakistan not to conduct military exercises called *Zarb-i-Momin*.

- October 17* It was announced that general elections to the Lok Sabha (the Lower House of the Indian Parliament) would be held on 22—26 November, 1989.
- November 13* The Indian High Commissioner was called in the Pakistan Foreign Office, and was protested on the issue of the Babari Mosque.
- 27* The General Elections to the Lok Sabha were held on 22-26 November, as announced on October 17, 1989.
- December 2* Prime Minister of Pakistan, Mohtarma Benazir Bhutto, congratulated the New Indian Prime Minister, Mr. V. P. Singh.
- 13* India-Pakistan conference on environment was held.

## MALDIVES

- July 19* President Manmoon Abdul Gayoom, during a short visit to Pakistan, said that his country would like to increase relations with Pakistan, in the field of trade industry.
- August 17* Seventeen persons were sentenced to death for a coup attempt.
- December 16* Foreign Minister of Pakistan, Sahabzada Yoqub Khan, met President Manmoon Abdul Gayoom.

## NEPAL

- July 28* The third meeting of the Nepal Pakistan Joint Economic Commission was held in Kathmandu.
- September 30* A nine-member Nepalese trade delegation visited Pakistan, to import certain goods.

## SRĪ LANKA

- July 5* Fifteen thousand armed forces of Sri Lanka reservists were mobilized.
- 11* Government arrested more than one thousand JVP rebels.
- 28* A diplomatic compromise hastily devised reduced tension between India and Sri Lanka.

- August 2* Twenty-four people died as a result of attacks by Tamil Tigers.
- 6 Indian troops started withdrawing from Sri Lanka.
- 7 President Premadasa headed cabinet meeting on the issue of the withdrawal of the Indian troops.
- 15 On the appeal of JNP a general strike was observed in the country.
- 20 The government decided to hold talks with the radical groups of Sinhalese.
- 25 An attempt was made to assassinate President Premadasa.
- 28 A prominent human rights lawyer, Kanchana, was killed by the terrorists.
- September 18* India and Sri Lanka finally reached on an agreement for the withdrawal of the Indian forces.
- 27 The Sri Lankan Government called a 72 hours ceasefire in its campaign against JVP.
- 29 Seven Indian soldiers were killed in Mullaipiva.
- November 13* Kohana Wije, the leader of the JVP was shot dead.
- 14 Upatissa, a top leader of JVP was killed.
- December 13* Pakistan's Foreign Minister Sahabzada Yaqub Khan, called on the Sri Lankan President, Premadasa.

### SAARC

- August 11* The Secretary General [of SAARC] visited Dhaka, in connection with the Foreign Ministers Conference.
- November 8* The seventh session of the SAARC council of Foreign Ministers was held in Islamabad.

## LIST OF PUBLICATIONS

1981-89

Rafiq Ahmad Sarfaraz Hussain Mirza	<i>Maldives</i> : No. 5, March, 1984.
Fayyaz Ahmad Rafiq Ahmad Mohammad Javed Iqbal	<i>Burma</i> : No. 6, December 1985.
Rafiq Ahmad Musarrat Javed	<i>Bhutan</i> : No. 7, December 1986.

### Current Affairs Series

Rafiq Ahmad Rahim Yar Abbasi	<i>South Asian Scanner</i> : No. 1, (1981).
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Rafiq Ahmad Mohammad Jahangir Khan Sohail Mahmood	<i>South Asian Scanner</i> : No. 1, (1984), No. 7.
Rafiq Ahmad Mohammad Jahangir Khan Sohail Mahmood	<i>South Asian Scanner</i> : No. 1, (1985), No. 8.
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*Key to Durable Peace in South Asia.*

## Books

- Rafiq Ahmad *Pakistan India Relations—Prospects for*  
*a Durable Peace.*
- Sarfraz Hussain Mirza  
Syed Farooq Hasnat  
Sohail Mahmood *The Sikh Question : From Constitutional*  
*Demands to Armed Conflict.*
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- Qazi Javed *SAARC : Masail aur Irtiqa (Urdu).*

## Seminar Papers

- Theodore P. Wright (Jr.) *Seminar 1984*  
*Methodology of Research on Indian Muslims.*
- Prof. Richard B. Barnett *Seminar 1985*  
*The Late Pre-Colonial Background to the*  
*Indian Princely States.*

## Journal (Bi-annual)

- Rafiq Ahmad (Editor) *South Asian Studies : Vol. I, No. 1,*  
*January 1984 ; Vol. I, No. 2, July 1984 ;*  
*Vol. II, No. 1, January 1985 ; Vol. II,*  
*No. 2, July 1985 ; Vol. III, No. 1,*  
*January 1986; Vol. III, No. 2, July 1986,*  
*Vol. IV, No. 1, January 1987 ; Vol. IV,*  
*No. 2, July 1987 ; Vol. V, No. 1, January*  
*1988; Vol. V, No. 2, July, 1988; Vol. VI,*  
*No. 1, January, 1989 ; Vol. VI, No. 2,*  
*July, 1989.*

## **Notes to Contributors**

Manuscripts, articles, book reviews and notes or letters on themes of contemporary or historical interest, with particular reference to South Asia, will be welcomed.

Manuscript should be clearly typed on one side of the paper only, and should be double-spaced. Two copies should be submitted.

Bibliographies and footnotes should be placed at the end of the article. Footnotes should be numbered consecutively, and bibliographies should be arranged alphabetically. Foreign words should be underlined.

Bibliographical references should be complete in respect of the title of the book, the name of the author, the year and the place of publication.

Utmost care should be taken to prepare statistical data for publication. All headings, columns, rows, symbols, units of measurement, periods, political and geographical areas, and sources should be clearly stated in each statistical table, instead of giving such explanations in the text.

Tables, maps, and diagrams should be numbered and given at the end of the article, each on a separate sheet of paper. They should be clearly drawn so that they are suitable for photocopying as submitted.

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