

Documents

January-June 2008

I. Political Developments

1. Text of President Pervez Musharraf's address to the nation

My Pakistani brothers and sisters!

Assalam-o-Alaikum!

The nation has faced a great tragedy. Mohtarma Benazir Bhutto has been martyred by the terrorists. I have condoled with her husband Asif Zardari, her sister Sanam Bhutto as well as her children. Once again, I offer my condolences to the bereaved family and pray to Allah Almighty to rest the departed soul in eternal peace. The situation continued to deteriorate since her martyrdom. Conspiracy theories were hatched, allegation and counter-allegations were made. Unfortunately, a situation of confusion and uncertainty was created which usually happen in Pakistan in such circumstances. This uncertainty has engaged the whole country. Therefore, I felt it was imperative to address the nation and place the facts before it.

I fully realize the anger, the grief and sorrow which prevail in the ranks of the Pakistan People's Party, particularly among my Sindhi brothers and sisters. I would like to state here, that I am equally grieved. I value yours and the whole nation's sentiments. However, it is regrettable to note that at a time when the whole nation and specially the People's Party was rightfully expressing their grief and anger, many gangsters and goons and some political elements exploited the situation and restored to loot, plunder and devastation. This act caused unbearable losses to the people and the country. The daily wage workers and the poor people could not reach the place of their work and obviously, they have suffered a lot of trouble. The subversive elements burnt so many petrol pumps that the remaining ones were forced to be closed by their owners out of fear. Resultantly, all the buses, trucks, vehicles and taxis remained off the roads. Owing to the fear and non-availability of fuel, the petrol pumps remained shut. Similarly, railway tracks were dismantled at some places, the whole railways system was rendered non-operational. The trains and the passengers were stranded at various stations. We are making arrangements for their onward journey to their respective destinations. Under such a situation, doctors and nurses could not attend hospitals. Therefore, those who were sick and needed immediate medical attention have suffered. Even the Edhi Centres of Maulana Abdul Sattar Edhi were attacked and ransacked. This is very much regrettable. Many houses and shops were burnt down. Shops, particularly the jewelery and ammunition shops were targeted. In the first place, shops were attacked, looted and then set ablaze. The banks were ransacked and put on fire. Apart from these incidents, some prisoners were let escape by attacking the prisons.

Jails were broken which is particularly regrettable as the hundreds of escaped prisoners might be creating law and order situation critical in the country. Moreover, the election officers set up by the Election Commission, the polling stations and the equipment put up there were all destroyed. It put the Election Commission to confront a troublesome situation. I am told that some miscreants and subversive elements loaded with machine guns and rocket launchers have been roaming around the city roads. This occurred mostly in Sindh. The unfortunate aspect of the whole episode is that the political elements have played their 'role' which is intolerable and deplorable. The business of those people have been targeted who were opposed to them. On the other hand, the business of their supporters have been spared. The total loss is being assessed and it is feared that the losses may run to the tune of over a hundred billion of rupees. We have deployed the Rangers and the Army for the protection of life and property. This deployment, in my view, should continue till elections rather even after the elections, for we shall not allow any one to disturb peace and law and order, and anyone who tries to do so till elections on beyond the elections shall be dealt with sternly. I have asked the Prime Minister to work out a compensation package for those who suffered financial and monetary losses so that the government may share their burden. The next issue which I want to address is the martyrdom on Mohtarma Benazir Bhutto: how she was martyred, who did it, and secondly, I want to have an in-depth information of this incident and also wish to share this with whole nation as it is imperative to resolve the confusion.

The progress we have made during the last seven/eight years including the development projects initiated in Sindh specially in rural areas, at gross root level, have, to a greater extent been destroyed during these two days. My brothers and sisters! Such a situation cannot be tolerated; we have to strictly deal with it and bring it to the end. It necessitates immediate action. The first step that I have taken is that I have asked the Prime Minister to constitute a Commission to evaluate the loss and identify the elements who inflicted losses and caused destruction. Here I also urge the media to visit Sindh and make estimates of the extent and nature of destruction in Sindh at the local level. I have come to know that unbelievable damage has been occurred in Sindh. I have also asked the Prime Minister to hold those officials accountable particularly the senior ones who displayed negligence and failed to take immediate action against the culprits. Thirdly, FIRs and cases should be registered against the plunderers and the looters. Fourthly, the prisoners who have escaped from jails should be apprehended and sent to the prisons again. Lastly, all individuals, groups and elements displaying weapons of any kind should be arrested. We have also deployed the Rangers and the Army for the protection of life and property. I request all the people and the media including the foreign media not to further confound this confusion.

Brothers and sisters!

I would like to say that since day one of the incident, a lot of footage, technical evidence and eyewitness accounts of the incident are coming forth. The fresh

evidences necessitate expert analysis. Therefore, we have decided to request an investigation team of Scotland Yard from the UK. And I am grateful to Prime Minister Gordon Brown for accepting my request. God willing, this investigation team will reach Pakistan very soon and help us in the probe. The team will fill in the gaps in our technical expertise and forensics and I hope that the investigation will be carried out successfully with the help of Scotland Yard which will remove all doubts and misgivings.

My brothers and sisters!

The third issue which I would like to address and share with you is the election date. The election date is very important and all kinds of view are being expressed. Whereas it is the task of the Election Commission to decide, it has been my personal desire to hold elections on 8 January without any delay. As I said, it is the responsibility of the Election Commission which has suffered so much in Sindh resulting in disruption of election process and made it impossible to hold elections on 8 January. Therefore, the new date announced by the Election Commission is more appropriate and suitable.

My brothers and sisters!

I want to reiterate that destruction and losses caused to the offices, rail, transport and the logistic system as well as the law and order situation had impelled towards the postponement of the elections. The decision taken by the Election Commission is timely and appropriate. We have been assuring time and again that the elections would be held in a fair and transparent manner. But I have added another essential word that free, fair, transparent and 'peaceful' elections would be held. By the grace of Allah Almighty, we would translate it into reality and we would do it. Earlier, it was my intention to avoid deployment of the Army because all sorts of accusations were being hurled at the Army. I would not accept it and would instead like to keep the Army out of these allegations. As I stated, the law and order situation and the destruction that took place in Sindh badly required the services of the Rangers and the Army which have already been deployed in Sindh and the entire country to maintain law and order and ensure holding of elections in a peaceful manner. These forces would be used before and even after the elections so as to strictly deal with such elements which disturb law and order. No agitation or riots would be allowed. It is my commitment to the nation. If there are any miscreants having bad intentions, they should refrain from such activities. Because, the Rangers, the law enforcing agencies, the police and the Army would strictly deal with them. I appeal to all Pakistani brothers and sisters to help in maintaining law and order in each province and discourage such elements who create law and order situation. This is the time for reconciliation and not confrontation. I urge the political parties to comprehend the gravity of the situation. It is imperative to rise above personal and political interests and realize that Pakistan comes first. Please do not aggravate the already difficult and tense situation.

My brothers and sisters from People's Party and especially my brothers and sisters from Sindh! Mohtarma Benazir Bhutto's mission was to promote

democracy and struggle against terrorism. I want to assure you that my mission is exactly the same. I want to promote democracy and eliminate terrorism and God willing, my mission would continue. It is my conviction that Pakistan's survival and development lies in this mission. God willing, a constitutional and democratic government will be formed after the elections. I am of the firm belief that the next democratic government would lead Pakistan on to the road of progress and prosperity. But we have to fight against terrorism and extremism as one nation with full force. I understand, if we failed to defeat terrorism, the future of Pakistan would be bleak. I appeal to the people and the media to encourage and support the government, the Army and other law enforcing agencies including the Frontier Corps, the Frontier Constabulary and the Levies in their efforts against the war on terror. The support of the whole nation to the security forces would enable them to combat and defeat extremism and terrorism. As far as terrorism is concerned, I want to point out two individuals namely Baitullah Mehsud of South Waziristan and Fazlullah of Swat. They should be exposed by the media, and the nation should launch a campaign against them. Their terrorism must be exposed because they are responsible for suicide bombing and losses to the innocent people. Instead of heroize them by giving space in the media, their lies should be exposed because the people are unable to differentiate between their lies and the reality and they start believing in their lies.

I appeal to the media to expose these people and launch a campaign against them. It will encourage the law enforcing agencies. We need to hit the root cause of terrorism. Because until and unless we reach the masterminds who recruit and indoctrinate suicide bombers, we cannot rid ourselves of this scourge. In this fight, the whole nation should get united and support the Army and the law-enforcement agencies. This alone ensures Pakistan's solidarity, prosperity and development. These are the people who have twice attacked Aftab Ahmed Sherpao. The last attempt was made by them on the Eid day. They attacked at the time of Eid prayers and about 55 to 60 innocent people were martyred. They also attacked a school bus in Kamra and martyred innocent children. They are also responsible for the martyrdom of Air Force personnel at Sargodha and attacking the ISI employees twice. I am sure the same people have martyred Mohtarma Benazir Bhutto.

My Pakistani brothers and sisters! I pray that Allah Almighty may guide us to the right path and He be the protector of Pakistan and all of us.

Long live Pakistan.

2 January 2008, Islamabad. *Source:* www.presidentofpakistan.gov.pk

2. Excerpts from ICG's report on Ms. Benazir Bhutto's assassination

AFTER BHUTTO'S MURDER: A WAY FORWARD FOR PAKISTAN

Overview

Gravely damaged by eight years of military rule, Pakistan's fragile political system received a major blow on 27 December 2007, when former Prime Minister Benazir Bhutto was assassinated. Her murder, days before the parliamentary elections scheduled for 8 January 2008 and now postponed to 18 February, put an end to a U.S. effort to broker a power-sharing deal with President Pervez Musharraf which the centre-left Pakistan Peoples Party (PPP) leader had already recognised was unrealistic. Her popularity and the belief Musharraf and his allies were responsible, directly or indirectly, have led to violent countrywide protests.

Stability in Pakistan and its contribution to wider anti-terror efforts now require rapid transition to legitimate civilian government. This must involve the departure of Musharraf, whose continued efforts to retain power at all costs are incompatible with national reconciliation; an interim consensus caretaker government and a neutral Election Commission; and brief postponement of the elections to allow conditions to be created – including the restoration of judicial independence – in which they can be conducted freely and fairly.

Bhutto's death has drawn the battle lines even more clearly between Musharraf's military-backed regime and Pakistan's moderate majority, which is now unlikely to settle for anything less than genuine parliamentary democracy. Many in Pakistan fear that the federation's very survival could depend on the outcome of this struggle.

Belying his reiterated slogan of 'Pakistan first', Musharraf is placing regime survival and his personal political fortune first, just as he did in November. That month he imposed martial law, suspended the constitution, imprisoned thousands of lawyers and politicians and sacked the judiciary with the sole objective of preventing the Supreme Court from challenging the legitimacy of his re-election as president by a lame-duck and stacked Electoral College.

Musharraf gave up his position of Army Chief on 28 November under U.S. pressure, but the legitimacy of his presidential election remains contested. He withdrew martial law formally on 15 December, ending the emergency and reviving the constitution. At the same time, however, he not only did not restore the dismissed judges or void the repressive decrees he had issued but also unilaterally and without any legal basis proclaimed amendments to the constitution purporting to deny the courts and the parliament their constitutional prerogatives to challenge his changes.

Bhutto's PPP and the centre-right Muslim League (Pakistan Muslim League-Nawaz, PML-N) of former Prime Minister Nawaz Sharif had reluctantly agreed to participate in the 8 January elections, motivated primarily by the desire to expose Musharraf's intention to rig the vote. Stacked courts, partial caretaker governments, a subservient Election Commission, the gagging of the media, curbs on political party mobilisation and association and the actions of

the security agencies all undermined the essential conditions for free and fair elections.

The regime's international backers, particularly the U.S., continue to give signs of wanting to retain Musharraf in the presidency in the belief that he and the military (his sole support base) are the only guarantors of stability in a crucial country. But after Bhutto's murder, and with the extent of popular anger now evident, elections that are not seen as free and fair would have disastrous consequences. The person of Musharraf has become so unpopular that his continuation in a position of power guarantees increasing domestic turmoil. By continuing to back him, Western governments might not just lose the battle for Pakistani hearts and minds, but could also be faced with the nightmare prospect of a nuclear-armed, Muslim-majority country of 165 million descending into violent internal conflict from which only extremist forces would stand to gain.

Bhutto's party will survive her demise, and will, should her successors act wisely, remain a force for moderation and stability in Pakistan. Sharif's party has vowed to work with the PPP to restore democracy, peace and stability in the country. The U.S. and its Western allies must recognise that Musharraf is not only not indispensable, but he is now a serious liability. Instead of backing a deeply unpopular authoritarian ruler who is seen as complicit in the death of Pakistan's most popular politician, they must instead support democratic institutions and the people of Pakistan. It is time that the West acknowledges that only a legitimate elected government, led by one of the moderate parties, would have the authority and the popular backing to return Pakistan to its moderate democratic moorings.

In summary, the policy outcomes that need to happen over the next two months, and which should be strongly and consistently supported by the international community, and particularly those like the U.S. most capable of influencing them, are:

- Musharraf's resignation, with Senate Chairman Mohammad Mian Soomro taking over under the constitution as acting president and appointing neutral caretaker governments at the national and provincial levels with the consensus of the major political parties in all four federal units;
- postponement of the polls, accompanied with the announcement of an early new election date. The Election Commission announced on 2 January a postponement until 18 February. This is reasonable in and of itself but it said nothing about the other crucial changes discussed in this Briefing and which are needed if this step is to contribute to restoration of democracy in Pakistan;
- full restoration of the constitution, including an independent judiciary and constitutionally guaranteed fundamental freedoms of speech, assembly and association and safeguards against illegal arrest and detention;
- reconstitution of the Election Commission of Pakistan, with the consensus of all major political parties; and
- the transfer of power and legitimate authority to elected civilian hands.

II The assassination

a. What happened

On 27 December 2007, addressing a public rally at Liaquat Bagh in Rawalpindi, Benazir Bhutto issued an impassioned call for an end to military rule and vowed, with the people's support, to defeat the extremists who were trying to establish their writ in the Northwest Frontier Province (NWFP) and near the Afghan border. 'The country is in danger', she said, 'We have to save the country with the power of the people', adding that 'the country had to suffer whenever a dictator took over'.¹

As the Rawalpindi rally ended and her car was leaving the venue, she was assassinated. PPP Senior Vice Chairman Makhdoom Amin Fahim and Bhutto's political secretary Naheed Khan, who were accompanying her in the car, as well as other eyewitnesses, insist that she was killed by gunshot.² The government has repeatedly changed its version of the murder. At first, it claimed Bhutto died in the bomb explosion that immediately followed the firing of shots and killed at least 21 and wounded more than 50. It then changed its story, claiming that shrapnel from the explosion caused her death, and subsequently that her death was the result of a fractured skull suffered when she fell into her car, jarred by the force of the explosion.³ After private television stations aired footage of a gunman apparently targeting Bhutto, the government again backtracked and is now asking the public for information about at least two suspects, including the gunman.⁴

These differing accounts underscore the importance, as discussed below, of an impartial external investigation into the attack. Regardless of the findings of that enquiry, should one be held, the murder has transformed the country's political landscape beyond recognition.

b. What it means

Bhutto's return to Pakistan on 18 October 2007 after eight years of exile had been marked by controversy.⁵ The Bush administration had cajoled her to enter into a

¹ Daud Khattak, 'Widespread gloom after Bhutto's killing', *Daily Times*, 28 December 2007.

² 'Bhutto party accuses government', Reuters, 29 December 2007; 'Benazir aide says government explanation 'pack of lies'', *Dawn*, 29 December 2007; Behzad Khan, 'Telltale images expose fatal security flaws', *Dawn*, 30 December 2007.

³ The doctor who had initially told the media that the death was caused by a bullet reversed his statement. Muhammad Saleh Zafar, 'Cause of death turns into huge controversy', *The News*, 29 December 2007; Maqbool Malik, 'Analysts question government's conflicting statements', *The Nation*, 29 December 2007; Syed Irfan Raza, 'Government gives new twist to probe', *Dawn*, 29 December 2007.

⁴ Shaheen Sehba, 'Caretaker government apologies for Interior Ministry blunder', *The News*, 1 January 2008.

⁵ For analysis of the political situation as Bhutto prepared her return and in the period leading up to her assassination, see Crisis Group Alert, *Pakistan*:

power-sharing arrangement with Musharraf and had pressured Musharraf to accept her return, hoping that a partnership would lend legitimacy to its military ally's troubled rule.⁶ Late that first evening, an assassination attempt on her welcoming procession in Karachi left more than 140 dead and hundreds wounded.

Musharraf's refusal to accept PPP demands for an independent international investigation into the Karachi attacks strained relations between the two. Despite U.S. urging, the prospects of an alliance dimmed further as he refused to share even a modicum of power, choosing instead to impose martial law in November.⁷

Calling for the restoration of democracy, Bhutto launched a protest campaign. The PPP, she said, 'does not accept the emergency which is, in fact, martial law'.⁸ She had initiated a dialogue with Musharraf in the hope of a smooth transition to democracy, she explained, but now believed that it was 'time for him to leave'.⁹

In an interview before her return to Pakistan, Bhutto had emphasised: 'My goal is to prove that the fundamental battle for hearts and minds [in Pakistan] can be accomplished only under democracy'. Extremism, she said 'looms as a threat, but will only be contained as it has been in the past if the moderate middle can be mobilised to stand up to fanaticism. I return to lead that battle'.¹⁰ During the election campaign after the emergency was lifted on 15 December, Bhutto linked military rule with the spread of Islamic extremism and repeatedly stressed that her party, if it came to power, would rid the country of the threat. Days before her death, she said, 'they [military rulers] always try to stop democratic forces but don't make any effort to check extremists, terrorists and fanatics'.¹¹

Bhutto did not live to fight that battle. The nationwide anger and grief that has followed her death, however, provides ample evidence that the majority of Pakistanis sympathised with and supported a leader who was not just willing to publicly denounce Islamic extremism but who had also made the elimination of such radicalism a central part of her party's electoral platform.

Emergency Rule or Return to Democracy?, 6 June 2007; Crisis Group Asia Report N°137, *Elections, Democracy and Stability in Pakistan*, 31 July 2007; and Crisis Group Asia Briefing N°70, *Winding Back Martial Law in Pakistan*, 12 November 2007.

⁶ Helene Cooper and Steven Lee Myers, 'Salvaging U.S. diplomacy amid division', *The New York Times*, 28 December 2007.

⁷ Musharraf claimed he took the difficult decision to impose emergency rule guided by his motto of 'Pakistan first'. He said that: 'My guiding principal has always been Pakistan first'. 'Emergency imposed in larger national interest', Associated Press of Pakistan, 3 November 2007.

⁸ 'Bhutto rules out talks with Musharraf', *The News*, 14 November 2007.

⁹ 'Bhutto: Time for Musharraf to go', CNN, 13 November 2008.

¹⁰ Benazir Bhutto, 'When I return to Pakistan', *The Washington Post*, 20 September 2007.

¹¹ 'Govt. failed to combat militancy: Benazir', *Dawn*, 24 December 2007.

By mending her fences with Nawaz Sharif in the weeks before her death, Bhutto empowered the moderate majority in the struggle for democracy and against the military-dominated regime and its Islamist allies. In December, the two leaders of Pakistan's largest, mainstream moderate parties had agreed to evolve a joint strategy against Musharraf's bid to retain power through undemocratic means.¹² Already facing a more united opposition and with his popularity at an all time low,¹³ Musharraf's domestic standing has been undermined even further by Bhutto's assassination. Many within and outside the PPP hold him personally responsible for the murder. They believe that the assassination was directly linked to his government's repeated refusal to provide her the security measures she had repeatedly asked for.¹⁴

The opposition does not accept the government's claim that it has a taped telephone conversation in which Baitullah Mehsud, a tribal militant linked to al-Qaeda, discusses the successful operation with his followers.¹⁵ The government's subsequent refusal to accept the PPP's requests for an independent enquiry by international experts into the attack is further fuelling suspicions of complicity. As violence continues countrywide, with the death toll presently over 48, the healing process will not begin until such an investigation takes place.

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Source: International Crisis Group Asia No.74, *After Bhutto's Murder: A Way Forward for Pakistan*, 2 January 2008, pp.1-4.

¹² Ansar Abbasi, 'Last Benazir-Bhutto meeting focused on rigging', *The News*, 30 December 2007.

¹³ In the International Republican Institute (IRI) poll of 19-28 November 2007, 66 to 75 per cent of those questioned described themselves as anti-Musharraf and wanting change.

¹⁴ In an email to Mark Siegal, her U.S. spokesperson, two months before her death, Bhutto had said that if she were killed, Musharraf should be held responsible: 'I have been made to feel insecure by his minions'. She said that the denial of the security measures she had requested, such as additional police protection and jamming devices, could not have happened without Musharraf's knowledge. 'Bhutto said she'd blame Musharraf if killed', CNN, 30 December 2007.

¹⁵ When asked why the intelligence agencies had been unable to trace Mehsud if they were capable of taping his conversation, the interior ministry spokesman, Brigadier General (retired) Javed Iqbal Cheema, said it was difficult to apprehend a man who was always on the move. Denying the accusation, a spokesperson for Mehsud said, 'we don't strike women'. Syed Irfan Raza, 'Government gives new twist to probe', *Dawn*, 29 December 2007; Zeeshan Haider, 'Bhutto party accuses government', Reuters, 29 December 2007.

II. Foreign Policy

A. PAKISTAN-INDIA RELATIONS

1. Text of the joint statement issued after India-Pakistan meeting on air services

The delegations representing the Government of the Islamic Republic of Pakistan and the Government of the Republic of India met in Rawalpindi on 14-15 February, 2008 for consultations on air services matters. The Pakistan delegation was headed by Major General Mir Haider Ali Khan, Additional Secretary, Ministry of Defence, whereas the Indian side was led by Mr. Kanu Gohain, Director General Civil Aviation. The consultations were held in a friendly and cordial atmosphere.

2. Both delegations recognized that in the wake of developments which have taken place in the aviation industry during the past few years, the existing Air Services Agreement needs to be reviewed and updated.
3. It was agreed that each country shall henceforth be entitled to designate three airlines each to operate the agreed services on the specified routes. Presently only one airline each operates between India and Pakistan.
4. It was also agreed to increase the frequency of flights per week from 12 to 28 for each side.
5. Against the two destinations presently available to the designated airlines in each other's territory, it was agreed to add Chennai for the designated airlines of Pakistan and Islamabad for the designated airlines of India, as third destination. This also enables direct air connectivity between the capitals of the two countries.
6. Both delegations also agreed to meet again at a mutually convenient date within one year to review the capacity/frequency framework and additional destinations in each others territory, keeping in view the market demand.
7. A Memorandum of Understanding (MoU) was signed by the leaders of the two delegations today containing the above agreed elements.
8. Both sides expressed satisfaction that the new arrangement would further the objective of facilitating people to people contact, business and trade activities between the two countries.

15 February 2008. *Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

2. Text of the joint statement issued at the conclusion of the first meeting of the Pakistan-India standing committee on bus services

The first meeting of the Pakistan-India Standing Committee on Lahore-Delhi, Lahore-Amritsar and Nankana-Amritsar Sahib Bus Services was held in New Delhi on February 21, 2008. The Pakistan delegation was led by Mr. Mohammad Abbas, Additional Secretary, Ministry of Communications and the

Indian delegation was led by Mr. Saroj Kumar Dash, Joint Secretary (Transport), Ministry of Shipping, Road Transport and Highways.

2. Both sides noted with satisfaction the continuing operations of the bus services and discussed further measures for its improvement. It has been decided to increase the frequency of Lahore-Delhi bus service from two trips per week to three trips per week from each side. It was also decided to rationalize the bus fare. In addition, the quota for the return tickets would be increased from the existing six seats to ten seats.
3. The two sides agreed that enroute, the Nankana Sahib-Amritsar bus service would make a halt at Lahore to enable the passengers to disembark/embark whereas, Lahore-Amritsar bus service would continue to operate as per existing arrangement.
4. It was decided that the concerned financial officials of the two sides would meet every year, alternately in Delhi and Lahore, in July for reconciliation of accounts.
5. The new arrangements will come into effect from March 17, 2008.
6. The meeting was held in a friendly and cordial atmosphere.

21 February 2008. *Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

3. Text of the joint statement issued after the first meeting of the Pakistan-India judicial committee on prisoners

The first meeting of the Pakistan-India Joint Judicial Committee on Prisoners was held in New Delhi on 26th February 2008. The Committee was formed in January 2007 by the Foreign Minister of Pakistan and the External Affairs Minister of India to recommend steps for humane treatment and expeditious release of prisoners of the respective countries in each other's jails.

The members of the Committee are Justice (Retd) Mr. Abdul Qadeer Chaudhary, Justice (Retd) Mr. Fazal Karim, Justice (Retd) Mr. Nasir Aslam Zahid, and Justice (Retd) Mr. Mian Muhammad Ajmal from the Pakistan side and Justice (Retd) Mr. Nagendra Rai, Justice (Retd) Mr. Amarjeet Choudhary, Justice (Retd) Mr. A. S Gill and Justice (Retd) Mr. M.A. Khan from the Indian side.

The Committee recommended to the two Governments that:

- A consolidated list with full particulars and their present status of nationals in each others' jails be exchanged on 31st March 2008;
- Prisoners who have completed their sentences and whose national status has been verified be released forthwith;
- Special consideration, on compassionate and humanitarian basis, be accorded to women, juvenile and disabled prisoners for their repatriation;
- As agreed between the two Governments, those fishermen in custody whose nationality status is confirmed be released forthwith and in remaining cases, Consular Access be provided by 31st March 2008;

- All efforts be made to arrange early release of all those prisoners, accused or convicted of minor offences, once their nationality status is confirmed; and
- Each country may immediately notify the other of the arrest of its nationals and provide Consular Access expeditiously.
- The Committee also agreed to visit jails in Pakistan in April 2008 on dates agreed through diplomatic channels. This would be followed by a return visit to Indian jails.

26 February 2008. *Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

4. Text of the joint statement issued after the meeting of foreign secretaries of Pakistan-India

The Foreign Secretaries of Pakistan and India met in Islamabad on 20 May 2008 to review the Fourth Round of Pakistan-India Composite Dialogue. Foreign Secretary of Pakistan, Mr. Salman Bashir, led the Pakistan delegation while the Indian delegation was led by Foreign Secretary of India, Mr. Shivshankar Menon.

They reviewed the progress made by the two sides in the Fourth Round on the eight segments of the Composite Dialogue: (i) Peace and Security including CBMs; (ii) Jammu and Kashmir; (iii) Siachen; (iv) Sir Creek; (v) Wullar Barrage/Tulbul Navigation Project; (vi) Terrorism and Drugs Trafficking; (vii) Economic and Commercial Cooperation; and (viii) Promotion of Friendly Exchanges in various fields.

The Foreign Secretaries expressed satisfaction at the progress made so far and exchanged views on carrying forward the Composite Dialogue process. The talks were held in a friendly and constructive atmosphere.

The Foreign Minister level review of the Composite Dialogue will be conducted by the Foreign Minister of Pakistan, Makhdoom Shah Mahmood Qureshi, and External Affairs Minister of India, Mr. Pranab Mukherjee, in Islamabad on 21 May 2008.

20 May 2008. *Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

5. Text of the joint statement issued after foreign minister's level review of the fourth round of composite dialogue

1. The Foreign Minister of Pakistan, Makhdoom Shah Mahmood Qureshi, and External Affairs Minister of India, Mr. Pranab Mukherjee, met in Islamabad on 21 May 2008 to review the progress made in the Fourth Round of Pakistan-India Composite Dialogue. This was preceded by a meeting

between the Foreign Secretary of Pakistan, Mr. Salman Bashir and Foreign Secretary of India, Mr. Shivshankar Menon, on 20 May 2008.

2. The talks were held in a friendly and constructive atmosphere.
3. They reviewed the progress made in the Fourth Round of the Composite Dialogue encompassing (i) Peace and Security, including CBMs; (ii) Jammu and Kashmir; (iii) Siachen; (iv) Sir Creek; (v) Wullar Barrage/Tulbul Navigation Project; (vi) Terrorism and Drug Trafficking; (vii) Economic and Commercial Cooperation; and (viii) Promotion of Friendly Exchanges in Various Fields.
4. They noted the positive contribution to improvement of relations by the Composite Dialogue process since its resumption after the joint statement of 6 January 2004 and the subsequent Summit Statements of 25 September 2004, 18 April 2005, 14 September 2005 and 16 September 2006. The Ministers reaffirmed their determination not to let terrorism impede the peace process and take all necessary steps to eliminate this scourge against humanity. They further resolved to carry forward the peace process and to maintain its momentum.
5. The Ministers noted that in 2007 and over the course of the Fourth Round of Composite Dialogue there had been a number of important bilateral achievements, including:
 - MoU to increase the frequencies, designated airlines and points of call in either country.
 - Agreement for the trucks from one side to cross the border up to designated points on the other side at the Wagah-Attari border.
 - Increase in frequency of Delhi- Lahore bus service from two to three trips per week.
 - Signing of Agreement on 'Reducing the Risk from Accidents relating to Nuclear Weapons'.
 - MoU between the Securities and Exchange Board of India (SEBI) and Securities and Exchange Commission of Pakistan (SECP) to facilitate the sharing of information between two agencies.
 - Completion of the Joint Survey of Sir Creek and adjoining areas.
 - Two meetings of the Joint Anti-Terrorism Mechanism.
6. The two sides signed the Agreement on Consular Access, which was finalised during the Fourth round of Composite Dialogue.
7. They exchanged views on the issue of Jammu and Kashmir and agreed to continue discussions to build on convergences and narrow down divergences. They also agreed to continue with the implementation of Cross-LoC CBMs with a view to enhancing interaction and cooperation across the LoC. In this regard, they decided:
 - a) To increase the frequency of Muzaffarabad-Srinagar and Rawalkot-Poonch Bus service from a fortnightly to a weekly basis.
 - b) To finalize modalities for intra-Kashmir trade and truck service as early as possible.

- c) To implement other measures to expand and facilitate travel a meeting of Working Group on Cross-LoC CBMs would be convened within two months.
8. They reaffirmed the importance of ceasefire in place since November 2003 and the commitment of both sides to cooperate to safeguard it.
9. They agreed that progress has been made under the Composite Dialogue process on promoting a stable environment of Peace and Security including CBMs. The Expert Groups on Nuclear and Conventional CBMs should consider existing and additional proposals by both sides with a view to developing further confidence building measures in the nuclear and conventional fields.
10. Both sides exchanged views on Siachen and reiterated their commitment to seeking an early amicable solution.
11. Both sides expressed satisfaction on the progress made on Sir Creek, with the completion of the joint survey, the exchange of maps, and the discussions thereafter. They agreed to further facilitate the process for an early resolution of this issue.
12. Both sides reiterated their commitment to fight terrorism in all its forms and manifestations, and re-emphasized the need for effective steps for the complete elimination of this menace. In this context, it was agreed to continue cooperation in the Joint Anti-Terrorism Mechanism whose next meeting would be held within two months. Both sides agreed to refrain from hostile propaganda.
13. Both sides emphasized the need for further strengthening cooperation to eliminate drug trafficking and welcomed the finalization of an MOU on Cooperation between Pakistan's Anti-Narcotics Force and Narcotics Control Board of India.
14. Both sides reiterated the importance of enhancing mutually beneficial economic and commercial cooperation and agreed to discuss further steps for facilitating trade and redressing the trade imbalance. In this regard, Indian and Pakistan Railway officials would meet in June for resolving all technical issues to enable increase in to and fro freight movement. They also agreed to facilitate the process of early opening of bank branches in the two countries.
15. Both sides appreciated the work being done by the Judicial Committee on Prisoners, which will meet in Pakistan shortly; welcomed the finalization of the Consular Access Agreement that will help addressing humanitarian aspects relating to persons under detention in each other's country and; agreed to provide on a regular basis updated and comprehensive list of prisoners in each other jails.
16. Both sides agreed to the need for promoting friendly exchanges between the two countries.
17. Both sides agreed to the early finalization of the Visa Agreement which will help liberalize the visa regime and facilitate people-to-people contacts.
18. The two Ministers reiterated their commitment to the Iran-Pakistan-India gas pipeline project and had a useful exchange of views in this regard.

19. The two Foreign Ministers also exchanged views on promoting the Pakistan-India peace process, reinvigoration of SAARC and agreed to work towards promoting regional cooperation for enabling South Asia to realize its full development potential. It was agreed to work for promoting sustainable development and food and energy security.
20. It was decided that the two Foreign Secretaries will launch the Fifth Round of the Composite Dialogue in New Delhi in July 2008.
21. The External Affairs Minister of India, Mr. Pranab Mukherjee, called on the President and the Prime Minister of Pakistan.

21 May 2008. Islamabad. *Source:* meaindia.nic.in

6. Text of the joint press statement issued after the meeting of the Pakistan-India judicial committee on prisoners

First meeting of the Pakistan-India Judicial Committee on Prisoners was held in New Delhi on 26th February, 2008. Members of the Committee are Justice (R) Abdul Qadeer Chaudhary, Justice (R) Fazal Karim, Justice (R) Nasir Aslam Zahid and Justice (R) Mian Muhammad Ajmal from Pakistan side and Justice (R) Nagendra Raj, Justice (R) Amarjeet Choudhary, Justice (R) A.S. Gill and Justice (R) M.A. Khan from the Indian side. As agreed in New Delhi, the Judicial Committee visited jails in Karachi, Rawalpindi and Lahore from 9th to 13th June, 2008, met the Indian prisoners in these jails, and held discussion with officials of both countries.

The Committee was informed of the signing of the Consular Access Agreement between the two countries on 21st May, 2008. The Committee is of the view that the Consular Access Agreement will greatly help in furthering the objective of humane treatment of nationals of either country arrested, detained or imprisoned in the other country.

After completion of the visits to the jails in Karachi, Rawalpindi, and Lahore, discussions with officials of the two countries, and detailed deliberations, the Committee makes the following recommendations: -

1. Noting the recent deaths of 04 Pakistani nationals in Indian prisons and one Indian national in Pakistani prison, the Committee recommends that the following steps/action be taken by either country where a national of the other country dies while in custody: -
 - High Commission of the other country will be immediately informed in writing of the death of the prisoner and in this regard immediate instructions be issued by the Federal/Central governments to the Home Departments and Inspectors-General of all the Provinces/States for strict compliance.
 - Instructions may also be issued for supply of copies of inquest or inquiry reports, if any, and post-mortem reports in respect of such deceased prisoners to the High Commission of the other country.
 - Bodies of such prisoners be sent to the other country at the earliest and in any case within three weeks of death.

2. Women and Juvenile prisoners, prisoners terminally ill or suffering from serious illness or physical disability and also mentally disabled persons deserve compassionate and humanitarian consideration. The Committee recommends that such prisoners, whether under-trial or convicts, be repatriated to the country of their origin at the earliest and, for that purpose, necessary action be taken for withdrawal of prosecution or for remission of the balance sentence, as the case may require.
3. Prisoners involved in minor offences e.g. violation of Foreigners Act, border-crossing, visa violation, like overstaying or visiting places not covered by the visa, also deserve compassionate and humanitarian consideration. The Committee makes similar recommendations for such prisoners as made for women, juvenile and physically ill or disabled prisoners.
4. The Committee recommends that the 34 Indian juvenile fishermen at present confined at the Youthful Offenders Industrial School Karachi be repatriated to India immediately and for that purpose necessary action be taken for withdrawal of prosecution.
5. In view of the recommendation made by the Committee, after their First Meeting in New Delhi on 26th February, 2008, all those Indian fishermen, confined at the District Jail Malir, Karachi, whose national status has been confirmed by the Indian High Commission, be repatriated immediately and, for that purpose, urgent necessary action be taken by the Pakistan Government for withdrawal of prosecution or remission of balance sentence, as the case may require.
6. The Committee recommends that all such prisoners who have completed their respective sentences and whose national status has been confirmed by their High Commission be released immediately and those whose national status has not been confirmed, exercise in respect of their national status be finalized within one month and in any case before the Committee next meets in India.
7. The Committee recommends that the benefit of remission in sentence be extended to all prisoners who have been convicted under any special law or military law and for that purpose, if required, the Governments should make necessary amendments in the rules.
8. The Committee noted that lists of prisoners exchanged by the two Governments on 31st March, 2008 are not complete and do not mention names and details of all detainees/prisoners. The Committee expects that the procedure for preparation and updating such lists shall be streamlined and the next lists to be exchanged on 1st July, 2008 will be complete and without omissions. Such lists shall contain information about the date of arrest, details of sentence, charges under which the prisoner was sentenced and the expected date of release.
9. The Committee reiterated its recommendation that Consular access should be provided within a month of arrest and process of national status confirmation initiated immediately thereafter so that release is not delayed. The Committee noted that the extended time taken to confirm the national

status and strongly recommended that the process should be simplified and confirmation expedited. It also took note of the pending cases of confirmation and suggested that steps should be taken to confirm the nationality by 31st July, 2008.

10. The Committee recommends that efforts should be made to identify prisoners from both sides who could be considered for early release and expedite their repatriation.
11. The Committee recommends that in all cases where Consular access was yet to be provided should be provided before 31st July, 2008.

The Committee suggests that the visit of Indian jails by the Committee be fixed from 20th to 27th July, 2008.

The Committee will expect reports from both countries about the steps taken for compliance of these recommendations when it next meets in India.

14 June 2008, Lahore, *Source*: Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

7. Text of the joint statement issued after the third meeting of the India-Pakistan joint anti-terrorism mechanism

The third meeting of the Joint Anti-Terrorism Mechanism was held in Islamabad on 24 June, 2008. The Pakistan delegation was led by Mr. Masood Khalid, Additional Secretary (AP), Ministry of Foreign Affairs of Pakistan. The Indian delegation was headed by Mr. Vivek Katju, Additional Secretary (Pol & IO), Ministry of External Affairs of India.

2. The two sides reviewed the follow up steps taken on the information shared during the earlier meetings of the Joint-Anti Terrorism Mechanism.
3. Both sides shared fresh information on terrorist incidents. They agreed to continue to work to identify counter-terrorism measures, assist in investigations through exchange of specific information and for preventing violence and terrorist acts.
4. The Indian delegation also called on the Acting Foreign Secretary, Mr. Khalid Aziz Babar.

24 June 2008, Islamabad, *Source*: Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

8. Text of the joint press conference by Indian external affairs minister Shri Pranab Mukherjee and foreign minister Makhdoom Shah Mehmood Qureshi

SHRI PRANAB MUKHERJEE:

Good Afternoon,

I am glad to welcome Foreign Minister Qureshi on his first visit as Foreign Minister of Pakistan to India. Although this is his first visit as Foreign Minister,

he is no stranger to India and has visited us many times in the past. I am glad that, during this visit, he will also be able to take the time to visit Jaipur, Ajmer and Chandigarh.

As you are aware, I visited Pakistan last month for meetings with the leadership of Pakistan and for consultations with my colleague, Foreign Minister Qureshi, on the Composite Dialogue. We had noted then that the Composite Dialogue process has substantial achievements to its credit. This process has proved to be a useful instrument for developing and enhancing our bilateral relations. It is our expectation that the 5th Round of this process, to be launched in July, will be even more fruitful than the earlier rounds.

Since my visit to Pakistan, we have had a visit by the Deputy Chairperson of the Pakistan Planning Commission to India for discussions with our Planning Commission. There was a very useful exchange of views and the realization that both countries can benefit from each other's experience substantially. Issues of energy security, food security, poverty alleviation, amongst others, are challenges which confront both our countries. Our cooperation in these areas fruitfully contributes to the ongoing process within SAARC. I am happy to note that certain ideas for cooperation are emerging in the areas of wind and thermal energy.

The Joint Anti-Terror Mechanism also met in Islamabad recently and the discussions in that meeting were constructive. Terrorism is a threat to the stability of our respective democratic frameworks. Whatever may be our political differences, we have to be unambiguous in addressing the terrorist threat. We hope that in its future meetings, as well as through the Home Secretary level dialogue on terrorism, concrete results, including exchange of information on terrorists and terrorist incidents, will emerge. On our part, we are committed to peace, friendship and good neighbourly relations with Pakistan and to develop these relations in an atmosphere free of violence or the threat to use violence. Such an atmosphere has to be positively promoted.

We have had a useful exchange of views today, both as a follow up to our meeting in Islamabad in May and also to build on developments since then. Our discussions covered different aspects of our relationship, including economic and commercial cooperation, political issues, promoting people-to-people contact as also a very useful exchange of views on the regional situation. I believe we both have certain ideas on the table for detailed technical follow up in the Composite Dialogue once the Fifth Round begins at the Secretaries' level.

The resurgence of democracy and popular participation in Pakistan is a positive factor for our bilateral relationship and indeed for our whole region. The scope for cooperation is immense and covers all fields. We need to deepen the levels of our cooperation in the economic and commercial fields. What has been achieved is significant, but represents no more than a small fraction of our potential. We hope that in the Fifth Round of the Composite Dialogue, concrete achievements will continue and pave the way for a qualitative transformation of our bilateral relations.

I will now read the agreed outcomes of our meeting after which, I will invite the Foreign Minister of Pakistan to make his remarks:

Agreed outcomes

1. The Vth Round of the Composite Dialogue would be launched on 21-22 July 2008 with discussions on:
 - (i) Peace and security including CBMs.
 - (ii) Jammu and Kashmir

The Foreign Secretary of Pakistan will visit New Delhi for this meeting.

2. The Technical Working Group on cross LoC Confidence Building Measures will meet in Islamabad on 10 July, 2008 to concretize decisions regarding bus services, trade and truck services across the LoC announced in May, 2008.
3. The Technical Working Groups of the India Pakistan Joint Economic Commission complete their meetings such that the Joint Commission could meet by the end of the year.
4. The respective Deputy Chairs of the Indian and Pakistan Planning Commission had felt that an institutional mechanism for regular dialogue and exchange of views between them would be useful. The modalities and framework can be evolved through mutual consultations.
5. We also noted the detailed discussions which took place on issues such as wind and thermal power and power supply arrangements and issues. The mutually beneficial cooperation in Rapid Mass Transport Systems – in particular the Metro – was also noted. We hope that these discussions will be followed up by concrete proposals for bilateral cooperation.
6. After completing their visit to jails in Pakistan, the India Pakistan Judicial Committee on Prisoners will now visit jails in India in the month of July to make further recommendations with regard to issues concerning prisoners and fishermen in custody. We agreed that the work of the Judicial Committee has proved to be an effective way to proceed with the issues arising from prisoners and fishermen in custody and hope that the implementation of the recommendations of the Committee would speedily address the humanitarian aspects of this issue.
7. We noted that the Railway authorities had agreed to increase interchange of rakes to five daily from current levels of two daily. The proposal of opening the Kokhrapar–Munabao route in freight was also discussed and will be examined.
8. We noted that the third meeting of the Anti-Terrorism Mechanism was held in Islamabad on 24th June. We decided that the meetings would henceforth be held regularly.

I am very glad once again to welcome the Foreign Minister of Pakistan and his distinguished delegation to India. I look forward to our continued engagement and interaction.

Thank you.

Makhdoom Shah Mehmood Qureshi: Thank you, Mr. Mukherjee. Let me begin by thanking the Minister for External Affairs for the warm welcome and hospitality that I and my delegation have received.

I want to emphasize that the talks that took place between us were cordial and friendly and they were in continuation of the talks that we held in Islamabad. I am of the view that such interaction at this level will advance our relationship and will promote shared interest between the two countries.

We discussed a host of issues – bilateral issues. Obviously, as the Minister for External Affairs has said, the Foreign Secretaries will be meeting on the 21st and 22nd of July, that is very soon. They will be discussing a number of issues. In Jammu and Kashmir, peace and security are issues that will be focused on in those talks. But we also, in our talks, exchanged the significance and importance of ceasefire on the Line of Control and the International Border. And we are both of the view that that has by and large been upheld by both sides, respected by both sides; and it is in our mutual interest to maintain that.

While acknowledging the progress that we have made in the four rounds of talks, I urged the Minister for External Affairs to give serious thought to outstanding disputes that need our consideration. I have come to India with a very positive agenda, with a very positive frame of mind; and I have come representing a democratically elected government; I have come representing a coalition of political parties that feels that a positive movement towards peace and stability and normalization is in our mutual interest. We both stand to gain if our bilateral relations improve on the political as well as the economic front.

As Foreign Minister has said, for the Fifth Round the dates have been announced. And I also want to share with you that the commitments made by the Government of Pakistan on the 21st of May in Islamabad have been honoured. We had said that the Joint Anti-Terrorism Mechanism Committee meeting will take place and it did take place on the 24th of June. And in our discussions we have concluded that a regular exchange will be mutually beneficial. We had agreed upon that the meeting of the Working Groups on Cross LoC CBMs is to take place and it will take place. Pakistan will host this on the 8th of July.

As I said earlier on, I have come with a very realistic agenda. I personally feel that people on both sides want movement. They want progress; they want peace; they want stability; because they realize that South Asia is lagging behind. South Asia is lagging behind because both of us have not been able to fully concentrate on our social sectors, on developing our infrastructures to the extent that we could have. This region has a huge potential and we should optimally utilize that potential. And we can only do so if there is stability and there is peace.

I am of the view that the areas that we can very quickly move on, which will have a very positive impact on South Asia and the whole environment, are four in nature, and I discussed them in my talks with the Minister for External Affairs. I personally feel resolution of Sir Creek is doable. I am of the view that Siachen issue can be resolved. I am of the view that liberalization of visas is to our mutual advantage and will promote people-to-people contact. And the experience that we have had in people-to-people contact is that people when they visited each other have come back with fond memories

and have developed friendships, and want to come back again and want to go back to each other's countries.

The fourth area I think is economic cooperation and trade. We have recognized the fact that there has been movement, there has been considerable progress, but we are nowhere near the vast potential that exists between the two countries.

We also discussed how to revitalize SAARC as a forum for regional cooperation and mutual benefit, and I have suggested that in the Summit that will take place in Colombo we will put forth certain ideas on a number of focused areas.

I also urged and laid emphasis on a decision, for a quick decision on the IPI gas pipeline which I feel is to our mutual benefit. Both sides stand to gain and this pipeline can be a pipeline of peace and a new bond.

On the issue of prisoners, I did bring to the notice of the Minister for External Affairs certain mishandling and unfortunately the coverage that was reported in the press. It is a humanitarian issue. We have agreed to a mechanism and the recommendations of the Judicial Committee on Prisoners and the Consular Access Agreement that we have signed in Islamabad should be followed in letter and spirit.

In conclusion, what I want to say is that the political environment to make the peace process result-oriented is right on both sides. And as I said earlier on, I am of the view that the people on both sides are ahead of the Governments. The Governments have to show the political will and they have to give leadership to this process which is to our mutual advantage.

I feel this is a unique opportunity because all the major political players, whether on this side of the border or that side of the border, are supportive of this movement. Whether it is the Congress-led coalition in Delhi or it is the PPP-led coalition in Pakistan, major players whether it is the BJP, the Opposition here, or major opposition parties in Pakistan, there is a virtual consensus on movement and normalization. We must seize this opportunity, we have the right environment. And we must not miss this opportunity. It will be a great loss, if we fail and miss this opportunity.

I think a positive movement will give confidence and revitalize the faith of the people in the process. We are political parties; we are political leaders; and we have to carry our people along. And I think the people will support this positive movement.

I once again expressed our very keen desire that Prime Minister Manmohan Singh visits Pakistan. His visit is long overdue. We are looking forward to his visit to Islamabad. And we feel that that visit could be positive and add a new chapter in our relations.

Thank you.

B. PAKISTAN-CHINA TIES

Text of the Pakistan-China joint statement issued at the conclusion of president Pervez Musharraf's visit to China

President Pervez Musharraf visited China on 10-15 April 2008 on the invitation of President Hu Jintao. He was accompanied by Begum Sehba Musharraf.

During the State visit, President of Pakistan held officials talks with President Hu Jintao in Sanya; met Chairman NPC Standing Committee Mr. Wu Bangguo, Premier Wen Jiabao, and Chairman CPPCC Mr. Jia Qinglin in Beijing as well as the leadership of the Xinjiang Uygur Autonomous Region in Urumqi.

In their warm and friendly discussions, the leaders of Pakistan and China underscored the importance of the special relations that so happily exist between the two countries as well as their determination to take Pakistan-China friendship and strategic partnership to new heights.

Both sides expressed complete satisfaction on the development of comprehensive cooperation in all fields and agreed to further enhance their cooperative ties in economy, trade, science & technology, culture, and people to people relations.

China expressed its full support to the efforts of the Government of Pakistan to promote socio-economic development and in this regard expressed its readiness to assist Pakistan for the development of the energy, mineral and mining sectors; enhance financial and banking sector cooperation; and extend support for "projects" under the Pakistan-China Joint Five year economic and Trade Cooperation Plan. Both sides agreed to work together to achieve the trade target of \$ 15 billion as early as possible.

Both sides also agreed to optimally utilize the bilateral FTA. It was agreed that FTA on Trade in Services will be completed as early as possible.

Both sides agreed to enhance coordination and cooperation between relevant departments and agencies so as to facilitate overland trade between Pakistan and China.

Both sides also agreed to take steps for upgrading transportation and communication networks overland with a view to enhancing connectivity between the bordering regions for mutual benefit. Both sides also agreed to cooperate closely in the fields of water management, environmental protection and bio-diversity.

Both sides agreed to further strengthen defence cooperation and enhance collaboration between their respective defence industries.

China expressed its full support for Pakistan's efforts to preserve its sovereignty, independence, territorial integrity and expressed appreciation for Pakistan's important role in promoting peace, stability and security and its contribution to counter terrorism.

Pakistan reiterated its full support for the One China Policy and the return of Taiwan to motherland as well as its condemnation and rejection of the three evil forces i.e. secessionism, separatism and terrorism.

Both sides exchanged views on regional and global issues and reached common understanding. They agreed to work together closely in global and regional forums to promote the cause of peace and development.

Pakistan warmly congratulated the Chinese leaders and people on their great national accomplishments and expressed joy at the celebrations of the three decades of the policy of economic reforms and opening up.

Pakistan also expressed its appreciation for the excellent arrangements made by the Government and people of China for the holding of the Beijing Olympics and expressed its fullest cooperation and support to the Chinese Government.

President Hu Jintao accepted with pleasure the invitation extended by the President of Pakistan to visit Pakistan at his convenience.

Following Agreements/MOUs were signed during the visit:

- Memorandum of Understanding between the Ministry of Water and Power of the Islamic Republic of Pakistan and the Ministry of Water Resources of the People's Republic of China.
- Memorandum of Understanding on Cooperation in Engineering and Technological Sciences between the Ministry of Science and Technology of Islamic republic of Pakistan and the Chinese Academy of Engineering of the People's Republic of China.
- Agreement on Sports Cooperation between the Ministry of Sports of the Islamic Republic of Pakistan and the General Administration of Sport of the People's Republic of China.
- Memorandum of Understanding on Cooperation between the Ministry of Finance of the Islamic Republic of Pakistan and Ministry of Finance of the People's Republic of China.
- Memorandum of Understanding for Cooperation on Architectural Design, Research and Constructions between Capital Development Authority (CDA), Islamabad, Pakistan and The Consortium of China Architecture Design & Research Group and Institute of Architecture Design and Research, Chinese Academy of Sciences.
- Memorandum of Understanding for Cooperation in the field of exchange of news between Pakistan Television Corporation and China Central Television Network of the People's Republic of China.
- Memorandum of Understanding for the establishment of Pakistan Culture and communication centre at Tsinghua University.
- Memorandum of Understanding on Economic and Trade Cooperation between the Ministry of Commerce of the Islamic Republic of Pakistan and Foreign Trade and Economic Cooperation Bureau of Xinjiang Uygur Autonomous Region, People's Republic of China.
- Memorandum of Understanding between Board of Investment of the Islamic Republic of Pakistan and China Council for International Investment Promotion on Cooperation in Investment.
- Memorandum of Understanding on establishing relations of Friendship and Good Neighbourly Cooperation between the North West Frontier Province

(NWFP) of Islamic Republic of Pakistan and Xinjiang Uygur Autonomous Region.

15 April 2008. *Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

C. PAKISTAN & AFGHANISTAN

Text of the address delivered by foreign minister Makhdoom Shah Mahmood Qureshi at the International Paris Conference on Afghanistan

Your Excellencies!

Mr. Bernard Kouchner, Foreign Minister of France, Dr. Rangin Dadfar Spanta, Foreign Minister of Afghanistan, and Distinguished delegates!

First of all I would like to thank the hosts and organizers for the excellent arrangements that they have made for holding this conference.

I would also like to take this opportunity to place on record, Pakistan's deep appreciation for the leaderships of France, Afghanistan and the United Nations for convening this conference.

It has provided a timely opportunity to the international community, for taking stock of the situation, reaffirming its commitment, and accelerating its efforts, for building stability, peace and progress in Afghanistan.

Towards that end, we have to assess how far the goalposts laid down by 'London Compact' have been achieved. And how much remains to be achieved.

In Pakistan's view, London Compact's principal achievement has been the assistance to Afghanistan, for putting in place its physical, institutional and political infrastructure and enhancing, and preventing the Bonn Process from getting derailed.

Having said that, we need to revisit the strategy and corresponding means, worked out by the London Compact, and see where these need improvement and reinvigoration.

In doing so, first and foremost, we have to be guided by the view of the Afghan government. On this score, we have greatly benefited from the analysis and prognosis given by our Afghan friends today.

Now we have to see where and how much we could be of further assistance to them. This brings us to the question of greater international assistance to Afghanistan.

In the areas related to capacity building of the Afghan polity, governance, security and reconstruction and drug control.

Pakistan hopes the international community would not be found wanting in responding to Afghanistan's requirements.

The complex problems in Afghanistan are not going to lend themselves to quick and neat solutions. However, greater economic assistance can help in ensuring that Afghanistan, stays the course.

Moreover, it would also send the signal that the people of Afghanistan are not alone. The international community is with them.

The international community can not be deterred by extremists and terrorists from coming to the help of Afghanistan.

And that the international community was determined to break the vicious circle of "less security - less development", and make sustainable development -- "the overwhelming dynamic" in Afghanistan.

In this context, Pakistan is also of the view, that the international assistance to Afghanistan needs to be channeled more through its government.

We need to appreciate that in a situation like Afghanistan, the leading role by the government in reconstruction and economic development, is also essential for strengthening and enlarging the writ of the State.

It also needs to be sufficiently understood that the challenges of reconstruction, reconciliation and governance in Afghanistan, are interlinked and the strategy to overcome these challenges needs to be based on the capacity of the State.

Without Afghan ownership, it is doubtful that significant success can be achieved in any of these areas.

Pakistan on its part, will continue to have security cooperation with Afghanistan, under the mechanism of the "Tripartite Military Commission".

Pakistan will take all feasible measures to stabilize borders with Afghanistan. But matching measures are needed by both sides. Pakistan's commitment in war against terror is unwavering. It should not be doubted. More than one thousand Pakistani soldiers have laid down their lives in war against terror. If adding of one battalion soldiers in the fight against terror is a reason for pride, then Pakistan has more reason to be proud of in the struggle against terror.

Pakistan will also extend assistance in the construction work in Afghanistan. Moreover, it will not only revive but reinvigorate the process of 'Joint Peace Jirga' that is a traditional mechanism for reconciliation through dialogue.

We believe, that in the given situation, for building peace and stability, dialogue should have the primacy.

It is only when dialogue fails or starts giving diminishing returns, that other options could be revisited.

For these reasons, Pakistan hopes that avenues of dialogue, with those who are amenable to it, may be fully explored.

In the field of governance, Pakistan would like Afghanistan to avail the training programmes in the disciplines of judiciary and police, that are on offer to it for sometime.

Pakistan has been host to millions of Afghan refugees for the last three decades. Currently there are around 2.2 million of them in Pakistan.

To facilitate their repatriation, maintain their honour and security and help in their resettlement in Afghanistan, it gives me great pleasure to pledge US\$ 20 millions to Afghanistan.

Pakistan would also appeal to the international community to enhance assistance for their early and safe repatriation and sustainable settlement inside Afghanistan.

Pakistan is sanguine that on their return, these proud Afghans will singularly contribute to the reconstruction and development of their homeland.

The Afghan Presidential elections scheduled in 2009 and Parliamentary elections in 2010, hold great promise for further strengthening of the democratic dispensation over there.

Afghans deserve financial and technical assistance of the international community, for holding these elections smoothly and successfully.

Recently, Pakistan also held elections in the face of serious security challenges in some of its areas.

For this reason, we feel confident in offering our experience and expertise to Afghanistan, in holding of its elections.

To conclude, I would like to emphasize that as a close neighbour of Afghanistan, having bonds of shared faith, history, heritage and indeed of common geography – the security, progress and prosperity of Afghanistan, is of vital and abiding interest to Pakistan.

And with the new and democratic government in place in Pakistan, we would like to build further on our existing brotherly ties with Afghanistan.

We believe that close and cooperative relations between Pakistan and Afghanistan are not only in the mutual interest of the two countries and its peoples, but could also become a powerful dynamic of regional cooperation.

Thank you.

12 June 2008. *Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

D. PAKISTAN & OIC

1. Text of the address delivered by Foreign Minister Makhdoom Shah Mahmood Qureshi at the 35th session of the OIC council of foreign minister's meeting

His Excellency Professor Dr. Ekmeleddin Ihsanogulu, OIC Secretary General, Distinguished Foreign Ministers, Excellencies, Ladies and Gentlemen,

It is a great honour for me to address this august gathering of the Ummah, representing more than a billion people. The presence of His Excellency, President Mussevinini amongst us today reflects the importance which Uganda attaches to this organization.

I would like to congratulate Uganda for assuming the Chairmanship of the Organization of the Islamic Conference at the Foreign Ministers level. Mr. Chairman I assure you of Pakistan's complete support and cooperation in making this conference a success.

We are grateful to the Government and the people of Uganda for making excellent arrangements for this conference and for the generous hospitality being extended to us.

I would also like to express my appreciation to the OIC Secretary General Prof. Dr. Ekmeleddin Ihsanogulu and his team for their commitment, dedication and efforts to reform and revitalize this Organization and to make it responsive to the aspirations of the people of the Islamic World.

Excellencies,

The current session of the Council of Foreign Ministers takes place almost a year after the 34th Foreign Ministers meeting held at Islamabad in May 2007, which was a landmark event. Besides addressing a wide range of issues concerning the Ummah, the Islamabad meeting was significant as it was after a long time that all 57 Member States of the Organization participated in a Foreign Ministers Conference.

I would now like to briefly recall the significant achievements of the Ummah since Pakistan assumed the Chairmanship of the Foreign Ministers conference last year.

The revision of the OIC Charter was clearly the most significant accomplishment over the last one year. This process was characterized by a free and frank exchange on a wide spectrum of issues pertaining to the structure and working of the Organization and its future role. It was a difficult process and at times the task appeared to be insurmountable. However, with the collective wisdom and commitment of the Member States and in the spirit of compromise, we were crowned with success at the Summit in Dakar. In this context, I would like to pay tribute to the leadership of President Abdoulaye Wade and Foreign Minister Cheikh Tidiane Gadio for providing leadership in reaching the landmark agreement that will transform OIC into a modern and effective organization, fully capable of safeguarding the interests of the Ummah in the 21st century.

Excellencies, Ladies and Gentlemen,

The Ministerial-level Annual Coordination Meeting, convened during Pakistan's Chairmanship, on the sidelines of the 62nd United Nations General Assembly session in 2007, was instrumental in producing an outcome document that addressed many critical issues facing the Ummah. These included the finalization of the mandate for a legally binding instrument on discrimination and instigation of hatred against any religion - a decision that was emphatically endorsed by the Summit in Dakar. Such an instrument is necessitated by the increasing trend in recent years to insult Islam. We cannot accept such malicious attempts to defame our religion by certain persons on the pretext of freedom of speech. Such acts undermine the principles and purpose of the UN Charter to promote friendly relations amongst the nations. We think that OIC should continue to engage the Western countries on this issue.

Excellencies, Ladies and Gentlemen,

The Palestinian tragedy continues to be one of the fundamental stimulants of discontent in the Muslim World. The OIC continues to offer unstinted support to the Palestinian people for their inalienable right to self-determination, establishment of an independent Palestinian State with Al-Quds Al-Sharif as its capital and the right of return of Palestinian refugees to their homes. An important development under the Chairmanship of Pakistan was the Extra-Ordinary Meeting of the OIC Executive Committee held in February 2008. This Meeting mandated the Secretary General to contact influential international stakeholders and the United Nations with a view to seeking an end to a pattern of Israeli hostilities and the ensuing humanitarian crisis.

In South Asia, Pakistan remains committed to the peaceful resolution of the longstanding dispute of Jammu and Kashmir in accordance with the UN Security Council Resolutions and the aspirations of the Kashmiri people. In my meeting with the Indian External Affairs Minister, Parnab Mukhrjee last month for the review of the fourth round of Pakistan-India Composite Dialogue, we exchanged views on the issue of Jammu and Kashmir and agreed to continue discussions to build on convergences and narrow down divergences. We also agreed to continue the implementation of a number of Kashmir related CBMs with the view to alleviating the sufferings of the Kashmiri people. However, Pakistan remains deeply concerned over the widespread and continued human rights violations in the Indian Occupied Kashmir. A number of reputed human rights activists and organizations as well as international media, including Indian media, have voiced grave concerns over the human rights violations in Kashmir.

The OIC continues to extend support to a peaceful resolution of the Kashmir dispute in accordance with the UN resolutions and aspirations of the Kashmiri people. We thank Ambassador Izzat Kamil Mufti, Secretary General's Special Representative on Jammu and Kashmir, for his sustained efforts, founded in a succession of OIC resolutions in support of the right to self-determination of the Kashmiri people. We would also like to convey Pakistan's profound gratitude for OIC's support to the Kashmiri people in their valiant struggle to achieve their right to self-determination. We hope that the recommendations contained in the Report of Special Representative's visit to Azad Kashmir in March 2007 will be implemented in a time-bound manner.

Excellencies, Ladies and Gentlemen,

A number of other important events and developments took place over the last one year. These included the first ever conference of OIC Health Ministers in Malaysia; the 36th Session of the Permanent Finance Committee that adopted a package of financial reforms in the OIC; the 13th General Assembly of the COMSTECH, which implemented the decisions of the Ministers to transform the COMSTECH Secretariat into a Specialized Organ; and the two meetings of the COMCEC characterized by initiatives such as Halal Food Standards and the impact of the ongoing international food and energy crises on the Member States' economies.

Pakistan participated actively in all OIC meetings and contributed significantly towards their successful outcome. We upheld our tradition of concrete expression of commitment towards important initiatives within the OIC framework by signing and ratifying the Preferential Tariff Scheme for TPS-OIC (PRETAS). Pakistan remains fully committed to continuing its active role on all matters of importance including issues of human rights, tackling Islamophobia and matters pertaining to developments in science and technology.

Excellencies, Ladies and Gentlemen,

OIC is the second largest International Organization after the United Nations. It represents the voices and aspirations of almost one-sixth of the entire humanity. As we all gather here today, recalling the achievements of the past one year, it is also a moment to reflect upon the fact that OIC is still far from realizing its true potential. Most of us still do not project OIC's position in other international forums nor do we vote for our endorsed candidates in elections to various international bodies. We need to change this if we want to be noticed and taken seriously by the world. This is a doable goal.

Excellencies, Ladies and Gentlemen,

As I hand over the Chair of the Council of Foreign Ministers now, I am doing so with the confidence and belief that the organization will make significant strides in the next one year under the leadership of the brotherly country of Uganda.

I thank you all.

18 June 2008, Kampala. *Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

2. Text of the Address delivered by Foreign Minister Makhdoom Shah Mahmood Qureshi at the OIC contact group on Jammu and Kashmir during the 35th meeting of OIC CFM

Excellency Professor Ekmeleddin Ihsanoglu,

Excellencies,

Distinguished True Representatives of the Kashmiri people,

Ladies and Gentlemen,

It is a matter of great honour for me to address this meeting of the OIC Contact Group on Jammu and Kashmir. I am grateful to all of you for your participation in the meeting. Your presence here is a manifestation of the solidarity of Muslim world with the people of Jammu and Kashmir in their struggle to achieve their right to self-determination. The support of the Muslim Ummah is greatly valued by the Kashmiri people.

I would like to express our gratitude to the Honourable Secretary General for his continued support to the Kashmiri cause.

I would also like to place on record our appreciation for the efforts of Secretary General's Special Representative on Jammu and Kashmir,

Ambassador Ezzat Kamel Mufti. The substantive recommendations made in the report of his mission to Azad Kashmir and Pakistan last year require expeditious implementation.

Excellencies, Ladies and Gentlemen,

The world around us has changed from what it was sixty years ago. Today we all cherish the freedoms we have; freedom of expression, freedom of movement, freedom to elect and run our own institutions. In contrast, Kashmiris continue to demand their basic right to self-determination—a right promised to them by the international community in the form of UN Security Council resolutions. The international community must redeem its promise to the Kashmiri people, who have steadfastly continued their struggle.

Excellencies, Ladies and Gentlemen,

For its part, Pakistan remains firmly committed to the moral, political and diplomatic support to the people of Kashmir in their just struggle. We have always underscored the imperative of a meaningful and result-oriented dialogue to amicably resolve this dispute. We have repeatedly stated that accommodation and flexibility is the only way to find a durable and peaceful solution to this long festering dispute.

Excellencies, Ladies and Gentlemen,

The ongoing peace process between Pakistan and India offers an opportunity to achieve a just settlement of the Kashmir issue. We have maintained all along in our interaction with the Indian leadership that Kashmiris should be an integral component of the dialogue process. Our endeavours are rooted in the belief that Kashmiris must be the principal beneficiaries of the outcome of the bilateral peace process.

In order to alleviate sufferings of the Kashmiri people, we have initiated a number of Kashmir-related CBMs over the last three years. The ceasefire being upheld since November 2003 has provided the Kashmiris across the LoC an opportunity to lead normal lives. Likewise, the bus services and the crossing points across the LoC are aimed at ameliorating the sufferings of the divided families.

Excellencies, Ladies and Gentlemen,

It is a matter of deep concern for us that the widespread violations of human rights in Indian occupied Kashmir have continued. The violations are a direct result of massive presence of Indian security forces in the occupied Kashmir, armed with draconian laws. These violations have been extensively documented by important international human rights organizations. Pakistan reiterates its call for immediate and complete cessation of all forms of human rights violations in Indian occupied Kashmir. We hope and expect that the Indian leadership will demonstrate the required spirit of accommodation.

Excellencies, Ladies and Gentlemen,

Pakistan and India are at the defining moment of history. There is an imperative need to end the legacy of hostility and distrust and to work towards a peaceful resolution of the Kashmir dispute.

Given sincerity, flexibility and courage, the objective of lasting peace is within reach. Pakistan will continue its efforts to support the Kashmir cause through peaceful political means. I would like to assure my Kashmiri brethren that together we shall work for the achievement and fulfilment of this just and principled cause. To this end, the support of OIC and its members is a source of great strength for the oppressed people of Kashmir.

In conclusion, I would like to thank you all for your continued support to the Kashmir cause.

18 June 2008, Kampala. *Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad. www.mofa.gov.pk

III. Economy

Budget speech 2008-09 of Syed Naved Qamar, minister of state for finance

Madam Speaker

I rise to present budget before the House after a long time. We presented the budget 12 years ago when it was certainly a different budget, a different social environment, a different House and a different Pakistan.

Budget was not that large but at the same time the deficits were also not large. At that time we did not have such a large population, but the society also did not have so much of poverty, hunger, unemployment and disease. The House was not so large but it did not have such complex issues to face. It was the same Pakistan but it did not have problems and challenges of such magnitude.

We handed over the country after putting an end to load shedding, but today not only the country but destiny and hopes of the people are immersed in complete darkness. This was an agricultural country which has been handed back to us with famine like conditions. There were small law and order problems, but we were not so helpless before the terrorists because of which lives of innocent people have become unbearable. Every city is a dead place and fear has gripped every house. On top of it, with the demise of our brave leader, Shaheed Benazir Bhutto, the hopes and aspirations of the people were also shattered.

Madam Speaker,

We did not have so many resources but we were not confronted with such grave problems. We may not have had such a large infrastructure but infrastructure was neither hallow nor crumbling which could break into pieces with a slight tremor. Life was not so difficult and hopeless to make living a burden. There

was democracy and the country was not under the rule of a dictator which makes life oppressive.

Madam Speaker,

History is witness to the fact that whenever we were entrusted with power we inherited a broken Pakistan, surrounded by upheavals, dangers, poverty, hunger, terrorism and injustice. Our leader Shaheed Zulfikar Ali Bhutto and Shaheed Benazir Bhutto nurtured this country and its poor peoples. However, we accept the present challenge and assure the nation that we will salvage the situation and retrieve the country from the problems that surround it.

Madam Speaker,

Where are we standing?

Before I present the specific proposals of the Budget for the consideration of this House, it will be necessary that I present the condition of the economy that we inherited and the budgetary conditions prevailing in the current fiscal year. Such an appraisal will enable my colleagues to judge for themselves the economic conditions surrounding us and appreciate the difficult choices we are faced with.

The economy we have inherited was built on the windfalls of the aftermath of 9/11. Economic progress made has not proved to be sustainable. Significant amount of capital was withdrawn from the West and transferred to the developing countries; informal channels of financial transfers were blocked, thereby resulting in huge inflow of remittances through the normal banking channels; sizeable support was received by the country from its partners in the war on terror. The phenomenal increase in the flow of foreign capital helped the country to build reserves as well as sustain high demand for imports. The economy expanded significantly and high rates of growth were achieved. However, much of the growth was driven by growth in consumption, such as in consumer durables cars, TVs, refrigerators, air conditioners, mobile phones and similar consumer products. Commensurate investments in industry, infrastructure and agriculture were not made to support high growth on a sustained basis. This mismatch in growth and supporting infrastructure is poignantly reflected by the fact that we have no electricity to use such durable goods. Similarly, urban roads were not built to accommodate the growth in the motor cars.

Madam Speaker,

The fragile foundation of growth was exposed as the country suffered a series of shocks since the eruption of judicial crisis on March 9, 2007. This was followed by oil price shock and widespread food shortages. Just as these crises were brewing the government went into policy inaction, delaying some painful decisions needed to face these challenges, as it was politically expedient in view of presidential and parliamentary elections. The current budget has taken the brunt of all ills that were associated with these crises so much so that it is threatening to undo much of the gains which the economy had achieved in the last 4 years.

A quick account of unfavorable developments during the year would enable us to gauge the damage done to the economy:

(1) In 2007-08, the economy will grow at 5.8 % compared to the target of 7.2 %, and the actual growth rate of 6.8 % last year;

(2) Both manufacturing and agriculture sectors have recorded very low growth of 5.4 % and 1.5 % respectively;

(3) Inflation is running at 11 % as compared to 7.8 % last year;

(4) Budget deficit after concerted efforts of this government is still estimated at 7.0 % of GDP, against the target of 4 %;

(5) There was a phenomenal build up in subsidies in the budget, which are largely responsible for this huge deficit. These subsidies, totaling Rs. 407 billion include; petroleum Rs. 175 billion; electricity Rs. 133 billion; wheat Rs. 40 billion, and textiles and fertilizers Rs. 48 billion, of which only Rs. 114 billion were provided in the budget;

(6) Largely due to an exceptionally high fiscal deficit, balance of payments is facing unprecedented deficit as well. The current account deficit is projected at \$ 11.9 billion or 7 % of GDP;

(7) Reserves have declined from a high of \$ 16.5 billion in October, 2007 to less than \$ 12.3 billion as at end April 2008. This has put pressure on the exchange rate which has depreciated by nearly 6.4 during July 2007 to April 2008;

(8) Much of the deficit had to be financed from borrowing from the State Bank, which is like printing more money. As much as Rs. 551 billion (up to May 2008) have been borrowed from the central bank, which is unprecedented in country's history. It is not difficult to imagine what this printing of money means. With more money and no new production, only prices are likely to increase, which is what is happening. We have to stop this process otherwise the inflation will be running much higher than what it is at present, and as I noted it is already highest in country's history.

Madam Speaker,

The budget for 2008-09 is part of a perspective plan on which the new government is currently working and will shortly be finalized. Accordingly, we are taking a long term perspective while announcing the budget. It will be useful to spell out the key assumptions about the macroeconomic conditions assumed to prevail during the year and will affect the budget. These are:

(a) GDP growth will increase by 5.5 % in the year 2008-09;

(b) Inflation will be contained at 12 %;

(c) Gross investment to GDP ratio will be maintained at 25 %;

(d) Fiscal deficit will be contained to 4.7 %;

(e) Current account deficit will be reduced to 6 % of GDP;

(f) Foreign exchange reserves will be increased to \$ 12 billion.

Development Plan

Public investment remains an important engine of growth, even though its share vis-à-vis private sector has declined in recent years, which is a good thing as we

want private sector to bear an increasingly larger burden of economic development. The National Economic Council has approved a development plan of Rs. 549.7 billion for the year 2008 09. This represents an increase of nearly 5% over the budgetary target of Rs. 520 billion for 2007 08, despite serious resource constraint facing the economy.

Budget estimates for 2008 09 and Revised Estimates 2007 08

We are setting the following key objectives for the budget 2008 09:-

- (1) Restore economic stability through:
 - (a) Significant reduction of fiscal deficit;
 - (b) Rationalization of subsidies;
 - (c) Reduction in current account deficit; and,
 - (d) Build up of foreign exchange reserves to a minimum of \$ 12 billion.
- (2) Protect the vulnerable Groups by increasing their incomes through a targeted program of cash transfers;
- (3) Focus on agriculture and manufacturing sector to raise their productivity and competitiveness;
- (4) Restore investors confidence by declaring government's commitment to economic growth and investment and private sector's lead role in the process;
- (5) Remove key bottlenecks in supportive infrastructure for spurring growth;
- (6) Increase social sector allocations to bring about a meaningful change in the social indicators;
- (7) Make significant additions to low cost housing to lessen the rising gap in housing stock, especially for the low income groups.

The budget estimates for the year 2008 09 together with a review of budgetary performance of the current year i.e. 2007 08 is presented below.

Against a revised fiscal deficit of 7 % of GDP for this year, the budget for 2008 2009 envisages a budget deficit of 4.7 % of GDP. This represents a significant fiscal adjustment and promises stability in public finances. A combination of better revenue collection and expenditure control measures has made it possible for us to aim for this target.

FBR revenues will rise to Rs. 1250 billion from revised estimates of Rs. 1000 billion for 2007 08, representing an increase of about 25 %. A combination of natural growth and discretionary effort proposed in the budget will provide the necessary base for projecting this meaningful increase in revenue collections. Current Federal expenditure has been budgeted at Rs. 1493 billion against the revised estimates of Rs. 1516 billion for 2007 08. We will try to achieve further savings in current expenditure on the basis of measures proposed to be adopted for bringing fiscal discipline.

The government will reconstitute and convene the meeting of National Finance Commission as soon as nominations of members are received from the provinces. Provincial transfers (including grants) are projected at Rs. 606 billion against the revised estimates of Rs. 490 billion for the current year, representing an increase of 24 %. The projected income and expenditures indicate that the

provinces are likely to have an improvement of about Rs. 79 billion in their cash balances after catering for the local component of their PSDP and extra expenditure.

Based on the above estimates, we expect that our budget will help stabilize the economy, promote fiscal discipline and further the process of economic revival. Our measure of success will be reflected in averting any further decline in market confidence and better flow of investment both from local as well as from foreign investors.

Impact on vulnerable groups

Madam Speaker,

It is widely documented that income distribution in Pakistan has worsened during the last decade. The wealth accrued during this period was not equitably distributed. Even though much of the inflation is due to foreign price increases, and while a large part of the required price increase has yet to be passed on, the conditions facing the vulnerable and fixed income groups are precarious at best, and down right unbearable at worst. We cannot afford to remain oblivious to the plight of the poor. We still have time to act. It is incumbent on us to react to their voices before they are taken over by despair that state is unable to play any meaningful role in their lives. We must insulate these people from the vagaries of rising prices and falling real incomes. The founding fathers of PPP had 'social justice' as the core value guiding their struggle for democracy. Accordingly, we are determined to fulfill our responsibility toward such groups and the current budget will address this issue.

Infrastructure shortages

As I stated earlier, investment in key infrastructure projects needed to support rising and sustained growth were not undertaken either in public sector or encouraged in the private sector. For instance, in the power sector, the country is facing the most severe load shedding of its history. The peak demand supply gap was recorded at some 4500 MW. I cannot resist making the point that this gap has occurred despite the fact that 6500 MW of private power was added in the last decade, all approved by the Peoples' Government under its Energy Policy of 1994. These IPPs, which are now our saviors, were unjustifiably maligned and castigated. Similarly, and even though significant amount of additional gas was injected in the system again because of the incentives offered under the Energy Policy of 1994, yet there is a demand supply gap of nearly 1.5 bcf at present and rising rapidly unless major sources of additional supply are added to the system. We have to augment our supplies both from indigenous sources as well as from outside, both through imports and cross border pipelines, as we are raising the priority of gas supply to power sector to ensure that we fully utilize our existing facilities.

When we took over, the nation was suffering from load shedding and black out. We took stock of the position and are undertaking numerous measures in the short term, medium term and long term to relieve the people, industry and agriculture from the menace of electricity shortages. These include conservation

in electricity use, revamping and efficient use of installed capacity which will make available 1500 MW of electricity. We assure the nation that by taking these measures, load shedding will be substantially reduced. While textile industry will have continuous round the clock supply, flour and ghee mills will have 18 hours of supply. Agricultural tubewells will have continuous power supply for 10 hours at a stretch every night to avail rebated tariff.

Water availability is now a real issue facing the country. The need for expansion in storage capacity has never been more pressing. However, at the same time efficiency in water use is equally important. Thus alongside increasing water storage capacity, we need to pay equally serious attention to water use efficiency.

Madam Speaker,

Agriculture is the backbone of the economy which remained neglected and sidelined during the last 8 years. Numerous measures and policy directions are being put in place to ensure relief and motivation to the farmer as well as incentives to the agriculture sector to contribute its due share to the national economy. These include:

a) Increase of support price of wheat from Rs 510 to Rs 625 per 40 KG.
b) Review of the support price for the next year's wheat crop in August September i.e. before the next sowing season keeping in view the input cost and prevailing international prices.

c) Provision of Rs 75 billion in the PSDP to improve the availability and efficient use of water resources through construction of dams, rehabilitation of irrigation, improve drainage system, lining of canals and water courses throughout the country.

d) To ensure that agriculture produce retains its value and quality and to facilitate its export. Cold chains will be set up in the country.

e) Arrangements for import of bulldozers through foreign collaboration to increase and improve the cultivable area.

f) DAP fertilizer is an essential input that enhances crop yields. The steep increase in its international prices is discouraging the use of this important fertilizer and thereby adversely affecting productivity. Our government will more than double the subsidy on DAP from Rs. 470 per bag to Rs 1000 per bag. Subsidy on other fertilizers will also continue. A total allocation for subsidy on fertilizers has been increased from Rs 25 billion to Rs 32 billion.

Complete exemption from sales tax and other duties on imported and local supply of fertilizers and pesticides, so that the farmers can get these at much cheaper prices. The effect of exemption from duties in respect of both fertilizers and pesticides is Rs 6 billion.

g) Availability of credit to agriculture sector has been limited compared to industry and other sectors. During the year an additional amount of Rs 30 billion will be made available in addition to total credit to agriculture sector amounting to Rs. 130 billion disbursed this year.

h) We are also revamping ZTBL and will broaden its outreach.

Madam Speaker,

In addition to above measures, agriculture sector will also be provided more incentives and facilities through fiscal measures as well, which are:-

a) Exemption from 10% custom duty on import of rice seeds to ensure healthy and quality production of rice in the country.

b) Duty free import of machinery and equipment for grain handling and storage facilities to be de linked from the conditionality of local manufacture. This will largely help in improving the grain handling and storage facilities in the country.

c) It is also proposed to waive off the levy of 5% Federal Excise Duty on premium of crop insurance policy also. These measures shall yield higher productivity and substantial raise in the income levels of the common man.

Livestock and Dairy

a) Livestock and dairy is a major source of income and livelihood for the rural population. Pakistan is the fifth largest producer of milk. However, this potential has not been optimally leveraged. In order to encourage this sector, the Prime Minister's under his Special Initiative for "White Revolution", an allocation of Rs. 1.5 billion is proposed for the projects through the PSDP in this sub sector. These include livestock production and development of meat production, Veterinary services for livestock, milk collection and processing and dairy production and development program, establishment of an integrated national animal and plant health inspection services facility and up gradation of animal health laboratories at NARC for poultry diseases.

b) In the fisheries sector such important projects like aqua culture and shrimp farming, stock assessment survey program in EEZ of Pakistan and fisheries training center in Gwadar are being undertaken for which an allocation of Rs. 1.1 billion is proposed in the budget.

To enhance supply of quality seed to farmers, a National Commercial Seed Production Program is being prepared. Negotiations have been started for fast track, formal release of Bt cotton varieties in Pakistan. This would help in making our farmers more competitive in production of cotton.

Foreign investment in agriculture sector will be encouraged to increase our productivity and develop cultivable areas. Large tracts of land will be made available to foreign investors to induct capital and technology in our local farming sector.

Industry and Manufacturing

Madam Speaker,

Our industry is losing its competitive edge, which is most notably reflected in the slow down in all categories of textiles, which is the mainstay of our exports. There are procedural irritants that add to the cost of doing business in Pakistan. Similarly, a number of inefficiencies inherent in the provision of infrastructure services, such as electricity, have led to increased cost of production, thereby adversely affecting our competitive edge. A number of fiscal measures are being undertaken to incentivize local manufacturing, which are:-

i) Customs duty on import of sewing machines in CKD/SKD condition is therefore being increased from the existing 5% to 20% to promote and protect the local manufacture of sewing machine parts and components,

ii) import duties on raw materials, parts and components of these industries are proposed to be reduced to the lower slabs of zero, 5% and 10% respectively depending on their nature and requirements,

iii) Tariff based system of the auto industry is being improved further. For this purpose various additions, deletions, mergers and creation of new tariff lines in Schedule 1 of the Customs Act, 1969 have been proposed. The new tariff lines will continue to attract additional duty at the rate of 15% as the respective items are being manufactured locally,

iv) PTA is very important chemical for production of Polyester Staple Fibre (PSF). It is proposed that now rate of customs duty on PTA may be reduced from 15% to 7.5% and duty on Polyester Staple Fibre (PSF) may be reduced from 6.5% to 4.5%. It is expected that this proposal will not only benefit the textile industry in general but fabrics and garments, in particular,

v) In order to maintain the prices of medicines at the present levels and to provide relief to the local industry, it has been proposed to reduce the rates of customs duties on respective chemicals, active pharmaceutical ingredients and packaging materials from the existing 10% down to 5%. Similarly as many as 18 more life saving drugs and medicines, as are used for treatment of cancer and other terminal diseases, are being completely exempted from import duties,

vi) the import duty on calcium carbide is proposed to be reduced from the existing 15% down to 5% ,

vii) the import duty on caustic soda is proposed for reduction from the existing rate of Rs. 5000/ per metric tonne to Rs. 4000/ per metric tonne, being the industrial input,

viii) reduction of customs duty on import of printing screens from the present rate of 15% to the lower slab of 10% whereas its raw materials are proposed for complete exemption of duty in order to promote their local manufacture,

ix) reduction in customs duty on import of buckram from the higher slab of 25% to the lower slab of 10%, for value addition to textile industry,

x) extension of duty free import facility of samples of no commercial value, to all manufacturers irrespective of the fact whether they are direct or indirect exporters,

xi) Bitumen is presently charged to a concessionary rate of 5% duty which is proposed to be exempted,

xii) the existing 20% duty on import of base oil for lubricating oil is proposed to be reduced to the lower slab of 10%,

xiii) under the existing tariff regime, equipment used in the telephone call centers are chargeable to 5% duty with complete exemption from sales tax. Two of the major components namely voice cards and "vast terminals" which are meant for use in the telephone call centres are however chargeable to 10% customs duty whereas the "other digital call recorders" attract 20% duty on

import. It is proposed to reduce customs duty on the said category of equipment and components to the lower slab of 5% with exemption from sales tax,

xiv) The rate of duty for polyester films is proposed to bring at par with other items of the same category and it will also become liable to 20% duty,

xv) In order to encourage import of dedicated CNG buses, 15% customs duty on their import will be abolished,

xvi) It is proposed to allow the import of dredgers free of customs duty in order to reduce the cost of port operations,

xvii) Energy Saving incentives: In order to achieve the objective, the customs duty on import of energy saver bulbs is proposed for complete exemption. Two components namely "Generators" and Deep Cycle Batteries", which are meant for dedicated use in the solar energy equipment, are also proposed for exemption from the customs duty,

xviii) It is further proposed that WAPDA and its generation companies be allowed temporary import of power generation plants free of customs duty as against the existing rate of 5% duty. The local manufactures' production will be purchased by WAPDA for distribution,

xix) In order to deal effectively with the energy crisis in the country and to keep the prices as low as possible so as to encourage its use, it is being proposed that energy saver lamps may be exempted from sales tax. This measure would not only ensure the availability of energy saving lamps on cheaper prices but also save energy up to 1000 mega watt,

xx) in order to incentivize the investment in domestic manufacturing industry, the Government allows import of raw materials, parts and components etc., either at zero or reduced rate of duty provided these are not manufactured locally. It has been observed that the conditionality of local manufacture as envisaged in respective notification SRO. No. 565(1)/2006 unnecessarily hampers the scheme of incentive. Therefore the condition pertaining to local manufacture for import of inputs at concessionary rate of duty under SRO. 565(1)/2006 is proposed to be deleted,

xxi) it is proposed that any plant, machinery, equipment and capital goods which is worth US\$ 50 million (C&F) or more, being imported for setting up of new industrial projects may be de linked from the conditionality of local manufacture. This will curtail the discretionary powers of the administrative authorities and will provide for the hassle free investment environment,

xxii) tax incentives like time bound tax holidays and creation of tax free zones/ industrial estates etc. for industrial development in the past ignored rural and under developed areas. It is proposed that 90% First Year Allowance and 10% normal depreciation be allowed to the industries established in specified rural and under developed areas duly notified by the Government. It will generate economic activity and employment in such areas besides eradication of poverty and illiteracy. Linked with this is providing enabling environment for future Direct Foreign Investment (DFI) and stabilizing economic growth by extending further already available exemption to "Capital Gain" on sale of shares of companies listed on stock exchange for a period another two years,

xxiii) it is being proposed that caustic soda/flakes, cotton linter and sequins should be zero rated so that financial liquidity in the Textile sector is increased and the textile producers are free from the hassles of delays in getting refunds on this account,

xxiv) it is, proposed that sales tax paid by non resident entrepreneurs/traders arriving in Pakistan on trade fairs may be exempted by inserting suitable provision in the Sales Tax Act, 1990. This exemption will be available to foreign entrepreneurs on reciprocal basis,

xxv) The Government has strong desire to provide health facilities on cheaper rates to the people of Pakistan. For this purpose, the import of medical equipment, apparatus, reagents, disposables, spares and donations supplied to Government hospitals and charitable institutions are exempt from sales tax. However, such goods are taxable if produced locally which increases the cost of health facilities. It is proposed that the local supply of medical equipment, apparatus, reagents, disposables and spares to the Government hospitals and charitable hospitals having more than 50 beds and proceeds to be exempted from sales tax,

xxvi) the Government of Azad Jammu and Kashmir does not allow its registered persons to get refund of input tax paid in Pakistan because of paucity of funds with the Government of Azad Jammu and Kashmir. The business community of Azad Jammu and Kashmir has been demanding since long that it should be given refund of input tax paid in Pakistan. To resolve this long standing issue, it is being proposed that registered persons in Azad Jammu and Kashmir may be allowed to claim refund on supplies of inputs from Pakistan. Accordingly, a new section is being added in the Sales Tax Act, 1990 to authorize FBR authorities to pay such refunds/repayments.

Expansion in communication links roads, railways, ports and terminals is an equally pressing need. Gwadar port has yet to take off for lack of supportive road links to transport cargo up country. We have to guard against such occurrences because huge development funds were invested, yet the economy has so far reaped no benefits from such a gigantic project.

All the above factors, particularly infrastructure shortages, are stunting our growth. We have undertaken a detailed review of the current pipeline of approved projects for development budget. We have decided to prune projects as we saw little benefit to the economy from such projects. Details of this review will be provided separately. However, I would like to state that the development plan we are giving to the nation reflects our priorities which are based on economic realities as well as people's aspirations.

Pakistan has to make important strategic choices to ensure sustainable growth in the manufacturing sector in a rapidly changing and challenging international competitive environment. This requires massive structural changes rather than a marginal change, a shift in the production paradigm to technology and knowledge based industrialization with a focus on the quantitative and qualitative growth of an integrated and competitive industry in private sector. The inefficiencies of import substitution must give way to export led strategy.

The Government is creating a synergy between public and private sectors to benefit from the respective strength of each. A policy and operational framework for fostering public private partnership is gradually evolving. Ministry of Industries and Production also decided to "re position" it to play a leadership role in formulation and implementation of a comprehensive strategy for rapid industrialization of Pakistan which aims at maximizing job creation and enhancing Pakistan's international competitiveness.

Government is taking a number of initiatives to facilitate investors. The most effective support in this regard is the establishment of industrial estates with relevant infrastructure facilities. An allocation of Rs. 1.0 billion is proposed for establishment of Export Processing Zones (EPZ) in Balochistan to support the growth and development activities around the Gwadar port. China Pak Economic Zone in Hattar, industrial estate for Reconstruction Opportunity Zones (ROZs) in Khushal Garb, NWFP and improvement, rehabilitation and modernization of industrial estates in NWFP are three initiatives to be taken in NWFP, where industrial development needs acceleration. Specialized zones such as textiles city, garments city and Marble and Granite city are also in hand through public private partnership.

As I said earlier, significant shortages are emerging in such critical sectors like power, gas, railways and highways which are now exacting a toll in form of slow down in growth. Before any further damage is suffered it is necessary to add to the stocks of such key infrastructural resources. Accordingly, adequate funds have been provided to meet this challenge:

(1) Power sector: Government is attaching highest priority to reduce the demand supply gap for power, which is crippling the economy.

The larger burden of this responsibility will fall on the private sector as under the regime introduced by the Energy Policy of 1994. It was to restrict the public sector to only provide supportive infrastructure, policy making and regulatory responsibilities. However, in view of the urgency of the situation, limited temporary term investments have been allowed in the public sector on the understanding that these will be disinvested at the earliest possible opportunity. An allocation of Rs. 66 billion is proposed to be made for a number of power sector projects. The projects included cover all the sub sectors, power generation, transmission, distribution and alternate energy. It is estimated that 2,200 MW of power will be brought on stream by the early next year and we will not face the same situation as during this year.

(2) Roads and Highways: Communication links are central to economic development. To give a significant impetus to the growth of road network in the country, an allocation of Rs. 37 billion is proposed to be made in the budget. This will cover more than 60 schemes covering such important projects like Makran coastal highway, Islamabad Peshawar motorway (M 1), Karachi Northern By pass, Indus Highway Phase III project, Noshki - Dalbandin road, Mansehra Naran Jhalkhad Chilas road, Lowari Tunnel access roads, rehabilitation, improvement and widening of KKH, Hasanabadal Abbottabad Mansehra expressway and Faisalabad Khanewal expressway.

(3) Special Areas development program: It is proposed to increase the allocation of for Special Areas Development Programs for, AJK, NA and FATA from Rs. 21.2 billion to Rs. 26.2 billion, which represents an increase of 24 %. This program will ensure equitable progress in less developed regions of the country.

Human Development and Poverty Reduction

Madam Speaker,

The main plank of democratic government's economic policy will be human development and poverty reduction. To this end, we are adopting a multipronged strategy. First, allocations for expenditures related to poverty reduction will be enhanced. Second, Special programs will be initiated to enhance the incomes of low income groups. Third, a regionally diversified program of low cost housing will be started that would aim to significantly enhance availability of housing for low income group.

The main features of development program and other measures we plan to take in this budget to close the social gap are as follows:

(1) Education: In the development plan we have proposed to allocate Rs. 24.6 billion for education. It may be noted that of the total federal PSDP for ministries, the funds allocated to education sector constitute about 10 % which is a very good allocation. It may also be stated that larger expenditure on education and health is done by the provincial governments and federal government does basically a supportive role in these areas.

(2) Health: An allocation of Rs. 19 billion is made in the development plan for the health sector programs. The main vehicle for implementing preventive health care is the Lady Health Workers (LHWs). This was a program which Shaheed Mohtanna Benazir Bhutto started back in 1994. Presently, 100,000 LHWs are in the field, but the desired coverage of population is incomplete. To further broaden this program, government will be recruiting 100,000 more LHWs during the year. I may point out that we will be doubling the number of LHWs in one year as compared to the number recruited in 14 years. A number of preventive health programs such as the Expanded Program of Immunization (EPI), enhanced HIV/AIDS control program, national TB control program, national program for control of blindness, control of hepatitis, maternal and neo natal and child health program will be strengthened.

(3) Critical curative infrastructure is also planned which includes such projects as a 400 bedded hospital for chest disease for women, national plan for disease surveillance, strengthening of district hospital and up gradation of BHUs.

(4) Clean drinking water: To improve the quality of life for the poor of the country, government is launching the clean drinking water initiative. An allocation of Rs. 2.2 billion is proposed for this program, under which filtration plants will be installed throughout the country, eventually at the village level. This is a participatory program between federal and provincial government, on the one hand, and between provincial and local government, on the other. This

project will mean a lot for the health of our nation as the majority of our population is afflicted by water borne diseases.

Access to clean drinking water will greatly reduce the risk of such diseases.

Benazir Income Support Program

As I said, protecting the vulnerable from the vagaries of price hike is the main objective of this budget. For this purpose, government is launching a new program to be known as "Benazir Income Support Program". Under the program we are initially providing an amount of Rs. 34 billion to be raised to Rs 50 billion to be given to the poorest of poor. The salient features of the program are

a) Cash grant of Rs 1000 per month will be given to each qualifying household.

b) Selection will be done through the computerized NADRA database under set criteria.

c) Computerized National Identity Card (CNIC) will be used as well as their thumb impression.

d) The disbursement will be to the head of the household from the nearest bank or post office.

e) Those who do not have CNIC will be encouraged to apply for a card free of cost.

f) Data will be continuously updated to include eligible households.

g) The beneficiaries of Benazir Card will also be provided, in due course, other welfare facilities like employment, skill development training for family youth, medical insurance, food subsidy.

h) In addition to the above welfare measures, the poor will be supported through the existing program of Baitul Mal, food items at subsidized rates will continue to be provided through the Utility Stores whose network will be expended to 6000 stores.

People's Works Program: Improving access of low income groups to basic necessities of life will play an important role in reducing poverty and improving the quality of life. Thus we are reviving the erstwhile People's Works Program of small development schemes that would cover such basic areas like provision of electricity, gas, farm to market roads and water supply. I propose to allocate an amount of lfs. 28.4 billion in the development plan for this purpose. The schemes to be undertaken will be identified by the elected representatives. This program will also create sizeable employment opportunities and therefore add to the increased income of our people.

Human Resources Development Commission: Government is setting up a Commission which will review the state of unemployed people in the country, regularly monitor the unemployment rate and suggest measures for its control. It will coordinate all programs aimed at providing employment, imparting skills to the unemployed, broadening the opportunities for technical training and vocational education and encouraging work for food programs. Adequate resources will be provided to fund the activities of the Commission.

National Internship Program: This program was started last year for the benefit of those who have completed 16 years of education. It is proposed to continue this program. It is estimated that a minimum of 30,000 post graduate students will take benefit of this program during 2008-09. An allocation of Rs. 1.5 billion is proposed to be made in the budget for funding the internship program.

People's Rozgar Program: Creation of self employment opportunities less to form part of any program for employment generation. For this purpose, we have to make arrangements so that the unemployed can have access to credit to enable him to start a useful business. Credit will be provided to unemployed persons to start own small businesses. The current self employment scheme being undertaken through National Bank will be augmented and new businesses made eligible.

Women development: No nation can progress by ignoring half of its population. We believe in the social and economic role of the women in particular women's contribution to the economic growth of the country. A ten percent quota for women across the board in all government departments has been approved by the government, thus increasing their role in the decision making process. Mohtarma Benazir Bhutto had established the First Women Bank. We will continue to support it. In addition, Khushhali Bank, Zarai Taraqiati Bank will be encouraged to provide credit for women for promoting women entrepreneurship. In line with its commitment to remove gender imbalances in society, the government, through its Poverty Reduction Strategy Paper and Medium Term Development Framework, has initiated the process of gender responsive budgeting for mainstreaming gender dimension in the budgetary process at the federal level.

Microfinance: Microfinance plays a critical role in the lives of the poor. The potential client base of microfinance sector is around 25-30 million borrowers. It is noteworthy the female clients make up 45% of the total microfinance users. Government will strive to increase the outreach of microfinance services to 3 million borrowers by 2010 including increase in rural micro finance

Low cost housing: Shaheed Zulfikar Ali Bhutto had given the slogan of *roti, kapra and makan* to Pakistan's people. In keeping with this commitment, the Prime Minister, in his 100 days program had announced that 1 million housing units will be added to country's housing stock, for low income groups and government employees. It is proposed to allocate Rs.2 billion as a revolving fund which will be further expanded through innovative financing during the year to initiate these projects, so that the execution of these projects is not dependent on the availability of budgetary resources.

Restoring fiscal discipline

Madam Speaker,

Controlling fiscal deficit is the foremost need for stabilizing the economy. We are moving in a number of directions for this purpose. Many of the measures

proposed for this purpose, have been included in the Finance Bill which I will be placing before the house for its consideration.

(1) Freezing of non development, non salary expenditure: As a first major step of economy, it is proposed that government's non-development and non salary expenditures may be frozen at the revised level of the last year. This measure has been adopted after realizing the grimness of the budgetary situation and seeking the cooperation of key institutions. However, the pink book had to be published much earlier and, therefore, is not reflected there. However, it is understood that all budgets in excess of this limit will be slashed to adhere to this principle.

(2) Ban on purchase of physical assets: With a view to further economizing on public resources, it has been decided to place a ban on the purchase of motorcars, air conditioners and other office equipment.

(3) Budgetary cuts for the Prime Minister Secretariat, National Assembly and Senate: Prime Minister has offered this sacrifice at the outset. The budget of his office has been curtailed from Rs. 329.8 million to Rs. 230.9 million. Also both National Assembly and Senate have agreed to freeze their non development non salary expenditure at the level of the last year.

(4) Budgetary cut of NAB: The Prime Minister, in his opening speech to the National Assembly, had announced that appropriate measures will be taken to wind down the National Accountability Bureau (NAB). In view of this decision, there is no justification for NAB to carry a budget that is not commensurate with its future status. Since legal and procedural requirements have to be met before it is decided to wind up NAB, it will function with a truncated mandate. Accordingly, a 30 % cut is proposed in the budget of NAB.

(5) Disclosure of details of defense budget: In a major policy move government has decided to do away with the past practice of presenting a single line budget for defense. All the relevant details of the defense expenditure are available for the review and debate of the Parliament. This will go a long way to bring greater fiscal discipline by inducing more economical use of available resources.

(6) Phasing out of subsidies: There is an unbearable burden of subsidies currently carried by the budget. Much of it is unintended and benefiting such groups who are neither needy nor should they be subsidized. It is estimated that at present more than Rs. 400 billion are provided in subsidies of all kinds from the budget. A detailed pruning of subsidies is, therefore, necessary and inevitable to preserve country's finances.

(7) Limiting borrowing from the State Bank: Borrowings from central bank have reached an unacceptable level. This is a major source of inflationary pressures and should be contained. Partly it is the result of fewer choices available to attract non bank resources and relatively underdeveloped capital market. We are taking a number of measures to address this problem. A new borrowing instrument to be called Government Commercial Paper has been designed and will be launched shortly. This will be available on tap from all authorized commercial banks for maturities of 3 months and 6 months and 1 year. New products of shorter maturities will also be introduced in the National

Savings Schemes. More importantly, pricing on all government borrowing instruments will be made attractive and competitive with market rates. With these changes, dependence on central bank borrowing will likely decline considerably. Amendments in Foreign Exchange Regulatory Act are being undertaken to make SBP more effective against irregular foreign exchange operations. Similarly, SECP is also being empowered through introduction of legislation to protect the investors from insider trading and malpractices.

Relief Measures

Madam Speaker,

I noted earlier, fixed income groups have been hardest hit by the price hike. The largest segment of such people is in the service of the government. Accordingly, it is imperative that immediate relief should be provided to this group. Similarly, pensioners also fall within this group and they also need some relief. Finally, individuals investing in government savings schemes need relief as real returns have fallen considerably in face of rising prices.

Keeping these needs in view, government has decided to provide following relief to the above groups:

a) A 20 % increase in basic pay is proposed to all Federal Government employees. The similar increase will also be allowed to defence services.

b) A 20 % increase in net pension is proposed for all civilian and defence pensioners.

c) Minimum Pension increased from Rs. 300 to Rs 2000/.

d) 100 % increase in Conveyance Allowance, for government employees from BS 1 to BS 19, which is currently at a very low level.

e) Medical Allowance for BS 1 16 is being increased from Rs 425/ to Rs 500/ p.m.

f) Increase in minimum wages level from Rs. 4600/ to Rs. 6000 per month.

g) Profit rates of National Savings Schemes (NSS) are being increased by 2%. The rates will be revised quarterly instead of biannually so as to minimize the gap between NSS and market rates.

h) Those government employees who are unable to work due to illness, accident, earth quake and terrorism will get complete pension benefits. The condition of 10 years service is abolished.

i) Regularization of contract staff from BS-1 – 15 is proposed.

j) A Pay and Pension Commission to be set up to review pay and pension of government employees.

k) No. of posts of Judges of the Supreme Court is being increased from 16 to 29.

Taxation Proposals

Madam Speaker,

I now turn to the Revenue proposals for the year 2008 09. Most of the Fiscal incentives for Agriculture Growth, Industrial and Energy sector have already been presented. As we all know that we are facing a very challenging economy.

Our foremost need is to stabilize the fast deteriorating economic conditions. A number of far reaching steps have been taken to control the expenditures so that the burden on budget is reduced. However, such measures are not enough to meet the ambitious target for deficit reduction which we have set in the budget. Accordingly, the rest of the burden will have to be shared by carrying out a more diligent and concerted effort on revenue mobilization.

Madam Speaker,

There is a realization that our Tax Administration revenue effort and service standards need drastic improvements. Accordingly Reform of Tax Administration would be a continuous commitment of the Political Government with the objective to convert Tax Administration into a modern, progressive, effective and credible organization and thereby enhancing the capability of the tax system for optimizing revenue, increasing the tax to GDP ratio, broadening the tax base, strengthening audit and enforcement procedures, fair and equitable application of tax laws through modern techniques, quality service and promoting compliance with tax laws.

Before I place the taxation proposals before the House, let me spell out that despite all odds, the net collection during this year is expected to be around Rs. One trillion. The heavy dependence on indirect taxes is being now shifted to direct taxes which has gone up to 39%. There is marked improvement in the tax return filers. Due to low tax/GDP ratio, there is ample scope to further improve revenue collection by FBR.

Customs

There is a compelling need to curtail the widening gap in Pakistan's international trade by discouraging imports of the non essential and luxury items.

It has therefore been proposed to enhance import duties on about 300 nonessential and luxury items from the existing 15%, 20% and 25% slabs of import duties to the higher slabs of 30% and 35% respectively. These items generally include perfumery, cosmetics, crockery, ceramics, bath room fittings, kitchen utensils, furniture, sporting arms and domestic appliances such as air conditioners, refrigerators, deep freezer, cooking range, ovens and other such equipment. The list also includes confectionary items like biscuits, chocolates and cookies besides cigarettes, cigars and some of the food preparations.

Similarly, the customs duty on the luxury vehicles of 1800cc engine capacity and above is being increased from the existing 90% to 100%. Used motor cars and jeeps of below 1800cc engine capacity are presently being charged to the fixed amounts of duty and taxes. Respective fixed amounts of duty and taxes are proposed to be enhanced by 10%. Specific customs duty of Rs. 500 per set is being proposed on the import of mobile cellular phones. Import duty on betel leaves is proposed to be enhanced from Rs. 150/ per kg to Rs. 200/ per kg.

Sales Tax & Federal Excise Duty (FED)

Madam Speaker,

Following are some Sales Tax and Federal Excise measures for the industrial growth:

To achieve sustained economic growth, it is essential that sufficient revenues may be available with the Government to spend on the socio economic well being of the people. Presently, 15% rate of sales tax is comparatively low in the region. In some cases, it is even 20%. In order to meet the increased requirements of greater revenue generation, it is being proposed that the rate of sales tax may be increased from 15% to 16 %. To facilitate cross subsidization of PDC, an enabling amendment is being made in the relevant law for the government to levy PDL on transport fuels like CNG, LPG whenever considered necessary.

It is also being proposed to increase the rate of federal excise duty on telecommunication services from 15% to 21% which is collected in VAT mode.

It is, proposed that 5% FED may be imposed on the imports as well as on the local supply of cars having engine capacity exceeding 850cc.

To keep our rates of FED in line with the neighboring countries and to increase tax to GDP ratio, it is being proposed that rate of FED on banking, insurance and franchise services may be increased from 5% to 10%.

The fixed rate of Federal excise duty on cement is being proposed to be increased from Rs. 750 PMT to Rs. 900 PMT on account of indexation of inflation.

Income Tax

Madam Speaker,

Now, I highlight some of the important measures proposed for Direct Taxes:-

Despite 20% annual increase in the number of taxpayers during the last three years 2.2 million taxpayers in a population of 160 million people is still very low in the region. Like wise tax to GDP ratio having remained static at about 11% for the last so many years does not reflect any appreciable performance. Your government proposes to take two steps to improve the tax base:

a) Withdrawal of 35 income tax exemptions which would be a landmark achievement and bold initiative compared with the past governments.

b) Launching of a liberal "Investment Tax Scheme" whereby taxpayers are proposed to declare past business, capital formation and assets acquired, by paying just 2% on their market value and come forward to play their constructive role in the advancement of documented economy. The declarants would not have any fear of investigation in their tax affairs for the past. A massive campaign would be undertaken to make the scheme a success so that there is a fair improvement in tax to GDP ratio and number of taxpayers.

Madam Speaker,

Following are the Tax Reliefs through Direct Taxes:

a) Minimum tax @ 0.5% on declared turnover is levied on loss making companies or companies whose income is not chargeable to tax due to specific exemption provided in law. This tax is obviously paid out of equity in the absence of income for the year and is also regressive. It is proposed to abolish levy of minimum tax to improve economic growth and incentivize the taxpayers to grow in business.

b) Basic Exemption of Rs. 150,000 for salaried taxpayers is being raised to Rs. 180,000 and for Rs. 200,000/ to Rs. 230,000/ for the women taxpayer. This measure would provide relief to more than 75,000 taxpayers.

c) Taxation of salaried persons was rationalized to provide 21 income slabs for levying income tax starting from 0.25% to 20%. However, hardship has been caused in the shape of higher tax incidence, when income crosses a slab to next higher slab and tax rate. This may happen frequently due to incremental changes in salary income. To provide relief to salaried class, it is proposed to allow marginal relief in tax at every incremental slab of income.

Madam Speaker,

Following are the Direct Tax Revenue Measures:

Advance income tax is collected on import of goods @ 1% to 5% on individual and commercial importers. Instead of a facilitation measure it has used dichotomy where manufacturers statedly misuse low rate of tax and possibility of maneuvering tax payment at import stage by applying incorrect withholding tax rates in connivance with the state functionaries cannot be ruled out. To make the tax payment transparent a uniform tax rate of 2% is proposed for commercial as well as industrial importers. This tax has also been made adjustable in the case of companies who are engaged in manufacturing activities.

Industrial as well as commercial consumers of electricity are proposed to pay advance tax @ 10% on their electricity bills exceeding Rs. 20,000 per month, which would be adjustable against their final tax liability. It will help to discharge their tax liability in 12 installments.

Madam Speaker

A couple of years back income tax on property income was levied @ 5% of the gross rent where the rent amount, being only income of an individual or association of persons, was above Rs. 150,000. It was a clear favour to the higher income group and disincentive for the lower income bracket. To make it equitable on the principle "the more you earn the more you pay", it is proposed to provide progressive withholding tax rates for higher income brackets, ranging from 5% to 15% on different income slabs.

The most lucrative investment in recent past has been investment in real estate which has really retarded industrial growth in the country. Development of land into housing schemes, construction of high rise residential and commercial building attract huge profits but the tax contribution in this field

is very low, it is therefore proposed that the developers and builders should pay Rs. 100 per sq. yard on developed plots sold during the year and Rs. 50 per sq. ft. on the sale of constructed property as minimum tax.

Concluding Remarks

Madam Speaker,

This is a budget that will herald a new era of economic stability, social justice and prosperity to all sections of the society. This vision of Pakistan is the one which was given by Shaheed Zulfiqar Ali Bhutto on that historic day of 14th April, 1972 as President of Pakistan, when he addressed the National Assembly which first met to frame a constitution for Pakistan. He said:

Apart from the obvious requirement of justice and equity between man and man and between regions, there is a fundamental philosophy governing [our] approach. Our economic muscle and national cohesion can grow only with a just economic and social order. It is only when every peasant and every worker and the entire population of all the regions are convinced in their own mind that each one of them is striving and struggling for the good of all, that the creative energies of the entire nation will be fully harnessed. Otherwise, we shall not overcome our national crisis.

This budget is for all the people of Pakistan. It is seeking sacrifices from all sections who can afford it. It is protecting the poor and the weak. It gives tut inclusive message, a sense of sharing. The crises we are facing are daunting but this nation has been tested in the past and we will prove that we are worthy of successfully facing and overcoming these challenges.

Pakistan Paindabad.

19 June 2008.*Source:* Ministry of Foreign Affairs, Government of Pakistan, Islamabad.
www.mofa.gov.pk