

Documents

January-June 2006

I. Foreign Policy

A. PAKISTAN UNITED STATES RELATIONS

1. Excerpts from the speech of U.S. President George W. Bush to the Asia Society

Pakistan is a key ally in the war on terror. Pakistan is a nation of 162 million people. It has come a long way in a short time. Five years ago, Pakistan was one of only three nations that recognized the Taliban regime in Afghanistan. That all changed after September the 11th. President Musharraf understood that he had to make a fundamental choice for his people. He could turn a blind eye and leave his people hostage to terrorists, or he could join the free world in fighting the terrorists. President Musharraf made the right choice, and the United States of America is grateful for his leadership.

Within two days of the attack, the Pakistani government committed itself to stop al Qaeda operatives at its border, share intelligence on terrorist activities and movements, and break off all ties with the Taliban government in Kabul if it refused to hand over Bin Laden and the al Qaeda leadership. President Musharraf's decision to fight the terrorists was made at great personal risk. He leads a country that the terrorists seek to use as a base of operations, and they take advantage of every opportunity to create chaos and destabilize the country. The terrorists have tried to assassinate President Musharraf on a number of occasions, because they know he stands in the way of their hateful vision for his country. He is a man of courage, and I appreciate his friendship and his leadership.

Pakistan now has the opportunity to write a new chapter in its history, and the United States wants to build a broad and lasting strategic partnership with the people of Pakistan. And in my meetings with President Musharraf, we'll be discussing areas that are critical to the American-Pakistan relationship.

First, the United States and Pakistan will continue our close cooperation in confronting and defeating the terrorists in the war on terror. Second, the United States and Pakistan understand that in the long run, the only way to defeat the terrorists is through democracy.

Pakistan still has a distance to travel on the road to democracy, yet it has some fundamental institutions that a democracy requires. Pakistan has a lively and generally free press. I'm confident I will hear from them on my trip to Pakistan. (Laughter.) Occasionally, there's interference by security forces, but it's a strong press. Pakistanis are free to criticize their government, and they exercise that right vigorously. There are a number of political parties and movements that regularly challenge the government. President Musharraf remains committed to a moderate state that respects the role of Islam in

Pakistani society while providing an alternative to Islamic radicalism. The United States will continue to work with Pakistan to strengthen the institutions that help guarantee civil liberties and help lay the foundations for a democratic future for the Pakistani people.

The United States and Pakistan both want the elections scheduled for next year to be successful. This will be an important test of Pakistan's commitment to democratic reform, and the government in Islamabad must ensure that these elections are open and free and fair. The Pakistanis are taking this step toward democracy at a difficult time in their history. There are determined enemies of freedom attacking from within. We understand this struggle; we understand the pressure. And the United States will walk with them on their path to freedom and democracy.

The United States and Pakistan both want to expand opportunity for the Pakistani people. Opportunity starts with economic growth, and that is why President Musharraf has made economic reform a priority for his administration. These reforms have helped Pakistan's economy grow rapidly last year. There is strong economic vitality in that country, and we will help Pakistan build on that momentum.

We're taking several steps to open up markets and expand trade. And these include efforts to conclude a bilateral investment treaty that would establish clear and transparent rules to provide greater certainty and encourage foreign direct investment. By fostering economic development and opportunity, we will reduce the appeal of radical Islam, and demonstrate that America is a steadfast friend and partner of the Pakistani people.

The United States and Pakistan are working together to improve educational opportunities for the Pakistani people. Young men in Pakistan need a real education that provides the skills required in the 21st century workplace. Pakistan needs to improve literacy for its women and help more Pakistani girls have the opportunity to go to school.

Last year, the United States provided \$66 million to help improve Pakistani education, especially in the least developed regions of the country. This is money well spent. We're glad to partner with the Pakistan government to help train primary school teachers and administrators, and build new schools, and adapt existing ones so that young girls can attend school. These funds also support the largest Fulbright program in the world – an educational exchange that brings Pakistani scholars to America and American scholars to Pakistan. By helping Pakistan increase the educational opportunities for its people, we'll help them raise their standard of living, and help them marginalize the terrorists and the extremists.

The Pakistani people saw America's commitment to their future when we responded in their hour of need. When a devastating earthquake hit a remote area in the mountains of north Pakistan, it claimed more than 73,000 lives, and displaced more than 2.8 million people from their homes. American relief workers were on the ground within 48 hours. Since then, we've pledged more than a-half-a-billion dollars for relief and reconstruction, including \$100 million in private donations from our citizens. These funds have helped to build 228 tent

schools, improve shelter for over half a million people, and feed over a million folks. Our compassion is making a difference in the lives of the Pakistanis, and it's making a difference in how they view America.

The terrorists have said that America is the Great Satan. Today, in the mountains of Pakistan, they call our Chinook helicopters 'angels of mercy.' Across their country, the Pakistani people see the generous heart of America. Our response has shown them that our commitments to Pakistan are real and lasting. We care about the people in that important country. When they suffer, we want to help.

The great changes that are taking place inside India and Pakistan are also helping to transform the relationship between these two countries. One encouraging sign came after the earthquake, when India offered assistance to Pakistan, and President Musharraf accepted. India sent tents and blankets and food and medicine, and the plane that delivered the first load of supplies was the first Indian cargo aircraft to land in Islamabad since the 1971 war. India and Pakistan must take advantage of this opening to move beyond conflict and come together on other issues where they share common interests.

Good relations with America can help both nations in their quest for peace. Not long ago, there was so much distrust between India and Pakistan that when America had good relations with one, it made the other one nervous. Changing that perception has been one of our administration's top priorities, and we're making good progress. Pakistan now understands that it benefits when America has good relations with India. India understands that it benefits when America has good relations with Pakistan. And we're pleased that India and Pakistan are beginning to work together to resolve their differences directly.

India and Pakistan are increasing the direct links between their countries, including a rail line that has been closed for four decades. Trade between India and Pakistan grew to more than \$800 million from July of 2004 to July of 2005 – nearly double the previous year. The governments of India and Pakistan are now engaged in dialogue about the difficult question of Kashmir. For too long, Kashmir has been a source of violence and distrust between these two countries. But I believe that India and Pakistan now have an historic opportunity to work toward lasting peace. Prime Minister Singh and President Musharraf have shown themselves to be leaders of courage and vision. On my visit, I will encourage them to address this important issue. America supports a resolution in Kashmir that is acceptable to both sides.

This is a sensitive time in South Asia. In Pakistan and other countries, images broadcast around the world have inflamed passions, and these passions have been cynically manipulated to incite violence. America believes that people have the right to express themselves in a free press. America also believes that others have the right to disagree with what's printed in the free press, and to respond by organizing protests, so long as they protest peacefully. And when protests turn violent, governments have an obligation to restore the rule of law, protect lives and property, and ensure that diplomats who are serving their nations overseas are not harmed. We understand that striking the

right balance is difficult, but we must not allow mobs to dictate the future of South Asia.

In this vital region, the stakes are high and the opportunities are unprecedented. With the end of the Cold War and the fall of the Taliban, more and more people are looking forward to a future of freedom. As freedom spreads, it's bringing hope to hundreds of millions who know nothing but despair. And as freedom spreads, it's sweeping away old grievances, and allowing people in Central Asia, and South Asia, and beyond to take their rightful place in the community of nations.

This vision will take years to achieve, but we can proceed with confidence, because we know the power of freedom to transform lives and cultures and overcome tyranny and terror. We can proceed with confidence because we have two partners – two strong partners – in India and Pakistan.

Some people have said the 21st century will be the Asian century. I believe the 21st century will be freedom's century. And together, free Asians and free Americans will seize the opportunities this new century offers and lay the foundation of peace and prosperity for generations to come.

May God bless India and Pakistan. May God continue to bless the United States.

Reproduced from *Khabr-o-Nazar (News & Views)*, Public Affairs Section, U.S. Embassy, Islamabad, March 2006, pp.9-11.

2. United States-Pakistan joint statement

President Bush and President Musharraf have affirmed the long-term, strategic partnership between their two countries. In 2004, the United States acknowledged its aspirations for closer bilateral ties with Pakistan by designating Pakistan as a Major Non-NATO Ally. The U.S.-Pakistan strategic partnership is based on the shared interests of the United States and Pakistan in building stable and sustainable democracy and in promoting peace and security, stability, prosperity, and democracy in South Asia and across the globe.

The two leaders are determined to strengthen the foundation for a strong, stable, and enduring relationship. This will require a significant expansion of U.S.- Pakistan bilateral economic ties, including mutual trade and investment. As a key step in this direction the United States and Pakistan are making meaningful progress toward concluding a Bilateral Investment Treaty.

Both leaders commit to working together with Afghanistan to make Pakistan and Afghanistan a land bridge linking the economic potentials of South Asia and Central Asia.

The American people feel profound sympathy for the victims of the tragic earthquake that struck on October 8, 2005. President Bush reaffirmed the United States' determination to stand by the Pakistani people as they recover and rebuild.

President Bush and President Musharraf reaffirm their condemnation of terrorism in all its forms and manifestations. Following the September 11 attacks, the United States and Pakistan joined international efforts to fight the

scourge of terrorism. President Bush is grateful for President Musharrafs strong and vital support in the war on terror. The two leaders underscored the need for a comprehensive strategy for addressing the threat of terrorism and extremism. President Bush and President Musharraf will continue to work together to address political injustice, poverty, corruption, ignorance, and hopelessness. They resolve to maintain their close counterterrorism cooperation and to increase their efforts to reduce the threat of terrorism regionally and internationally.

The two leaders recognize the need to promote tolerance, respect and mutual understanding, and inter-faith harmony to strengthen appreciation of the values and norms common to the world's religions and cultures. The two leaders acknowledge with appreciation the various international initiatives in this regard including President Musharrafs concept of Enlightened Moderation. The two leaders agreed that acts that disturb inter-faith harmony should be avoided.

President Bush and President Musharraf support the peace process and composite dialogue between Pakistan and India for improvement of relations and resolution of disputes and building a better future in South Asia.

Both leaders share concern about the threat to global stability posed by the proliferation of Weapons of Mass Destruction (WMD) and the threat of terrorist groups acquiring such weapons. President Bush and President Musharraf commit to play leading roles in international efforts to prevent the proliferation of WMD, their delivery systems, and related technology and expertise.

Strategic Dialogue

President Bush and President Musharraf are launching a Strategic Dialogue under the Strategic Partnership. The Dialogue will be co-chaired by the U.S. Under Secretary of State for Political Affairs and Pakistan's Foreign Secretary. They will meet regularly to review issues of mutual interest.

In implementation of the strategic partnership, President Bush and President Musharraf commit both countries to undertake the following steps in the areas of economic growth and prosperity, energy, peace and security, social sector development, science and technology, democracy, and non-proliferation:

Economic Growth and Prosperity

Establish and implement strong financial sector controls that can defend against illicit finance. Facilitate Pakistan's economic growth through increased trade and investment links with the United States and within the region and the global economy, including through an enhanced economic dialogue encompassing bilateral cooperation for Pakistan's economic development, regional economic cooperation, and the global economy.

The United States will provide financial support for the establishment of a Center for Entrepreneurship in Pakistan under the Broader Middle East and North Africa (BMENA) Initiative. The Center will promote entrepreneurial training and skills development to young women and men to launch business initiatives that would generate employment opportunities.

Energy Cooperation

Hold a High-Level Energy Meeting to inaugurate an energy working group, which will explore ways to meet Pakistan's growing energy needs and strengthen its energy security. Work together to develop public and private collaboration on a broad range of energy sources.

Peace and Security

Build a robust defense relationship that advances shared security goals, promotes regional stability, and contributes to international security.

Continue robust U.S. security assistance to meet Pakistan's legitimate defense needs and bolster its capabilities in the war on terror.

Deepen bilateral collaboration in the fields of defense training, joint exercises, defense procurement, technology transfers, and international peacekeeping. Decide to increase the frequency of defense policy discussions to strengthen collaboration in the identified sectors. Work together to ensure the maintenance of peace, security, and stability in the South Asia region and beyond. Cooperate closely in international institutions, including bodies of the United Nations, on matters of mutual concern.

Social Sector Development

Continue U.S. support in the health sector through collaborative projects and programs. Reinforce Pakistan's efforts to reform and expand access to its public education through continuing U.S. cooperation.

Encourage educational programs and greater interaction and linkages between the research and academic institutions of the two countries.

Promote exchange of students and scholars, fellowship programs, and strengthened research collaboration, including through institutional support for higher education and training.

Establish a wide-ranging High Level Dialogue on Education to enhance and strengthen cooperation in the education sector.

Science and Technology

Build capacity in Pakistan and world toward increased cooperation in science, technology, and engineering.

Improve the quality, relevance, or capacity of education and research at Pakistan's institutions of higher education in the field of science and technology.

Establish Pakistan-U.S. Joint Committee on Science and Technology to develop collaborative activities and relationships between the scientific and technological communities and institutions of both countries.

Enhance institutional capacity of Pakistan in the area of environment through exchange of experts and developing linkages and collaborative projects with relevant U.S. institutions.

Democracy

Support Pakistan as it develops strong and transparent democratic institutions and conducts free and fair elections to ensure sustainable democracy.

Non-Proliferation

Support Pakistan's non-proliferation and strengthen its capabilities, by:

- Supporting Pakistan's measures for implementation of its new export control law, including adoption of enforcement regulations and establishment of a new export licensing body; and
- Providing U.S. assistance through the Department of Energy's Second Line of Defense Program (Magaports) and the Department of Homeland Security's Container Security Initiative.

Presidential Visit

President Bush thanked President Musharraf and the people of Pakistan for the generous reception and warm hospitality accorded to him, Mrs. Laura Bush, and the members of the Presidential delegation during their stay in Pakistan.

Reproduced from *Khabr-o-Nazar (News & Views)*, Public Affairs Section, U.S. Embassy, Islamabad, March 2006, pp.9-11.

3. Text of President Bush & President Musharraf's joint press conference

President Musharraf: With your permission, Mr. President – Ladies and gentlemen, it's indeed a great day, it's our honor, it's a proud privilege for Pakistan to receive President Bush, Mrs. Laura Bush, the First Lady, and such a large delegation from the United States. We are extremely glad that this has happened and the President is in our midst.

In our discussions, first of all, I expressed Pakistan's deepest regrets on the very sad incident of the killing of a United States diplomat in Karachi. We know that it has been timed very viciously to vitiate the atmosphere during the President's visit, but I'm very glad and I'm extremely grateful to the President for showing understanding and showing also the resolve not to let such terrorist acts interfere in the normal process of our strategic cooperation.

I also expressed Pakistan's gratitude to the President for the assistance that we got in the relief operations and the reconstruction activity of the earthquake in our hour of need. I don't think without the assistance of the Chinooks of United States and the medical teams, the hospitals, we could have met the challenges of the relief operation in the earthquake. And we look forward to increased involvement – or sustained involvement of United States in assisting us in the reconstruction activity. So our extreme gratitude to United States.

Ladies and gentlemen, Pakistan and United States have always had a strategic partnership, a strategic relationship all along. Today, with my interaction with the President, we have revived and maybe further strengthened this relationship. We have laid the foundations of a very strong, sustainable, broad-based and a long-term relationship between Pakistan and United States. And this relationship includes, first of all, commencing our United States-Pakistan strategic dialogue in an institutional manner, creating an institutional

methodology of doing that, and talking of within this, talking of trade and investment, talking of defense relationships, cooperation in education, and above all, cooperation in our fight against terrorism and extremism.

I did express my gratitude to the President also for his efforts towards resolution of disputes in the region, to bring peace into the region, and a special reference to the resolution of the Kashmir dispute. I did request the President to remain involved in facilitating a resolution of all disputes, including, obviously, the Kashmir dispute.

Last of all, I did touch on the very thorny issue of the act, blasphemous act against our Prophet, peace be upon him. I did express the concerns of the Muslim world, in general, who condemn such acts and who reject the issue of justifying these acts in the name of freedom of press. May I say that the President did show concern, and I'm extremely grateful to him for showing concern toward the sentiments of the Muslim world.

In the end, I would like to say that, again, that I look forward to an era of cooperation, of strategic relationships with you, with United States. And may I add on a personal note, I look forward to sustaining this great friendship that I have developed with you, personally, Mr. President. Thank you very much again for coming to Pakistan and doing us this honor of hosting. Thank you very much.

President Bush: Mr. President, thank you. Laura and I are really glad to be here, and we want to thank you and Ms. Musharraf for your hospitality. We do have a good friendship. It was displayed last night when I got off Air Force One and your daughter was there to greet us. And that was a really kind gesture, and I thank you very much for that. I particularly thank your daughter for coming out.

We've had a – we're going to have a full day. We've just had a lengthy one-on-one discussion about common interests. Then we invited members of our government in to continue our discussion. I'll talk a little bit about the earthquake relief – I mean, the – yes the earthquake relief in a minute, but I am looking forward to the meeting with a cross-section of Pakistani society, which will take place later on today, and I'm particularly interested in cricket. I understand you've lined up a little cricket exhibition for us, and maybe I'll take the bat, I don't know. We'll see. (Laughter.) I'm kind of getting old these days.

Mr. President and I reaffirmed our shared commitment to a broad and lasting strategic partnership. And that partnership begins with close cooperation in the war on terror. President Musharraf made a bold decision for his people and for peace, after September the 11th, when Pakistan chose to fight the terrorists. The American people appreciate your leadership, Mr. President, and so do I.

Pakistan has captured or killed hundreds of al Qaeda terrorists. Pakistan has lost brave citizens in this fight. We're grateful to all who have given their lives in this vital cause. We honor the Pakistanis who continue to risk their lives to confront the terrorists. This week's bombing in Karachi shows again the war on terror goes on. America mourns the loss of all killed in the attack. We send our condolences to the family of David Foy, and we send our condolences, as

well, to the families of the Pakistanis who lost their lives. We're not going to back down in the face of these killers. We'll fight this war and we will win this war together.

Pakistan is an important partner in fighting proliferation. Pakistan agreed to join the Container Security Initiative, an international effort to stop the spread of dangerous material shipments. And I thank you for that, Mr. President. We'll continue to work together to ensure that the world's most dangerous weapons do not end up in the hands of the terrorists.

We support democracy in Pakistan. President Musharraf understands that in the long run, the way to defeat terrorists is to replace an ideology of hatred with an ideology of hope. And I thank you for your extensive briefing today on your plans to spread freedom throughout your country. President Musharraf envisions a modern state that provides an alternative to radicalism.

The elections scheduled for 2007 are a great opportunity for Pakistan. The President understands these elections need to be open and honest. America will continue to work – working with Pakistan to lay the foundations of democracy. And I appreciate your commitment.

Pakistan and India now have an historic opportunity to work toward lasting peace. President Musharraf and Prime Minister Singh have shown themselves to be leaders of courage and vision. I was reflecting with the President how much the atmosphere has changed since I first became inaugurated as President. You think back to 2001 and 2002, there was a lot of tension, a lot of concern. And yet the President has stood up and led the process toward better understanding, better exchanges with India. I encourage all sides to continue to make progress on important issues, including Kashmir.

We're proud to help our Pakistani friends recover from the devastation of the earthquake. We just saw a film of the earthquake. It is staggering what the people of this country have been through. It is unbelievable how many people lost their lives, how many people have lost their homes. And we're proud to help. We're proud to help a great Pakistan military take the lead. We're proud to stand with the NGOs and those who deliver compassion as this country rebuilds. We stand by our commitment, our pledge of one-half billion dollars for recovery and reconstruction.

We're cooperating to strengthen our economies. I congratulate the government on strong economic growth. We are in the process of working on a bilateral investment treaty that will encourage foreign investment and more opportunity for the people of Pakistan. We strongly support the President's vision of a reconstruction opportunity zone in remote areas of Pakistan and Afghanistan. This vision means that products manufactured in those zones will be eligible for duty-free entry into the United States. So we're working to create such zones.

Our idea is to continue to work with our strong friend and ally, work to keep the peace, to win the war on terror, to help the spread of democracy and freedom, and to encourage vital economic development.

Finally, we look forward to continuing to work with the President on his vision to make sure that education is spread throughout this country,

particularly for young girls. President Musharraf briefed us on his education plans today, and they're farsighted and they're visionary. The United States looks forward to helping you, sir, implement that vision.

All in all, it's an honor to be here. Thanks for your hospitality. I'm looking forward to taking some questions.

Q: Thank you, President Musharraf. President Bush, in your address to the Asia Society you talked about a strategic partnership with Pakistan, as did President Musharraf just now. And, of course, you just mentioned the bilateral investment treaty. Could you list some possible tangible milestones in forging this relationship and taking it forward? And also, on Kashmir, what are your perceptions on, how this can be resolved, given that you've met both the leaders of Pakistan and India now? Thank you.

President Bush: The best way for Kashmir to be resolved is for leaders of both countries to step up and lead. And that's exactly what President Musharraf has done, and that's what Prime Minister Singh has assured me he wants to do, and that is to resolve this situation.

Obviously, there needs to be some confidence in order for the countries to go forward, and therefore, the confidence-building measures that the governments have taken is beginning to bear fruits, in my judgment – increased trade, increased transportation. I thought it was interesting that the Indians sent supplies immediately upon the devastating natural disaster. In other words, things are – the atmosphere is changing.

However, in order for a deal to get done, it requires commitment at the leadership level. And in my perspective, I've seen the commitment, and the role of the United States is to continue to encourage the parties to come together.

The first part of the question was tangible evidence. Well, part of the tangible evidence of our relationship is the half-a-billion-dollars commitment to help this country rebuild; it's the \$66 million last year to help implement the President's education initiative; it is the idea of developing reconstruction zones – I mean trade zones in remote areas so that goods manufactured in those zones can get duty-free access to the United States, on the theory that economic vitality and economic prosperity for people in the remote regions of Pakistan will help defeat the terrorists and their hateful ideology.

Sam Bodman is coming, our Secretary of Energy, to work with Pakistan on Pakistan's energy needs. There's a variety of things we can continue to cooperate on. Perhaps the most important one of all is to defeat these terrorists, some of whom are lodged here in Pakistan, some of whom have tried to kill your President. And close cooperation is needed to defeat them. Terry Hunt.

Q: Thank you, Mr. President. Mr. President, what would you like to see President Musharraf do in the war on terrorism that he's not doing now?

Is the United States getting the access and the help that it needs to go after al Qaeda and Osama bin Laden?

President Bush: There's a lot of work to be done in defeating al Qaeda. The President and I know that. We spent a good while this morning talking about the work that needs to be done. The best way to defeat al Qaeda is to find

– is to share good intelligence to locate them, and then to be prepared to bring them to justice. So, one, the first question that I always ask is whether or not our intelligence-sharing is good enough, and we're working on it to make sure it's good enough. Intelligence is gathered by – in a lot of different ways, but the key thing is that, one, it be actionable, and two, it be shared on a real-time basis.

Secondly, in order for Pakistan to defend herself from al Qaeda, she must have equipment necessary to move quickly, without tipping off the enemy. The President is training up special forces teams to do just that. And so while we do have a lot of work to be done, it's important that we stay on the hunt. Part of my mission today was to determine whether or not the President is as committed as he has been in the past to bringing these terrorists to justice, and he is. He understands the stakes; he understands the responsibility; and he understands the need to make sure our strategy is able to defeat the enemy. Do you want to say something to that?

President Musharraf: May I add to this, with your permission? The first element that one needs to be very clear is the intentions. And it's very clear that the intentions of Pakistan and my intentions are absolutely clear that we are a very strong – we have a strong partnership on the issue of fighting terrorism. So the intentions should be very clear. Then we need to strategize. We have strategized. We have strategized how to deal with terrorism, and then strategized also on how to deal with extremism, which is very different from terrorism. So we have strategized both. Then we need to come forward to the implementation part. Now, the implementation has to be strong also, with all the resolve. We are doing that also. So if at all there are slippages, it is possible in the implementation part. But as long as the intention is clear, the resolve is there, and the strategy is clear, we are moving forward toward to delivering, and we will succeed. That is all.

Q: My question is to President Bush. President Bush, you talked about a strategic relationship with Pakistan. You also talked about helping Pakistan economically, and you just mentioned that the Energy Secretary is going to be visiting Pakistan. So Pakistan has some general energy needs, and in that respect, the Iran-Pakistan-India gas pipeline seems to have hit some problems because of the opposition from the United States. So what are some specific options that you have to address Pakistan's energy concerns? And are you working on offering Pakistan a civilian nuclear deal? Thank you.

President Bush: As I mentioned, Secretary of Energy Sam Bodman will be here to work with the Pakistan government. Our beef with Iran is not the pipeline; our beef with Iran is the fact that they want to develop a nuclear weapon. And I believe a nuclear weapon in the hands of the Iranians would be very dangerous for all of us. It would endanger world peace. So we're working very hard to convince the Iranians to get rid of their nuclear ambitions.

As to the civilian nuclear program, first of all, I understand – the President brought this issue up with me – that Pakistan has got energy needs because of a growing economy. And he explained to me the natural gas situation here in the country. We understand you need to get natural gas in the region, and that's fine.

Secondly, we discussed a civilian nuclear program, and I explained that Pakistan and India are different countries with different needs and different histories. So, as we proceed forward, our strategy will take in effect those well-known differences. Toby.

Q: Mr. President PRESIDENT BUSH: Which one?

Q: Both of you can address this. Some critics –

President Bush: to your question. (Laughter.)

Q: Some critics say that Pakistan is not moving quickly enough on democratic reforms. And moves towards democracy has been one of the hallmarks of your administration. How do you respond to critics who say you are holding back on pressing President Musharraf on moves toward democracy because of its help in the war on terrorism? And I would also ask –

President Bush: Well, we discussed – we spent a lot of time talking about democracy in Pakistan, and I believe democracy is Pakistan's future. And we share a strong commitment to democracy. I just mentioned in my opening address the idea of making sure the elections go forward in 2007, and I discussed that with the President. President Musharraf has made clear that he intends to hold elections – I'll let him speak for himself on this issue, but democracy has been definitely a part of our agenda here, as it should be.

Secondly, one of the things that the President is constantly talking about is the ways to defeat extremism. We're talking about making sure that we work closely to bring the terrorists to justice, but in the long run he understands that extremism can be defeated by freedom and democracy and prosperity and better education. And we spent a lot of time strategizing on that subject today.

I'll let you speak for yourself on the subject, though, Mr. President.

President Musharraf: Unfortunately, we are accused a lot on not moving forward on democracy. But as I understand democracy, we are a – may I venture to tell you what we've done in line with democracy to introduce sustainable democracy in Pakistan. The first ingredient of democracy, I believe, is the empowerment of the people. We have empowered the people of Pakistan now – they were never empowered before – by introducing a local government system where we have given the destiny of their areas for development, for welfare, for progress in their own hands through financial, political and administrative involvement.

Also democracy also means empowerment of women. It is the first time that we have empowered the women of Pakistan, by giving them a say in the political milieu of Pakistan. Today there are over 30,000 women in the political hierarchy of Pakistan. We have empowered the minorities of Pakistan for the first time. They have got a joint election system, where previously they had a separate election system. Therefore, they have been mainstreamed in that every person standing for elections has to go to the minorities to ask for their votes now. Therefore, they feel more a part of the Pakistani culture and Pakistan society.

Then we have empowered also – we have liberated the media and the press. If you see this press today sitting around here, and the media, previously there was only one Pakistan television. Today there are dozens of channels. All

these people sitting around are the result of my democratization of Pakistan, opening the Pakistan society of the media – the print media and the electronic media, both. And they're totally liberated. And then, finally –obviously, this is to do with freedom of speech and freedom of expression.

And then finally is the issue of their having the right to work and elect their own people. And that is what we do. Today the senate, the national assembly, the provincial assemblies and the – of the local government is there. And they've been voted through absolute – franchise in a free and fair manner.

So, therefore, may I say that we have introduced the essence of democracy now in Pakistan. It has been done now. It never – all these things never existed before. What maybe you are talking of is merely the label which probably you are inferring on to my uniform. Indeed, and without saying that you are inferring to it, yes, indeed, that is an issue which needs to be addressed. And I will follow constitutional norms. Even now I am following constitutional norms where I have been allowed to wear this uniform until 2007 – being in uniform as the President of Pakistan. Beyond 2007, yes, indeed, this is an issue which has to be addressed and it has to be addressed according to the constitution of Pakistan. And I will never violate the constitution of Pakistan.

So let me assure you that democracy will prevail. Sustainable democracy has been introduced in Pakistan and will prevail in Pakistan, especially beyond 2007. Long answer.

President Bush: Yes – important answer.

President Musharraf: Thank you very much.

President Bush: Very good job. Thank you again, sir.

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4. Former US President Clinton's remarks on the cartoon issue

Let me say first of all, when this story first broke in the United States, I believe that I was may be the first Western leader to speak against the cartoons. It happened to be in the Persian Gulf area at the time. I was in Bahrain and Qatar. I will repeat what I said then. I strongly disagreed with both the creation and the publication of cartoons that were considered blasphemous to devout Muslims around the world because they depicted the Prophet. I thought it was a mistake. I had no objection to Muslims throughout the world demonstrating in a peaceful way their convictions. But I thought it was also a great opportunity – which I fear has been squandered – to build bridges because I can tell you that most people in the United States deeply respect Islam. It is our fastest growing religion in America. Most people in Europe do. Most people in Denmark do. We live in societies where people are free to say the wrong things as well as the right things.

'But I would not be surprised if the person who drew those cartoons and the newspaper publisher who decided to print them did not even know that it was considered blasphemous to have any kind of personal depiction of the Prophet to Muslims. I say this because if you are a person of faith, whatever

your faith is, it means you believe you have a connection to some ultimate truth. That truth cannot be diminished or humiliated by something as human as error. And therefore what I would pray for here is that we use this opportunity for Muslims of goodwill to reach out to people across to Christians, to Jews, to people of other faiths, or no faith at all, but who respect religious convictions and say, you know, maybe you did not know this, but this is blasphemous to *us*. If you want to criticize our government, do it. If you want to criticize our policy, do it. If you want to criticize some action of some political group, do it. But do not do something that is blasphemous. And then give them a chance to say they regret, and to learn from you and learn with you. There may be a lot of things about my faith that you do not know.

‘We have got to use this in a positive way. Nobody else should die over this. You should not blame a whole country or a whole continent for what I believe was a mistake probably more of ignorance than callousness. I do not mind the Muslims all over the world being upset about this. I do not mind the demonstrations. But this is not a time to burn bridges – this is a time to build them. This is an enormous opportunity because I can tell you that most people who are not Muslim are horrified that misunderstanding has occurred and do not want violence to come out of it....

17 February 2006. Reproduced from *Khabr-o-Nazar (News & Views)*, March 2006, p.15.

5. Text of the joint statement issued at the conclusion of a meeting of the Pakistan-US Defence Consultative Group

The 17th annual meeting of the US-Pakistan Defense Consultative Group (DCG) was held in Washington D.C. on 4-5 May 2006. The US side was chaired by the Undersecretary of Defence for Policy, Eric S. Edelman and the Pakistan side was chaired by Secretary Defence Tariq Waseem Ghazi. The US-Pakistan defence relationship is essential to strengthening US and Pakistani security, winning the global war on terrorism, and enhancing stability in South Asia.

The DCG serves as a primary forum for exchanging ideas and coordinating defence policy discussions with a view to deepening cooperation in diverse areas of the bilateral defence relationship. This week's meetings of the DCG continued a tradition of open, broad-ranging, and practical discussions aimed at further strengthening the bonds of mutual friendship and respect between Pakistan and the US. One of the major themes of this year's DCG was to highlight the importance of the US-Pakistan long-term relationship and look at ways in which the two sides can work together to enhance and expand their defence partnership.

The DCG working groups met for three days to review the progress of defence cooperation between the two countries, and to identify and plan activities for the future that will be mutually beneficial to them.

1. The Military Cooperation Committee (MCC) met on 1 May 2006 and looked at ways to coordinate military-to-military cooperation and improve the overall US-Pakistan military relationship. It also agreed to a schedule of military-to-military exercises and training activities for the upcoming year.

These events will deepen existing bilateral military cooperation, and provide new opportunities to gain greater interoperability.

2. The Security Assistance Working Group (SAWG) met on 2 May 2006 and addressed procurement of US military equipment and services under the Foreign Military Sales programme, including:
 - Acquisition of weapons systems and related support;
 - Repair/upgrade of existing systems;
 - The technology transfer process; and
 - The discussion of other ongoing issues.

The SAWG reviewed defensive systems available to improve Pakistan's conventional capabilities, Pakistani equipment priorities, and the way ahead for a sustainable defence cooperation relationship. It reaffirmed that ensuring interoperability of weapons systems, tactics, techniques, and procedures between the two militaries remains a high priority.

3. The Counter-Terrorism Working Group (CTWG) met on 3 May 2006 to achieve unity of effort in confronting terrorism regionally and globally. This working group provided a critical forum for exchange and collaboration. It was based upon Pakistan-US combined successes, derived from a common view of shared challenges, and resulted in synchronized and expanded counter-terrorism efforts.
4. The DCG plenary talks gave the delegations an opportunity to discuss strategic defence issues at a high level. The delegations received detailed presentations on Pakistan border region operations and -nities for further cooperation in the areas of humanitarian assistance, and US foreign policy priorities and objectives in South Asia.

The centerpiece of the DCG was a strategic discussion about the US-Pakistan long-term strategic relationship. During this discussion, they exchanged views about the importance of the US-Pakistan relationship and how the two states can build upon an already robust defence relationship and ensure that it continues to grow stronger.

Finally, the delegations reviewed the impressive results of Pakistan-US relationship over the past year, including progress in the war against terror and joint operations in the wake of the tragic earthquake that struck Pakistan in October 2005. The fact that the US and Pakistani militaries worked side-by-side to provide extensive earthquake relief to the local population is a testament to their strong defence relationship.

In sum, the DCG meetings highlighted the strong and enduring ties between the US and Pakistan, celebrated their impressive achievements, and considered how to strengthen their alliance for the future. The two sides agreed that the DCG provides an important opportunity to reinvigorate existing areas of cooperation and open up new areas of collaboration. The DCG also provides a forum to exchange viewpoints and increase understanding about the security challenges, the two countries face. The co-chairs agreed that the DCG will hold its next meeting in Pakistan in approximately one year, but would consider re-convening sooner if circumstances warranted. In the meantime, meetings of the

sub-groups to continue the process of building the architecture of the two sides' long-term relationship between Pakistan and the US will be held.
5 May 2006. Washington. *Source:* www.embassyofpakistan.org/news

B. PAKISTAN-CHINA RELATIONS

Joint statement issued during President Pervez Musharraf's visit to China

At the invitation of President Hu Jintao of the People's Republic of China, President Pervez Musharraf of the Islamic Republic of Pakistan, paid a state visit to the People's Republic of China from 19 to 23 February 2006.

President Hu Jintao held official talks with President Musharraf. Mr. Wu Bangguo, Chairman of the Standing Committee of the National People's Congress, Mr. Wen Jiabao, Premier of the State Council, and Mr. Jia Qinglin, Chairman of the Chinese People's Political Consultative Conference, met President Musharraf respectively.

In a cordial and friendly atmosphere, leaders of the two countries had in-depth exchange of views and reached broad common ground on strengthening China-Pakistan strategic partnership of cooperation and on international and regional issues of mutual interest.

During his visit, President Musharraf addressed leading Chinese scholars at the Chinese Academy of Social Sciences, met members of the Chinese business community and attended a special commemorative event marking the 55th Anniversary of the establishment of diplomatic relations between China and Pakistan.

The leaders of the two countries reviewed with satisfaction the growth of China-Pakistan relations over the past 55 years. They were glad to see that China-Pakistan friendship featuring sincerity, cooperation, mutual trust and support has struck deep root in the hearts of the two peoples.

The all-weather friendship between China and Pakistan has withstood the test of time and prospered notwithstanding changes in the international, regional and domestic environment. Both sides agreed that at a time when major and profound changes are taking place both internationally and regionally, to strengthen good-neighborliness and friendship, develop cooperation and deepen strategic relations between China and Pakistan, serves the fundamental interests of the two countries and peoples and will promote peace and development in the region. Both sides emphasized that the two countries are committed to enhancing China-Pakistan strategic partnership of cooperation featuring good-neighborliness, friendship and mutual cooperation. The two countries will continue to take steps to deepen and enrich China-Pakistan relations.

Both sides expressed satisfaction with the successful implementation of the Joint Declaration Between the People's Republic of China and the Islamic Republic of Pakistan on the Direction of Bilateral Cooperation issued by the two Heads of State in November 2003 and the signing and coming into effect of the Treaty of Friendship, Cooperation and Good-neighborly Relations. They agreed to maintain exchange of high-level visits and contacts and conduct regular consultation and coordination on major international and regional issues and

bilateral relations and to make unremitting efforts to promote stability and prosperity both in China and Pakistan and in the region.

On behalf of the Pakistani Government and people, President Musharraf expressed appreciation to the Chinese Government and people for the provision of emergency relief material and humanitarian assistance in the wake of the earthquake in Pakistan. He stated that the selfless assistance of the Chinese side reflected the true friendship between China and Pakistan tested by adversity. President Hu Jintao said that the Chinese side will take an active part in the reconstruction of disaster-hit areas in Pakistan and help the affected people rebuild their homeland.

The two sides decided to use the occasion of the 55th Anniversary of the establishment of diplomatic ties to lift China-Pakistan relations to a new height. The two sides agreed to hold this year the "Cultural Week" and "Film Week", and to exchange media and academic visits.

Both sides expressed their firm resolve to strengthen cooperation in all spheres. They held that to maintain trade and economic links is not only an important part of China-Pakistan cooperation and good-neighborly relations but also a bond of common interests between the two countries. Both sides agreed to explore new ways to expand economic cooperation and trade to promote common development for the two countries and peoples.

The two sides expressed satisfaction with the implementation of the Early Harvest Programme, and agreed to expedite negotiations on the Free Trade Agreement. They emphasized that overland trade through the Karakoram Highway should be promoted and were ready to adopt measures to facilitate such trade.

Both sides also expressed deep satisfaction with the progress being made on various Chinese-assisted economic projects in Pakistan, including Gwadar Port, Sandak Gold and Copper and Dudar Zinc and Lead. They agreed to encourage cooperation between Chinese and Pakistani companies, including setting up joint ventures, and supported the early launching of a joint study on expanding economic cooperation and trade. Both sides agreed to set up a China-Pakistan Joint Investment Company between the financial institutions of the two countries. Both sides also reached agreement in principle to upgrade the Karakoram Highway. Special emphasis was placed on cooperation in agriculture, especially agro-based industry, pesticides, drip irrigation and fisheries. A framework agreement on expanding and deepening economic cooperation was signed.

Both sides agreed to enhance their cooperation in the energy sector and signed the Framework Agreement on Energy Cooperation, a wide-ranging document. Pakistan expressed its interest in construction of oil refineries, gas terminals, oil and gas storage and transit facilities. The Chinese side welcomed these proposals and agreed to assist in the development of oil and gas sector in Pakistan.

Both sides expressed satisfaction with the performance of Chashma Nuclear Power Plant-I and the start of the construction of Chashma Power Plant

Unit-II. They agreed to enhance cooperation in the peaceful use of nuclear energy.

Both sides attached considerable importance to broadening cooperation in social sectors, including health, human resources development, education and vocational training.

Both sides agreed to enhance cooperation in high technology, including space technology for peaceful purposes. They agreed to enhance close cooperation between relevant institutions in the earth, marine and space sciences and promote the application of relevant technologies in industry and agriculture. They also agreed to cooperate in seismology, geology and Antarctic sciences.

China reaffirmed its respect for Pakistan's independence, sovereignty and territorial integrity. It appreciated and supported Pakistan's efforts to promote peace and stability in South Asia and supported all efforts by Pakistan, to safeguard its sovereignty territorial integrity and independence. Pakistan reaffirmed its long-standing commitment to the one China policy and recognized that the Government of the People's Republic of China is the solo legal government representing the whole of China and that Taiwan is an inalienable part of China's territory. Pakistan opposed "Taiwan independence" and fully supported China's peaceful reunification.

The two sides discussed in depth the international and regional developments. They reaffirmed their firm opposition to terrorism in all its forms and manifestations as well as the proliferation of weapons of mass destruction and their means of deliver. They expressed their commitment to maintaining international peace and stability. Both sides agreed that the United Nations reform should aim at strengthening its authority and unity and give priority to the issue of development.

The reform of the Security Council should take into full consideration the interests of all its members, and a formula acceptable to all should be sought through extensive and thorough consultations.

Pakistan welcomed China becoming an observer of South Asian Association for Regional Cooperation (SAARC). China welcomed Pakistan becoming an observer of Shanghai Cooperation Organization (SCO) and invited it to participate in the SCO Shanghai Summit in June 2006. Both sides expressed their support for the process of regional cooperation in Asia and the need to promote inter-regional cooperation.

The two sides signed Framework Agreement on Expanding and Deepening Bilateral Economic and Trade Cooperation between the Government of the Peoples Republic of China and the Government of the Islamic Republic of Pakistan, Framework Agreement on the Cooperation between the Ministry of National Defence of the People's Republic of China and the Ministry of Defence of the Islamic Republic of Pakistan, Framework Agreement on Cooperation in the Field of Energy between the National Development and Reform Commission of the People's Republic of China and the Ministry of Petroleum and National Resources of the Government of the Islamic Republic of Pakistan, MOU on Vocational Training between the Ministry of Labor and Social Security, Government of the People's Republic of China and Ministry of Labor,

Manpower and Overseas Pakistanis, Government of the Islamic Republic of Pakistan, MOU between the Ministry of Communications of People's Republic of China and the Ministry of Communications of the Islamic Republic of Pakistan on Cooperation in the up-gradation of Karakoram Highway, MOU between the Ministry of Agriculture of the People's Republic of China and the Ministry of Food, Agriculture and Livestock of the Islamic Republic of Pakistan on Cooperation in the Field of Fisheries, MOU for Cooperation on Pesticide Management between the Ministry of Agriculture, the People's Republic of China and the Ministry of Food, Agriculture and Livestock, the Islamic Republic of Pakistan, MOU on the Launching of the Joint Program of the Five year Plan for the Bilateral Trade and Economic Cooperation between the Ministry of Commerce of the People's Republic of China and the Ministry of Commerce of the Islamic Republic of Pakistan, MOU in the field of Health between the Ministry of Health Of the People's Republic of China and the Ministry of Health Of the Islamic Republic of Pakistan, MOU on Cooperation between the National Population and Family Planning Commission, Government of the Peoples Republic of China and the Ministry of Population Welfare, Government of the Islamic Republic of Pakistan, MOU on Cooperation in the Field of Earthquake Studies between China Administration of the People's Republic of China and Pakistan Meteorological Department of the Islamic Republic of Pakistan, MOU on Cooperation in the Field of Meteorological. Science and Technology between the China Meteorological Administration of the Peoples Republic of China and the Pakistan Meteorological Department of the Islamic Republic of Pakistan, General Loan Agreement Regarding Utilization of the Preferential Buyer's Credit from the Government of the People's Republic of China to the Government of the Islamic Republic of Pakistan between the Export-Import Bank of China and the Ministry of Economic Affairs and Statistics of the Islamic Republic of Pakistan.

President Musharraf invited President Hu Jintao to visit Pakistan this year and to participate in commemorative events celebrating the 55th Anniversary of diplomatic ties between the two countries. President Hu thanked President Musharraf for the invitation.

Islamabad, 22 February 2006. *Source:* pk.china-embassy.org

C. SCO SUMMIT

1. Joint communiqué issued at the conclusion of the sixth SCO summit

On 15 June 2006, the Council of Heads of Member States of the Shanghai Cooperation Organization (hereinafter referred to as the Organization or the SCO) met in Shanghai, the People's Republic of China. The meeting was attended by President of the Republic of Kazakhstan Nursultan Nazarbaev, President of the People's Republic of China Hu Jintao, President of the Kyrgyz Republic Kurmanbek Bakiev, President of the Russian Federation Vladimir Putin, President of the Republic of Tajikistan Emomali Rakhmanov and President of the Republic of Uzbekistan Islam Karimov.

Secretary-General Zhang Deguang of the Organization and Director Viacheslav Kasymov of the Executive Committee of the SCO Regional Anti-terrorist Structure attended the meeting.

Representatives of the Observer States of the Organization, namely, Minister of Petroleum and Natural Gas of the Republic of India, Murli Deora, President of the Islamic Republic of Iran Mahmoud Ahmadi Nejad, President of Mongolia Nambaryn Enkhbayar, President of the Islamic Republic of Pakistan Pervez Musharraf, and President of the Islamic Republic of Afghanistan Hamid Karzai, Chairman of the Executive Committee of the Commonwealth of Independent States, Vladimir Rushailo, and Deputy Secretary-General of the Association of South East Asian Nations (ASEAN) Wilfrido V. Villacorta, as guests of the host country participated in the meeting and made statements.

During the meeting, the heads of state signed the Declaration on the Fifth Anniversary of the Shanghai Cooperation Organization and the Statement of Heads of Member States of Shanghai Cooperation Organization On International Information Security, approved a new version of the regulations of the SCO Secretariat and a cooperation programme of SCO members on combating terrorism, separatism, extremism from 2007 to 2009, adopted a series of resolutions concerning personnel arrangement and the structure of the Organization, and agreed that Mr. Bolat K. Nurgaliev (from Kazakhstan) will be the Secretary-General of the Organization from 2007 to 2009.

The plenipotentiary representatives of member states of the Organization signed an agreement on the procedure of organizing and holding joint anti-terrorism actions in the territories of SCO member states, an agreement on identifying and severing infiltrating channels of people engaged in terrorism, separatism and extremism in the territories of SCO member states, an intergovernmental educational cooperation agreement of SCO member states, a resolution of the SCO Business Council, and an action plan of SCO Inter-bank Association of member banks on supporting regional economic cooperation.

The heads of state met with the participants of the Inaugural Meeting of the SCO Business Council and attended the opening ceremony of the Art Festival of SCO member states.

In a constructive and cordial atmosphere, the Council of Heads of State summarized the achievements and experience of the Organization in its growth, discussed pressing issues and tasks in the work of the SCO, and had an in-depth exchange of views on a wide range of international issues of common interest.

The heads of state pointed out that the Organization has done a remarkable job in implementing the agreement reached in the Astana Summit held in the summer of 2005, and this has created favourable conditions for the Organization to conduct more robust multilateral cooperation in various areas.

At the meeting of the Council of Heads of State, a Resolution on Strengthening the Role of the SCO Secretariat in the structure of the Organization and changing the title of the Head of the Secretariat into Secretary-General was adopted. This shall instill new vigour into the work of the Organization and enhance the efficiency of the SCO's permanent body in fulfilling tasks of growing importance. In accordance with this principle, the

Council of National Coordinators of SCO Member States shall hold consultation and make decision by the end of 2006 on the institutional reform of the SCO Secretariat and the rotation of staff for the SCO's permanent body in a way that ensures balance and the continuity of its work.

Having taken note of the fact that SCO member states have reached consensus on the principled position of formulating a mechanism for the Organization to adopt measures in response to developments that threaten regional peace, stability and security, the heads of state believed that the SCO Secretariat should draft the relevant agreement as soon as possible, to ensure that all measures under the mechanism are law-based.

It remains the top priority of the Organization to combat the threats posed by terrorism, separatism and extremism as well as illegal drug trafficking, which have not diminished but aggravated in scale and degree. Various forms of joint anti-terrorism military exercises within the territories of the SCO member states involving, among others, their defence authorities, will help enhance the efficiency of member states' joint anti-terrorism operations. The heads of state spoke positively of the work done by the SCO Regional Anti-Terrorist Structure, and were convinced that this Structure has the potential to better perform its duties and carry out its mission.

The heads of state pointed out that there is already a legal basis and an organizational structure for carrying out economic cooperation. The implementation of the Programme of Multilateral Trade and Economic Cooperation among SCO Member States and its Action Plan has begun. The establishment of the SCO Business Council and the Inter-bank Association will greatly enhance the development of economic cooperation of the Organization. The credit fund of 900 million dollars provided by China will help expand regional cooperation. All member states agreed to give priority to cooperation in the fields of energy, information technology and transportation, which have entered the phase of carrying out pilot projects and is of special significance for deepening economic cooperation within the SCO framework.

The heads of state expressed their satisfaction with the progress made in areas of multilateral cooperation: environmental protection, culture, education and sports. They were also happy to see that the SCO Forum had begun functioning. The heads of state emphasized that the progress would be increasingly significant for enhancing mutual understanding among member states and conducting non-governmental exchanges within the SCO framework.

The heads of state expressed full support for the agreement (the SCO Parliamentary Initiative) signed at the Meeting of Parliament Speakers of SCO member states held in Moscow on 30 May 2006, believing that the agreement is a good innovating action to consolidate the Organization and develop the inter-parliamentary relations among the member states.

The heads of state considered that as the international situation evolves and the SCO becomes more dynamic, it is necessary to strengthen the Organization's public information so as to create a public opinion favourable for its development. The SCO Secretariat should coordinate the drafting of specific proposals on this matter.

Threats of a military-political, criminal or terrorist nature to information security constitute common challenges for all member states that need to be dealt with through prompt joint measures. The experts' panel was entrusted with the task of producing a long-term plan of action for the maintenance of information security before the next summit in 2007, including ways of solving this problem within the SCO framework.

In the light of the SCO's lofty purposes and long-term interests and in pursuance of the Declaration on the Fifth Anniversary of the SCO, the heads of state instructed the Council of National Coordinators to conduct consultations on concluding a multilateral legal document on long-term neighbourly and amicable cooperation within the SCO framework.

The SCO will try to expand cooperation among member states in the international arena in various forms and by various means. It will hold regular consultations with observers and international organizations concerned. This is fully applicable to the SCO-Afghanistan Contact Group which is already functioning.

The heads of state pointed out with satisfaction that the initiative endorsed by the Council of Heads of State in Tashkent 2004 on establishing cooperative relations among international organizations in the Asia Pacific region was warmly and widely received. They welcomed the signing of cooperation documents between the SCO and ASEAN, the Commonwealth of Independent States (CIS) and the Eurasian Economic Community (EurAsEC). They reiterated that the SCO is ready to forge similar ties with other international organizations and financial institutions on the basis of equality and mutual respect.

The SCO Secretariat should, together with the Executive Committee of the SCO Regional Anti-Terrorist Structure, closely follow the implementation of cooperation documents signed between the SCO and other organizations and energetically promote concrete cooperation with the observers.

The heads of state also entrusted the Council of National Coordinators to make recommendations on the procedure of SCO membership enlargement. This procedure should fully conform to the purposes and goals set forth in the Charter of the Shanghai Cooperation Organization, ensure the effectiveness of all treaties that form the legal basis of the SCO, help strengthen its unity and guarantee the applicability of the principle of consensus to consultations on all matters and at all levels of SCO.

The next meeting of the Council of Heads of State will be held in Bishkek in 2007. The Kyrgyz Republic will assume the SCO presidency next year.

15 June 2006. Shanghai. *Source:* www.english.scosummit2006.org

2. Text of the declaration adopted at the fifth anniversary of the SCO

On the occasion of the fifth anniversary of the founding of the Shanghai Cooperation Organization (hereinafter referred to as SCO), the heads of state of SCO members, President of the Republic of Kazakhstan Nursultan Nazarbaev,

President of the People's Republic of China Hu Jintao, President of the Kyrgyz Republic Kurmanbek Bakiev, President of the Russian Federation Vladimir Putin, President of the Republic of Tajikistan Emomali Rakhmanov and President of the Republic of Uzbekistan Islam Karimov met in Shanghai, SCO's birthplace, and stated as follows:

I

SCO was founded in Shanghai five years ago pursuant to a strategic decision made by its member states to meet challenges and threats of the 21st century and bring about durable peace and sustainable development of the region. This decision, which ushered in a new historical phase of regional cooperation, is of great importance to the establishment and maintenance of peace and stability and the creation of an inclusive environment for cooperation in the SCO region.

With volatile changes taking place in the international and regional environment, SCO has become an important mechanism for deepening good-neighbourly cooperation, friendship and partnership among its members. It is a good example of dialogue among civilizations and an active force for promoting democracy in international relations.

II

Through its endeavour over the past few years, SCO has laid a solid foundation for its steady and sustained growth and gained extensive international recognition.

- SCO has completed building of institution and legal framework which ensures its effective functioning.
- It has carried out close security cooperation focusing on addressing non-traditional security threats and challenges such as fighting terrorism, separatism, extremism and drug trafficking.
- It has adopted a long-term plan, set direction for regional economic cooperation and identified the goal, priority areas and major tasks of economic cooperation among member states. It has set up the SCO Business Council and the Interbank Association.
- Following the principles of openness, non-alliance and not targeting at any third party, it has actively engaged in dialogue, exchange and cooperation of various forms with countries and international organizations that, like SCO, are ready to carry out cooperation on an equal and constructive basis with mutual respect to safeguard regional peace, security and stability.

SCO owes its smooth growth to its consistent adherence to the 'Shanghai Spirit' of 'mutual trust, mutual benefit, equality, consultation, respect for multi-civilizations and pursuit of common development.' This spirit is the underlying philosophy and the most important code of conduct of SCO. It enriches the theory and practice of contemporary international relations and embodies the shared aspiration of the international community for realizing democracy in international relations. The 'Shanghai Spirit' is therefore of critical importance to the international community's pursuit of a new and non-

confrontational model of international relations, a model that calls for discarding the Cold War mentality and transcending ideological differences.

SCO will remain dedicated to the purposes and principles established at its founding and strengthened in the documents, declarations and statements adopted thereafter.

III

The world and international relations today are going through unprecedented and profound changes. There is increasing trend toward multipolarization and economic globalization amid twists and turns. The establishment of a new international order in the 21st century is a slow and uneven process. Interdependence among countries is growing. The international community faces favourable opportunities for ensuring stability, peace and development, but is also confronted with complicated traditional and non-traditional security challenges and threats.

SCO is committed to enhancing strategic stability, strengthening the international regime of non-proliferation of weapons of mass destruction and upholding order in international law, and will contribute its share to accomplishing these important missions.

SCO holds that the United Nations, being the universal and the most representative and authoritative international organization, is entrusted with primary responsibility in international affairs and is at the core of formulating and implementing the basic norms of international law. The United Nations should improve efficiency and strengthen its capacity for responding to new threats and challenges by carrying out proper and necessary reforms in the light of the changing international environment. In carrying out Security Council reform, the principles of equitable geographical distribution and seeking the broadest consensus should be observed. No time limit should be set for the reform, nor should a vote be forced on any proposal over which there are major differences. SCO holds that the next Secretary-General of the United Nations should come from Asia.

Threats and challenges can be effectively met only when there is broad cooperation among all countries and international organizations concerned. What specific means and mechanism should be adopted to safeguard security of the region is the right and responsibility of the countries in the region.

SCO will make constructive contribution to the establishment of a new global security edifice of mutual trust, mutual benefit, equality and mutual respect. Such an edifice is based on the widely recognized principles of international law. It discards 'double standards' and seeks to settle disputes through negotiation on the basis of mutual understanding. It respects the right of all countries to safeguard national unity and their national interests, pursue particular models of development and formulate domestic and foreign policies independently and participate in international affairs on an equal basis.

Diversity of civilization and model of development must be respected and upheld. Differences in cultural traditions, political and social systems, values and models of development formed in the course of history should not be

taken as pretexts to interfere in other countries' internal affairs. Model of social development should not be 'exported.' Differences in civilizations should be respected, and exchanges among civilizations should be conducted on an equal basis to draw on each other's strengths and enhance harmonious development.

IV

There is general stability in Central Asia. Countries in this region have achieved historic success in political and economic reforms and social development. The unique historical and cultural traditions of Central Asian nations deserve respect and understanding of the international community. The governments of Central Asian countries should be supported in their efforts to safeguard security and stability, maintain social and economic development and improve people's livelihood.

SCO member states will continue to tap potential of the organization, enhance its role and work to turn this region into one that is peaceful, coordinated in development, open, prosperous and harmonious.

SCO member states will remain friends from generation to generation and will never be enemies of one another. They are committed to the all-round growth of good neighbourly relations, mutual respect and mutually beneficial cooperation. They support each other in their principled positions on and efforts in safeguarding sovereignty, security and territorial integrity. They will not join any alliance or international organization that undermines the sovereignty, security and territorial integrity of SCO member states. They do not allow their territories to be used to undermine the sovereignty, security or territorial integrity of other member states, and they prohibit activities by organizations or gangs in their territories that are detrimental to the interests of other member states. To this end, SCO member states will conduct, within the SCO framework, consultation on the conclusion of a multilateral legal document of long-term good neighbourly relations, friendship and cooperation.

SCO member states will continue to strengthen coordination and cooperation in international and regional affairs and take a common position on matters involving SCO's interests.

SCO has the potential to play an independent role in safeguarding stability and security in this region. In case of emergencies that threaten regional peace, stability and security, SCO member states will have immediate consultation on effectively responding to the emergency to fully protect the interests of both SCO and its member states. Study will be made on the possibility of establishing a regional conflict prevention mechanism within the SCO framework.

To comprehensively deepen cooperation in combating terrorism, separatism, extremism and drug trafficking is a priority area for SCO. SCO will take steps to strengthen the regional anti-terrorism agency and carry out cooperation with relevant international organizations.

To expand economic cooperation among them, SCO member states need to coordinate their efforts in implementing the Cooperation Programme on Multilateral Economic and Trade among SCO Member States by carrying out

major priority projects of regional economic cooperation. They need to work together to promote trade and investment facilitation and gradually realize the free flow of commodities, capital, services and technologies.

SCO welcomes participation by relevant partners in specific projects in priority areas like energy, transportation, information and communications and agriculture. SCO will endeavour to actively participate in international campaigns against communicable diseases and contribute to environmental protection and rational use of natural resources.

To strengthen and expand the social foundation for friendship and mutual understanding among SCO member states is an important way to ensure SCO's resilience and vitality. To this end, SCO member states need to institutionalize bilateral and multilateral cooperation in culture, arts, education, sports, tourism and media. With the unique and rich cultural heritage of its member states, SCO can surely serve as a model in promoting dialogue among civilizations and building a harmonious world.

This Declaration is issued on the occasion of the fifth anniversary of SCO. We, heads of state of SCO members, are firm in the belief that SCO will fully realize the noble objective and mission declared at its founding and contribute to the cause of peace, cooperation and development.

President of the Republic of Kazakhstan	Nursultan Nazarbaev
President of the People's Republic of China	Hu Jintao
President of the Kyrgyz Republic	Kurmanbek Bakiev
President of the Russian Federation	Vladimir Putin
President of the Republic of Tajikistan	Emomali Rakhmanov
President of the Republic of Uzbekistan	Islam Karimov

15 June 2006. Shanghai, *Source*: www.english.scosummit2006.org

D. CICA & PAKISTAN

Text of the address delivered by President Pervez Musharraf at the Conference on Interaction and Confidence Building in Asia (CICA)

Your Excellency President Nursultan Nazarbaev, Chairman of the CICA Summit, Distinguished Heads of State and Government, Excellencies, Ladies and Gentlemen,

I consider it a special privilege to represent Pakistan at the Second CICA Summit and continue my association with this important endeavour initiated by the Chairman many years ago to promote confidence, trust, understanding and security in Asia. CICA has been making steady headway since the last summit. In particular, the adoption of the CICA Catalogue of Confidence-Building Measures in 2004 was a significant development. The establishment of the CICA Secretariat is yet another landmark development.

Mr. Chairman!

Old and new conflicts, tensions and menace of terrorism afflict many parts of Asian continent. Regional conflicts and tensions also retard economic progress, aggravate poverty and cause despair and anger that can breed extremism and

terrorism. In this context, CICA is a valuable forum for interaction and dialogue, focusing on security situation and challenges we face together. It encourages adoption of CBMs that can help manage conflicts. However, we feel these must pave the way for final settlement, which alone can ensure durable peace.

In regions that are fortunate to be relatively free of tension, intra-regional mechanism to reinforce trust and confidence can help accelerate economic development and consolidate peace and security. These mechanisms can promote peaceful environment conducive for socio-economic advancement by allowing people to devote their resources and energies for this purpose.

Mr. Chairman!

Terrorism is a new and pervasive threat to peace and security that threatens the entire international community. Pakistan has long been its victim. We have been consistently opposing terrorism in all its forms and manifestations and have been in the forefront of the global campaign to combat and counter terrorism and extremism. We believe that in addition to local action to eliminate terrorist groups and individuals, it is also important to address the root causes. Terrorism often stems from conditions where people have long been denied freedom and fundamental rights and suffer a deep sense of humiliation. International failure to resolve long standing issues only serves to aggravate them. Another danger that must be the focus of our concerns is a similarly sinister phenomenon that tends to associate terrorism with religion, particularly Islam. We must firmly reject and counter campaigns to malign Islam, which is a religion of peace, tolerance and compassion. Terrorism has no religion. There is also a need to reject the false notion of clash between Islam and the West. What we need today more than ever before is harmony and congenial coexistence between diverse cultures and religions.

Mr. Chairman!

We greatly appreciate your efforts, to bring together scholars of all faiths to promote interfaith harmony. In this context, I would like to mention the relevance of my suggestion of 'enlightened moderation' that emphasizes upon reforms in the Islamic societies to counter extremism on the one hand and the need, on the other hand, for the West to help with resolution of conflicts that continue to cause suffering to the Islamic world.

Mr. Chairman!

When we talk of peace and confidence building in the Asian continent, we cannot escape the responsibility to find just solutions to the long standing Palestinian and Kashmir conflicts and the need to help Iraq and Afghanistan gain stability and normalcy. The establishment of an independent Palestinian state is essential to bring the Palestinian tragedy to a close and achieve durable peace in the Middle East. This has been the objective of all peace efforts, including the Oslo Peace Accords, The Arab League Declaration of 2002, the Quartet Peace Plan, and earlier, the UN Security Council Resolutions 242 and 338. We must not fail in their implementation.

In South Asia, we are engaged with India in a peace process to resolve all outstanding issues, including the Kashmir dispute. The implementation of a number of CBMs in diverse sectors has improved relations and security environment in South Asia. This offers a unique opportunity that must be seized to resolve the Kashmir dispute and usher in a new era of peace and cooperation in South Asia. This is achievable through leadership, sincerity, courage and flexibility.

In neighbouring Afghanistan, we desire to see success of the people and the government of the country in their efforts aimed at reconciliation and rehabilitation. Pakistan supports the Bonn Process and will contribute to reconstruction of Afghanistan. We believe that a stable, strong and prosperous Afghanistan is vital for regional peace and development.

The recent tension over the Iranian nuclear issue has been a source of deep concern to all of us.

Therefore, we welcome the renewed diplomatic efforts to find a negotiated settlement as well as the US decision to directly engage with Iran. We have been supporting Iran-EU3 dialogue and search for a diplomatic solution, especially by Russia and China. We believe that peaceful resolution of disputes implies compromise and accommodation of opposing views. Therefore, it follows that each party has to step back from their maximalist positions. We hope this will be realized for the sake of ultimate peace.

Mr. Chairman!

It is encouraging that a CICA Special Working Group is exploring cooperation among member states in the economic, environmental and human dimensions. It signifies a desire to benefit from respective strengths of CICA member states. Many of CICA member states are richly endowed with natural resources. Others, such as Pakistan, can facilitate trade and communications and provide access to markets. Close cooperation can make a difference in the economic uplift of our respective regions and the lives of our peoples. I would like to mention here the pivotal role that Pakistan can play, given its strategic location at the crossroads of Central Asia, South Asia and West Asia. Pakistan provides Central Asian states the shortest route to sea and an energy corridor. We have completed work on a deep water port at Gwadar and wish to develop it as a trans-shipment port. At the same time, we have undertaken major infrastructure projects for road and rail transportation networks to complement air links with these three vital regions. We also plan to upgrade the existing road link with western China. We have a vision to transform Pakistan into a hub of economic activity and communication linking the neighbouring regions.

Mr. Chairman!

In the recent past, we have seen the catastrophic consequences of natural disasters like the devastating earthquake in Pakistan and the Asian Tsunami which have taken a heavy toll of human lives and resulted in widespread destruction. We are grateful for the generous support we received from the

international community. This prompts me to suggest disaster management as an area for interaction among CICA member states. CICA membership represents the diversity and richness of Asia that also faces a range of daunting challenges. We are optimistic about Asia's future as we enter the 21st century. However, much will depend on our success in building confidence and trust for cooperative endeavours to ensure peace and prosperity in our regions and our continent. Pakistan is ready to play its part for the realization of this vision that has motivated the CICA process.

I thank you Mr. Chairman.

17 June 2006. Almaty, *Source*: www.presidentofpakistan.gov.pk

E. PAKISTAN & ECO.

Text of the joint declaration issued at the ninth ECO summit

The Ninth Summit Meeting of the Economic Cooperation Organization (ECO) was held in Baku, Republic of Azerbaijan, on 5 May 2006. The meeting, presided over by President of the Republic of Azerbaijan, His Excellency Ilham Aliyev, was attended by:

President of the Islamic Republic of Afghanistan, His Excellency Hamid Karzai, President of the Islamic Republic of Iran, His Excellency Mahmoud Ahmadi Nejad, Prime Minister of the Republic of Kazakhstan, His Excellency Daniyal Akhmetov, First Vice Prime Minister of the Kyrgyz Republic, His Excellency Medetbek Kerimkulov, Prime Minister of the Islamic Republic of Pakistan, His Excellency Shaukat Aziz, Prime Minister of the Republic of Tajikistan, His Excellency Akil Akilov, Prime Minister of the Republic of Turkey, His Excellency Recep Tayyip Erdogan, Head of State Enterprise on Caspian Sea Issue under the President of Turkmenistan, His Excellency Khoshgeldy Kurbanovich Babaev, Speaker of Parliament of the Republic of Uzbekistan, His Excellency Erkin Khalilov.

The Heads of State / Government held, in a cordial and friendly atmosphere, in-depth exchange of views on important regional and global issues of common interest with a view to promoting the socio-economic well-being of the peoples of the ECO region. In this context, the Heads of State/Government:

Reaffirming the commitment of the Member States for the realization of the ECO goals and objectives envisaged in the Izmir Treaty and other basic documents as well as the declarations and communiqués of its previous meetings;

Reiterating strong political will of the Member States towards strengthening regional cooperation within the framework of the ECO;

Taking note with satisfaction of the considerable progress achieved in ECO activities during the recent years, especially towards ratification and implementation of the ECO agreements in the priority areas;

Welcoming the imminent entry into force of the Transit Transport Framework Agreement (TTFA), appointment of Board of Governors of the ECO Trade and Development Bank, and finalization of annexures to ECO Trade Agreement (ECOTA) and appreciating the steps taken towards realization of

these important initiatives which would contribute to making ECO an effective vehicle for regional economic integration;

Observing that the ECO has attained the required institutional capacity and drawn its medium and long-term perspectives in the different areas as envisaged in the ECO Vision 2015 and other basic documents, and noting that the organization was entering into the implementation phase of its plans and projects which required more constructive regional cooperation;

Resolving to remove the existing bottlenecks at national and regional levels which hampered prompt accession and ratification of the approved agreements and reaffirming their commitment to expedite the implementation process of those agreements which have already entered into force;

Expressing sympathy with the people and the government of the Islamic Republic of Pakistan on the loss of life and property in the devastating earthquake on 8 October 2005 and appreciating the assistance of the Member States and the ECO Secretariat extended to Pakistan in the hour of need;

Recommending consideration of regional programmes and projects for early warning, preparedness and management of natural disasters and the need for strengthening collaboration within and beyond the region in this regard, and putting in place a permanent regional response mechanism dedicated to disaster preparedness, earthquake safety and drought management; emergency relief and rehabilitation to ensure immediate response and welcoming ECO's initiatives in that direction;

Congratulating the people and the Government of Afghanistan on the recent political and economic gains made by the country and expressing the hope that these positive developments would usher the country in to a new era of peace, progress and prosperity;

Acknowledging the strides that ECO has taken in the sphere of external relations and highlighting the need for strengthening ECO's relations with other international/regional organizations through the establishment of a mechanism for according observer status/dialogue partnership and through activation of ECO contact groups in the relevant international forums and also by preparing an action plan for the enhancement of ECO's external relations;

- Welcomed the adoption, by the 16th meeting of the Council of Ministers (COM), of the ECO Vision 2015 as the organization's roadmap for the next decade; agreed that the document was an embodiment of their common aspirations to promote cooperation, mobilize resources and synchronize efforts for sustainable social and economic development of the region; urged Member States to work in close collaboration with the Secretariat to expedite implementing the strategies and projects outlined in the document. They commended the work of the Eminent Persons Group (EPG) and fully endorsed their recommendations on the measures to promote the efficiency and effectiveness of ECO.
- Expressed satisfaction over the organization of four ministerial meetings since the Eighth ECO Summit namely; Second Ministerial Meeting on Environment (Istanbul, Turkey, October 2004), Second Ministerial Meeting on Agriculture (Antalya, Turkey, December 2004), Third Ministerial

Meeting on Trade and Investment (Istanbul, Turkey, July 2005), 2nd Ministerial Meeting on Industry (Istanbul, Turkey, November 2005) and Sixth Ministerial Meeting on Transport and Communications (Tehran, Iran, 24-26 April 2006) and desired that other ministerial meetings take place on schedule as identified in the ECO Calendar of Events for 2006-07.

- Welcomed the designation of coordinating countries to assist the ECO Secretariat in facilitating and expediting the implementation of agreements in trade, transport and energy sectors and requested Member States to extend full cooperation to the lead countries in fulfillment of their task in accordance with the agreed terms of reference.
- Reaffirmed their commitment to establish a free trade area in the ECO region by 2015 as a priority task, welcomed ratification of the ECOTA by Afghanistan, Pakistan and Tajikistan and called on signatories that had not yet ratified the agreement to do so, and the non-signatories to expedite signing the agreement. They also encouraged concerned Member States to finalize at an early date, the Optional Protocol on Fast Track Approach to ECOTA. They welcomed the offer of the Islamic Republic of Afghanistan to host the Fourth Ministerial Meeting on Commerce and Foreign Trade in June 2006.
- Noted with satisfaction the entry into force of the Articles of Agreement on ECO Trade and Development Bank and asked the Board of Governors to take necessary steps to make the bank operational in 2006. They advised the Governors from Member States to extend their full support to the Board of Governors in carrying out its tasks to operationalize the bank. They also urged the participating states to finalize the Draft Agreement for the Establishment of ECO Reinsurance Company and sign it as soon as possible, so that the company could become operational this year.
- Acknowledged the importance of transport and communications as the cornerstone of ECO policy for greater regional integration, and in that respect:
 - a. Called for early establishment of the Transit Transport Coordination Council (TTCC) to ensure successful implementation of TTFA. They also urged the signatory Member States to ratify and the non-signatory ones to sign and ratify TTFA.
 - b. Reiterated the importance of early operationalization of regular container train to Istanbul-Tehran-Turkmenabab-Tashkent-Almaty route of Trans-Asian Railway Main Line and passenger train from Almaty on the same route and called on Member States, particularly those that fall on that route, to attach high priority to the project and facilitate its early implementation.
 - c. Underlined the importance of the Programme of Action for ECO Decade of Transport and Communications (1998-2007) and asked Member States to expedite implementing relevant projects in their respective territories.

- Took note of the recent developments in the field of industry such as preparation of the Draft ECO Regional Strategy for Industrial Cooperation, adoption of the ECO Regional Privatization Plan of Action and identification of specific project proposals in the selected sub-sectors open to the private sector, and welcomed the preparation of the statute of the ECO Regional Institute for Standardization, Conformity Assessment, Accreditation and Metrology (RISCAM), which will be finalized by the next Ministerial Meeting on Industry. They welcomed the offer of the Islamic Republic of Pakistan to host the Third ECO Ministerial Meeting on Industry in 2006 and called for full participation in it. They also appreciated the establishment of ECO Technology Transfer Center (ETT-Center) in Tehran and invited all the Member States to actively contribute to its activities.
- Noted with satisfaction the approval and signing of the Agreement on Promotion and Protection of Investment (APPI) in the ECO region during the Third ECO Ministerial Meeting on Commerce and Foreign Trade and urged the signatory Member States to ratify and non-signatory Member States to sign/ratify the agreement for its early implementation. They welcomed the offer of the Republic of Turkey to host the Second Ministerial Meeting on Finance and Economy in the second half of 2006.
- Noted with satisfaction the efforts of the ECO Secretariat to encourage participation of the private sector in its programmes and activities for enhancing the ECO intra-regional trade. In this regard, they appreciated the successful completion of the first phase of the Joint ECO/ITC Project on expanding intra-regional trade. They welcomed the allocation from the ECO Feasibility Study Fund (FSF) and the pledges made by the Turkish Government for financial and technical assistance and asked the organization to undertake the second phase of the Joint ECO/ITC Project. They requested organization of business forums and trade fairs ECO wide regularly in order to promote trade and business relations in the region. They called upon the Member States to give a new impetus to the activities of the ECO-CCI by means of establishing a permanent secretariat and developing an action plan for it.
- Took note of the progressive cooperation in the field of customs particularly the efforts for preparation of the Draft ECO Agreement on Mutual Administrative Assistance in Customs Matters and finalization/approval of the Agreement on establishment and operation of ECO Smuggling and Customs Offences Data Bank and called for early implementation of the Agreements.
- Expressed deep concern at the continued degradation of environment and underscored the implementation of the ECO Plan of Action in the field of Environment (2003-2007). They welcomed the offer of the Republic of Kazakhstan to host the Third ECO Ministerial Meeting on Environment in 2006 and called for active and high-level participation in this meeting. They appreciated the efforts of the Islamic Republic of Iran for the establishment

of the ECO Regional Center for Risk Management of Natural Disasters in Mashhad in 2006. They also took note of the initiative of the Islamic Republic of Iran (as the ECO country coordinator for Drought Management) to host a Regional Information, Communication and Space Technology-Enabled Disaster Management Centre affiliated to UNESCAP, and their request of support in this regard.

- Took note of the commencement of the feasibility study on interconnection of power systems of the ECO Member States by NESPAK of Pakistan together with sub-consultant the Kyrgyz Institute of Energy and Communication with financing by the Islamic Development Bank (IDB), as well as efforts for the initiation and promotion of regional trade in energy sector and called upon Member States to extend full support to the Consultant for completion of the study.
- Reiterated the need for the use of new and renewable sources of energy by the Member States and reaffirmed their basic right and willingness to enhance cooperation for developing such kinds of energy sources including nuclear energy for peaceful purposes.
- Noted with satisfaction the finalization of ECO Regional Programme for Food Security with the technical/financial assistance of UN Food and Agriculture Organization (FAO) and preparation of national and regional food security projects and appreciated the signing of ECO/FAO Technical Cooperation Programme for strengthening Seed Supply in the ECO region.
- Resolved to attach due importance to the food security projects and extend financial support to the agriculture sector, invited international and regional donors particularly the UN agencies, the European Union (EU), the IDB and the Asian Development Bank (ADB) to extend assistance to ECO endeavours in the field of agriculture development and food security.
- Stressed the importance of cooperation in the agricultural sector, particularly in cotton-growing and related fields, as cotton is one of the primary products produced and exported by almost all ECO Member States. In this regard, they underscored the necessity of creation of forum/association of cotton producers with participation of the interested ECO Member States.
- Highlighted the importance of human resource and sustainable development as reflected in the ECO Vision 2015 and reiterated their commitment to pursuing the objectives of the UN Millennium Development Goals (MDGs), welcomed ECO's initiatives towards human resource and sustainable development issues, including establishment of a new Directorate of Human Resource and Sustainable Development, recommended to the Secretariat to approach relevant regional/international organizations for their contribution to implementation of ECO projects and plans in this regard.
- Recognized the need for collaborative preparedness to address health emergencies, including prevention and control of pandemics for example Avian Influenza, and emphasized upon the need to develop Regional

Strategies on similar cases and strengthening collaboration within and beyond the region in this regard.

- Agreed that terrorism, narcotics and other transnational crimes pose a serious challenge to regional security and development, and called on Member States to accelerate efforts to effectively address these issues through better coordination. They welcomed the offer of the Islamic Republic of Iran to host the first Meeting of the ECO Interior Ministers. They expressed gratitude to the UN Office on Drugs and Crime (UNODC), the EU and other international organizations for their assistance in the implementation of the first and second phases of Drug Control Coordination Unit (DCCU) and called upon the ECO to continue its efforts to benefit from relevant international organizations/donor agencies' resources and potentials. They took note of the subsequent merger of DCCU with the ECO Secretariat. They also called for a revision of the ECO Plan of Action on Drug Control and strengthening of DCCU's capacity, inter alia, by considering its possible transformation from a unit to a regional centre for combating transnational organized crimes.
- Reiterated that unresolved conflicts impede the development of cooperation, inter alia in economic sphere, on regional as well as broader plane, stressed the importance of early resolution of outstanding conflicts in the region on the basis of the principles of international law, in particular respect for territorial integrity.
- Took note of the recent activities of the ECO regional institutions/specialized agencies, including the ECO College of Insurance and ECO Cultural Institute. They called on the Member States to support and enhance their activities and extend full cooperation in activating other ECO regional institutions, including ECO Science Foundation in Pakistan and ECO Educational Institute in Turkey. They also welcomed ECO Consultancy and Engineering Company (Pvt.) Limited (ECO-CEC) based in Pakistan into the family of ECO Specialized Agencies/Regional Institutions.
- Took note of Azerbaijan's proposal for the establishment of an ECO Research Centre, which would serve as the ECO think-tank and work out development strategies for the region, and instructed the CPR/RPC to further deliberate upon the idea.
- Stressed upon the need to continue with reforms, including the restructuring of the ECO Secretariat aimed at transforming ECO into a modern, efficient and project-oriented organization, better equipped to address the challenges of the 21st century and focus on the priority needs of the Member States. In this regard, they called upon the Member States to use more actively the available expert potential in order to enhance performance of the ECO Secretariat.
- Noted the potential for cooperation in the field of information technology and agreed to examine ways and means to use this important tool to pool knowledge and share expertise; called on Member States to ensure full and

meaningful participation in the High-Level Experts Group (HLEG) Meeting on Information and Communication Technology (ICT) to be held in Tehran in 2006, which would look into the possibility of furthering cooperation in the field of ICT, including the establishment of regional technological parks and preparation of the draft agreement on regulation of the cooperation in ICT field among the Member States.

- Welcomed implementation of Plan of Action on ECO's contribution to the reconstruction of Afghanistan and the establishment of the ECO Fund for the reconstruction of Afghanistan with pledges announced by the Islamic Republic of Iran, the Islamic Republic of Pakistan and Republic of Turkey and repeated their appeal to the Member States to contribute to the Special Fund for rehabilitation and reconstruction of Afghanistan and to help this country in the field of capacity building. Also, taking note with satisfaction of the commencement of identified ECO projects in Afghanistan, appreciated the efforts of the Islamic Republic of Afghanistan for organizing ECO activities/events particularly the reactivation of the ECO Chamber of Commerce and Industry (ECO-CCI) during its chairmanship.
- Appreciated the significant contributions of the Secretary General, Askhat Orazbay to the implementation of ECO approved plans and projects and to restructuring of the ECO Secretariat as well as the expansion of its cooperative relations with other regional/international organizations/institutions thus ensuring the ECO a befitting stature in the international arena and extended their best wishes for his success in his future assignments.
- Welcomed the appointment of Khurshid Anwar as the new ECO Secretary General and expressed confidence that he would effectively contribute to the enhancement and acceleration of regional cooperation, take appropriate initiatives to that end and promote projection of ECO's image and activities.
- Expressed their profound thanks for the sagacious manner in which President of Azerbaijan Ilham Aliyev, led the deliberations of the Ninth ECO Summit to a successful conclusion. They also expressed their sincere gratitude to the government and the people of Azerbaijan for the warm hospitality and the excellent arrangements made for the summit.

5 May 2006. Baku *Source:* www.ecosecretariat.org/ftp/prot

F. D-8 SUMMIT

Text of Prime Minister Shaukat Aziz's address at the D-8 summit

Your Excellency
President Susilo Bambang Yudhoyono
Excellencies,

Ladies and Gentlemen!

Our organization, the Developing-Eight (D-8), represents the collective will of the most populous Muslim nations in the world to join together for promoting the larger interests of the ummah. It was and remains our belief that collectively

we can be the engine for growth in the Muslim world. We have the necessary human and material resources, the geographic size, the demographic capacity, and of course the potential economic power to fulfill these objectives.

Over the last nine years, the D-8 has made steady progress. However, this progress is far below our true collective potential. Indeed our organization represents a microcosm of the Muslim and the developing world. The D-8 has tremendous human talent with its industrious and ingenious people. Some of us have great material resources such as oil and gas. The Muslim world, which stretches from Africa to the Pacific Ocean, has a central and geostrategic location. Our peoples comprise a fifth of humanity. Many of us feel that we have not been able to leverage these advantages to our benefit. We therefore, need to ask ourselves as to what are the challenges before us that have prevented us from achieving our true potential.

Mr. President!

Allow me to share with you my views as to what these challenges are and how we need to overcome them in order to benefit from the opportunities that are within our grasp.

Most importantly, we need to ensure greater unity within the Muslim world. We must recognize that it will be only through sharing of our best practices and resources, and collectively responding to global challenges that we can help each other to help ourselves. We must build interdependencies and complementarities to create a win-win situation for all. No matter how wealthy and powerful be any nation amongst us, individually it will always be at a disadvantage. Our strength lies in unity and collective action.

Another challenge before us is the negative image that exists about Islam and Muslims in the rest of the world. Unfortunately the actions of a few extremist elements have been wrongly used to tarnish the entire Muslim community. It is our responsibility to change this image. We need to project Islam in its correct perspective as a religion of peace, harmony and tolerance. We need to emphasize that the overwhelming majority of Muslims around the world are peace loving, hard working and law abiding people. It is, therefore, incumbent upon us to project the true values of Islam to our detractors. This must be done through an interfaith and inter-cultural dialogue which promotes better understanding and empathy for each other.

Muslim societies must also learn to reform themselves. We need to provide our people with better governance, economic prosperity and social justice. This is essential to ensure progress and to unleash the potential of our people.

We must revive the spirit of learning and enquiry which had laid the foundations for the glorious Islamic civilization. We must focus on modern disciplines, enhancing the acquisition of scientific and technological knowledge amongst our people. We must be in the lead to push the boundaries of knowledge in areas such as information technology, genetic engineering and nano-technology.

The D-8 should set an example for promoting greater trade and investment opportunities within the Muslim world. Over the last five years, intra-D-8 trade has increased from 14.5 billion to 33 billion dollars. This demonstrates that we have the capacity to augment trade even further. This growth can be enhanced by extending our trade relations with the rest of the ummah as we are obliged to do as members of the OIC.

Mr. President!

We need to reform and restructure our economies to benefit from international capital flows and foreign direct investment. In particular, we should encourage and promote investment from energy-rich countries to the capital deficient nations. There should be a greater emphasis, therefore, on investments and transfer of capital amongst our members.

Mr. President!

Cooperation in the defence sphere is another area which could be explored to promote the collective interests of the Muslim world. For instance several of our countries, including Pakistan, have made significant strides in indigenous defence production capability. We must share our capabilities to enhance our individual and collective security interests.

Cooperation in other areas such as tourism, especially eco-tourism, cultural and student exchanges, people-to-people contacts should be increased between our countries and the Islamic world as a whole. This will require a more liberal visa regime amongst ourselves which is also necessary to facilitate trade and commerce between the D-8 countries.

Mr. President!

The D-8 provides the institutional framework for achieving our shared vision that I have laid before you. I am glad that we have reached agreement to strengthen the Secretariat by upgrading the post of Executive Director to the Secretary General level. The Executive Director has done a very efficient job, but we need to move forward. In my view it will be imperative to further strengthen this institution in order to achieve our common objectives.

I also welcome the signing of the Preferential Trade and Customs Agreements. We must now make focused efforts to ensure the implementation of these agreements. We will be happy to host the first meeting for finalizing an agreement on the Rules of Origin which will be an important enabling step in our trade facilitation regime.

I am happy to announce that Pakistan has now ratified the Agreement of Easing Visa Procedures for D-8 Businessmen. We hope that other countries will also ratify this agreement at the earliest so that it can be made effective.

We welcome the holding of the D-8 Business Forum and a Trade Exhibition to coincide with the Bali Summit. I am confident that the involvement of the private sector with the D-8 activities will enrich our cooperation in diverse fields. We are, therefore, encouraged by the enthusiastic

participation of entrepreneurs, investors, traders and business-executives in this Forum.

Mr. President!

I would like to briefly share with you our efforts to reposition and revitalize Pakistan as a dynamic, progressive and modern Islamic state in a fast changing global environment.

Over the past six years, our government has implemented wide-ranging and broad-based structural reforms. We have improved governance through transparency and accountability; empowered the people from the grassroots to the provincial and federal levels, in particular women and minorities. We have a proactive opposition and a vibrant free media.

Our economic reforms have been based on the principles of deregulation, liberalization and privatization, which have ensured a sustained, upward growth trajectory. Pakistan's growth rate was one of the highest in the world last year. All sectors of our economy are open for foreign direct investment. Our exports are increasing and diversifying into new areas. Foreign exchange reserves are growing. The fiscal deficit has been reduced. Per capita income has increased.

In the social sector, we have initiated wide-ranging poverty alleviation programmes, including micro-financing, food support and rural and urban development programmes. The major focus of the Government is on improving the quality of education and the health delivery services. We want to invest in our human resources, our greatest asset, which is the focus of our next generation reforms. We are committed to building a knowledge-based economy.

Mr. President!

Another area of high priority for my government is the information technology (IT) sector. The total value of some of the ongoing IT projects in the public and private sector exceed 100 million dollars. But there is tremendous room for increase. We are also promoting a nation-wide programme of technical education and vocational training to evolve a highly skilled workforce as well as promote greater employment opportunities for our people.

Mr. President!

Pakistan is playing pivotal role to ensure international peace and security. We are strategically located at the cross-roads between three vital regions of the world—South Asia, Central Asia and West Asia. We are developing our road and rail infrastructure as well as air links to serve as a bridgehead connecting all these regions through corridors of cooperation, involving oil and gas pipelines, electricity grids, trade and tourism. These growing linkages will generate intra-regional growth and development, thus creating the conditions for greater peace, stability and progress.

Mr. President!

In South Asia, Pakistan is pursuing a composite dialogue process with its neighbour India to resolve all outstanding issues, especially the core dispute of Jammu and Kashmir in accordance with the wishes of the Kashmiri people.

Mr. President!

Terrorism is a menace that affects us all. Pakistan is playing a key role in the international campaign against terrorism. As a victim ourselves, we condemn terrorism in all its forms and manifestations. We also believe that a durable solution of this problem requires addressing the root causes of terrorism. Moreover, we must reject the malicious linkage that is being drawn between terrorism and Islam.

Mr. President!

I would like to express my deep appreciation for the warm welcome and generous hospitality extended to me and my delegation in the true traditions of your beautiful country, it is a pleasure to be in this enchanting island of Bali. Our two countries have a rich history of friendship and cooperation dating back to the support extended by your leaders for our freedom movement. Pakistan was also in the forefront of supporting the Indonesian freedom struggle.

We, in Pakistan, greatly admire the tolerant and inclusive manner in which Indonesia's multi-ethnic identity has been preserved. Your experience provides a valuable lesson for all of us, especially in today's world. As a country with the largest Muslim population, Indonesia has a major role in the Muslim ummah.

Mr. President!

Under your dynamic leadership which enjoys the overwhelming support of the Indonesian people, remarkable progress has been made as a result of your far reaching reforms. This has ensured impressive growth in the country. We are encouraged by your progress and admire your achievements. We wish you every success in the future.

Mr. President!

Before concluding, on behalf of the Government and people of Pakistan I want to assure you of our full support for the efforts that you will be making as the Chairman of the D-8 in the coming two years. I am confident that under your sagacious and inspiring leadership, our organization will be able to make unprecedented progress. The task before us is to energize the organization and pursue its activities in a focused and result-oriented manner. We need to build complementarities in order to create a win-win for all members. Our multidimensional cooperation must achieve tangible results in the areas of D-8 activities, especially to promote trade and investment among member states. It is imperative for us to create synergies in these fields. I am confident that we can make a difference which will contribute towards changing the future of the D-8

and enable us to achieve the goals to which we have dedicated ourselves nine years ago when this organization was established.

Our organization has great potential. We need to work together to influence our destiny. We must demonstrate the resolve to ensure unity amongst us, open up our minds, learn to collaborate, cooperate and coexist in a rapidly changing world. This will eventually ensure the attainment of peace, progress and prosperity for our people.

Mr. President!

I would also take this opportunity to express our condolences for the tragic event in Nigeria yesterday. We pray for the departed and for the people and Government of Nigeria to have the fortitude to overcome this suffering. Thank you.

13 May 2006. Bali. *Source:* www.mofa.gov.pk

II. Political Developments

Text of the Charter of Democracy

We the elected leaders of Pakistan have deliberated on the political crisis in our beloved homeland, the threats to its survival, the erosion of the federation's unity, the military's subordination of all state institutions, the marginalisation of civil society, the mockery of the Constitution and representative institutions, growing poverty, unemployment and inequality, brutalisation of society, breakdown of rule of law and, the unprecedented hardships facing our people under a military dictatorship, which has pushed our beloved country to the brink of a total disaster;

Noting the most devastating and traumatic experiences that our nation experienced under military dictatorships that played havoc with the nation's destiny and created conditions disallowing the progress of our people and the flowering of democracy. Even after removal from office they undermined the people's mandate and the sovereign will of the people;

Drawing history's lesson that the military dictatorship and the nation cannot co-exist – as military involvement adversely affect the economy and the democratic institutions as well as the defence capabilities, and the integrity of the country – the nation needs a new direction different from a militaristic and regimental approach of the Bonapartist regimes, as the current one;

Taking serious exception to the vilification campaign against the representatives of the people, in particular, and the civilians, in general, the victimisation of political leaders/workers and their media trials under a Draconian law in the name of accountability, in order to divide and eliminate the representative political parties, to Gerrymander a king's party and concoct legitimacy to prolong the military rule;

Noting our responsibility to our people to set an alternative direction for the country saving it from its present predicaments on an economically

sustainable, socially progressive, politically democratic and pluralist, federally cooperative, ideologically tolerant, internationally respectable and regionally peaceful basis in the larger interests of the peoples of Pakistan to decide once for all that only the people and no one else has the sovereign right to govern through their elected representatives, as conceived by the democrat par excellence, Father of the Nation Quaid-i-Azam Mohammed Ali Jinnah;

Reaffirming our commitment to undiluted democracy and universally recognised fundamental rights, the rights of a vibrant opposition, internal party democracy, ideological/political tolerance, bipartisan working of the parliament through powerful committee system, a cooperative federation with no discrimination against federating units, the decentralisation and devolution of power, maximum provincial autonomy, the empowerment of the people at the grassroots level, the emancipation of our people from poverty, ignorance, want and disease, the uplift of women and minorities, the elimination of klashnikov culture, a free and independent media, an independent judiciary, a neutral civil service, rule of law and merit, the settlement of disputes with the neighbours through peaceful means, honouring international contracts, laws/covenants and sovereign guarantees, so as to achieve a responsible and civilised status in the comity of nations through a foreign policy that suits our national interests;

Calling upon the people of Pakistan to join hands to save our motherland from the clutches of military dictatorship and to defend their fundamental, social, political and economic rights and for a democratic, federal, modern and progressive Pakistan as dreamt by the Founder of the nation; have adopted the following, “Charter of Democracy”;

a. Constitutional Amendments

1. The 1973 Constitution as on 12th October 1999 before the military coup shall be restored with the provisions of joint electorates, minorities, and women reserved seats on closed party list in the Parliament, the lowering of the voting age, and the increase in seats in parliament and the Legal Framework Order, 2000 and the Seventeenth Constitutional Amendment shall be repealed accordingly.

2. The appointment of the governors, three services chiefs and the CJCS shall be made by the chief executive who is the prime minister, as per the 1973 Constitution.

(a) The recommendations for appointment of judges to superior judiciary shall be formulated through a commission, which shall comprise of the following:

i. The chairman shall be a chief justice, who has never previously taken oath under the PCO.

ii. The members of the commission shall be the chief justices of the provincial high courts who have not taken oath under the PCO, failing which the senior most judge of that high court who has not taken oath shall be the member

iii. Vice-Chairmen of Pakistan and Vice-Chairmen of Provincial Bar Association with respect to the appointment of judges to their concerned province

- iv. President of Supreme Court Bar Association
 - v. Presidents of High Court Bar Associations of Karachi, Lahore, Peshawar, and Quetta with respect to the appointment of judges to their concerned province
 - vi. Federal Minister for Law and Justice
 - vii. Attorney General of Pakistan
- (a-i) The commission shall forward a panel of three names for each vacancy to the prime minister, who shall forward one name for confirmation to joint parliamentary committee for confirmation of the nomination through a transparent public hearing process.
- (a-ii) The joint parliamentary committee shall comprise of 50 per cent members from the treasury benches and the remaining 50 per cent from opposition parties based on their strength in the parliament nominated by respective parliamentary leaders.
- (b) No judge shall take oath under any Provisional Constitutional Order or any other oath that is contradictory to the exact language of the original oath prescribed in the Constitution of 1973.
- (c) Administrative mechanism will be instituted for the prevention of misconduct, implementation of code of ethics, and removal of judges on such charges brought to its attention by any citizen through the proposed commission for appointment of Judges.
- (d) All special courts including anti-terrorism and accountability courts shall be abolished and such cases be tried in ordinary courts. Further to create a set of rules and procedures whereby, the arbitrary powers of the chief justices over the assignment of cases to various judges and the transfer of judges to various benches such powers shall be exercised by the Chief Justice and two senior most judges sitting together.
4. A Federal Constitutional Court will be set up to resolve constitutional issues, giving equal representation to each of the federating units, whose members may be judges or persons qualified to be judges of the Supreme Court, constituted for a six-year period. The Supreme and High Courts will hear regular civil and criminal cases. The appointment of judges shall be made in the same manner as for judges of higher judiciary.
5. The Concurrent List in the Constitution will be abolished. A new NFC award will be announced.
6. The reserved seats for women in the national and provincial assemblies will be allocated to the parties on the basis of the number of votes polled in the general elections by each party.
7. The strength of the Senate of Pakistan shall be increased to give representation to minorities in the Senate.
8. FATA shall be included in the NWFP province in consultation with them.
9. Northern Areas shall be developed by giving it a special status and further empowering the Northern Areas Legislative Council to provide people of Northern Areas access to justice and human rights.

10. Local bodies election will be held on party basis through provincial election commissions in respective provinces and constitutional protection will be given to the local bodies to make them autonomous and answerable to their respective assemblies as well as to the people through regular courts of law.

b. Code of Conduct

11. National Security Council will be abolished. Defence Cabinet Committee will be headed by prime minister and will have a permanent secretariat. The prime minister may appoint a federal security adviser to process intelligence reports for the prime minister. The efficacy of the higher defence and security structure, created two decades ago, will be reviewed. The Joint Services Command structure will be strengthened and made more effective and headed in rotation among the three services by law.

12. The ban on a 'prime minister not being eligible for a third term of office' will be abolished.

13. (a) Truth and Reconciliation Commission be established to acknowledge victims of torture, imprisonment, state-sponsored persecution, targeted legislation, and politically motivated accountability. The commission will also examine and report its findings on military coups and civil removals of governments from 1996.

(b) A commission shall also examine and identify the causes of and fix responsibility and make recommendations in the light thereof for incidences such as Kargil.

(c) Accountability of NAB and other Ehtesab operators to identify and hold accountable abuse of office by NAB operators through purgery and perversion of justice and violation of human rights since its establishment.

(d) To replace politically motivated NAB with an independent accountability commission, whose chairman shall be nominated by the prime minister in consultation with the leader of opposition and confirmed by a joint parliamentary committee with 50 per cent members from treasury benches and remaining 50 per cent from opposition parties in same manner as appointment of judges through transparent public hearing. The confirmed nominee shall meet the standard of political impartiality, judicial propriety, moderate views expressed through his judgements and would have not dealt.

14. The press and electronic media will be allowed its independence. Access to information will become law after parliamentary debate and public scrutiny.

15. The chairmen of public accounts committee in the national and provincial assemblies will be appointed by the leaders of opposition in the concerned assemblies.

16. An effective Nuclear Command and Control system under the Defence Cabinet Committee will be put in place to avoid any possibility of leakage or proliferation.

17. Peaceful relations with India and Afghanistan will be pursued without prejudice to outstanding disputes.

18. Kashmir dispute should be settled in accordance with the UN Resolutions and the aspirations of the people of Jammu and Kashmir.

19. Governance will be improved to help the common citizen, by giving access to quality social services like education, health, job generation, curbing price hike, combating illegal redundancies, and curbing lavish spendings in civil and military establishments as ostentious causes great resentment amongst the teeming millions. We pledge to promote and practice simplicity, at all levels.

20. Women, minorities, and the under privileged will be provided equal opportunities in all walks of life.

21. We will respect the electoral mandate of representative governments that accepts the due role of the opposition and declare neither shall undermine each other through extra constitutional ways.

22. We shall not join a military regime or any military sponsored government. No party shall solicit the support of military to come into power or to dislodge a democratic government.

23. To prevent corruption and floor crossing all votes for the Senate and indirect seats will be by open identifiable ballot. Those violating the party discipline in the poll shall stand disqualified by a letter from the parliamentary party leader to the concerned Speaker or the Chairman Senate with a copy to the Election Commission for notification purposes within 14 days of receipt of letter failing which it will be deemed to have been notified on the expiry of that period.

24. All military and judicial officers will be required to file annual assets and income declarations like Parliamentarians to make them accountable to the public.

25. National Democracy Commission shall be established to promote and develop a democratic culture in the country and provide assistance to political parties for capacity building on the basis of their seats in parliament in a transparent manner.

26. Terrorism and militancy are by-products of military dictatorship, negation of democracy, are strongly condemned, and will be vigorously confronted.

c. Free and Fair Elections

27. There shall be an independent, autonomous, and impartial election commission. The prime minister shall in consultation with leader of opposition forward up to three names for each position of chief election commissioner, members of election commission, and secretary to joint parliamentary committee, constituted on the same pattern as for appointment of judges in superior judiciary, through transparent public hearing process. In case of no consensus, both prime minister and leader of opposition shall forward separate lists to the joint parliamentary committee for consideration. Provincial election commissioner shall be appointed on the same pattern by committees of respective provincial assemblies.

28. All contesting political parties will be ensured a level playing field in the elections by the release of all political prisoners and the unconditional return of all political exiles. Elections shall be open to all political parties and political personalities. The graduation requirement of eligibility which has led to corruption and fake degrees will be repealed.

29. Local bodies elections will be held within three months of the holding of general elections.

30. The concerned election authority shall suspend and appoint neutral administrators for all local bodies from the date of formation of a caretaker government for holding of general elections till the elections are held.

31. There shall be a neutral caretaker government to hold free, fair, and transparent elections. The members of the said government and their immediate relatives shall not contest elections.

d. Civil-Military Relations

32. The ISI, MI and other security agencies shall be accountable to the elected government through Prime Minister Sectt, Ministry of Defence, and Cabinet Division respectively. Their budgets will be approved by DCC after recommendations are prepared by the respective ministry. The political wings of all intelligence agencies will be disbanded. A committee will be formed to cut waste and bloat in the armed forces and security agencies in the interest of the defence and security of the country. All senior postings in these agencies shall be made with the approval of the government through respective ministry.

33. All indemnities and savings introduced by military regimes in the constitution shall be reviewed.

34. Defence budget shall be placed before the parliament for debate and approval.

35. Military land allotment and cantonment jurisdictions will come under the purview of defence ministry. A commission shall be set up to review, scrutinise, and examine the legitimacy of all such land allotment rules, regulations, and policies, along with all cases of state land allotment including those of military urban and agricultural land allotments since 12th October, 1999 to hold those accountable who have indulged in malpractices, profiteering, and favouritism.

36. Rules of business of the federal and provincial governments shall be reviewed to bring them in conformity with parliamentary form of government.

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III. Economy

Pakistan Economic Survey's overview of the economy

Pakistan's economy has delivered yet another year of solid economic growth in 2005-06 in the midst of an extraordinary surge in oil prices and the devastating earthquake of October 8, 2005. Pakistani corporates and consumers continue to

be the bright spot. Consumer spending remained buoyant and investors remained upbeat on the strength and sustainability of the current growth momentum, despite higher energy prices and natural calamities. With economic growth at 6.6 percent in 2005-06, Pakistan's economy has grown at an average rate of almost 7.0 percent per annum during the last four years (2002/03 – 2005/06) and over 7.5 percent in the last three years (2003/04 – 2005/06), thus positioning itself as one of the fastest growing economies of the Asian region. The growth momentum that Pakistan has sustained for the last four years is underpinned by dynamism in industry, agriculture and services, and the emergence of a new investment cycle with investment rate reaching new height at 20.0 percent of GDP.

Therefore, the pre-requisites for sustained economic growth appear to have gained a firm footing during the last four years.

The outgoing fiscal year (2005-06) has been an extra-ordinary year for the economy of Pakistan. At the very onset of the year the economy faced headwinds from rising oil prices, hovering around \$ 70 – 75 per barrel and putting severe strains on the country's trade balance and the budget. The massive earthquake of October 8, 2005 also caused extensive damage to property, infrastructure, school, hospital etc. and a loss of over 70,000 human lives. The rescue and relief operations and reconstruction of earthquake affected areas also put Pakistan's budget under severe stress. Despite these constraints, Pakistan's economy has proved itself as remarkably resilient in the face of shocks of extraordinary proportions. Growth has remained buoyant with *real* GDP growing at 6.6 percent in 2005-06 as against the revised estimates of 8.6 percent last year and the 7.0 percent target for the year. The key drivers of this year's growth have been the service sectors and industry. Large-scale manufacturing grew weaker-than-expected by 9.0 percent as against 15.6 percent of last year and 14.5 percent target for the year, perhaps exhibiting signs of moderation on account of higher capacity utilization on the one hand and a strong base effect on the other.

The services sector continued to perform strongly at 8.8 percent. Construction also continued to show strong performance, partly due to the activity in the private housing market, spending on physical infrastructure, and reconstruction activities in the earthquake affected areas. Consumer spending remained strong and investment spending gained further traction. Pakistan's economy continues to maintain a solid pace of expansion since the fiscal year 2002-03. The recovery has been strong, rapid and sustained. During the fiscal year 2005-06, Pakistan's economic fundamentals have gained further strength. The most important achievements of this year include: (i) a solid pace of economic expansion in an extra-ordinary environment, underpinned by weaker-than-targeted performance of large-scale manufacturing and robust performance of services; (ii) three or four years of strong economic growth has positioned Pakistan as one of the fastest growing economies in Asian region; (iii) *real* per capita GDP grew by 4.7 percent and per capita income in current dollar term was up by 14.2 percent, reaching \$ 847; (iv) a sharp pick up in overall investment reaching at a new height of 20 percent of GDP and most notably,

private sector investment remained buoyant owing to a rare confluence of various positive developments in the economy; (v) a robust consumer spending ably supporting the ongoing growth momentum; (vi) the credit to private sector continue to rise at the back of improving investment climate, the private sector has borrowed over Rs.1100 billion in less than three years (2003/04 and until April 22, 2006) while their cumulative borrowing in the previous eighteen years (1984 – 2003) have been Rs.921 billion; (vii) a significant Economic Survey 2005-06 abatement of price pressure indicating a steady deceleration in overall inflation, especially food inflation, the overall inflation decelerating from 9.0 percent in July 2005 to 6.2 percent in July 2006 and food inflation decelerating from 9.7 percent to 3.6 percent in the same period; (viii) energy consumption, particularly electricity and gas continue to rise at double-digit level, reflecting strong buoyancy in the economy; (ix) despite pressure emanating from the earthquake-related expenditures the underlying fiscal deficit performed better than the target; (x) the Central Board of Revenue (CBR) collecting taxes more than the target; (xi) a sharp reduction in public and external debt burden; (xii) the record public sector development program (PSDP) remained on track despite massive spending on earthquake related activities; (xiii) exports and imports continue to grow at high double-digit level; (xiv) workers' remittances at around \$ 4.5 billion continue to remain one of the largest sources of external finance for Pakistan; (xv) a continued accumulation of foreign exchange reserves; (xvi) exchange rate continued to remain stable despite extra-ordinary increase in imports and deterioration in trade balance; (xvii) privatization program achieved unprecedented success with the strategic sale of some difficult and complicated public sector units; (xviii) highest ever foreign direct investment flows, exceeding \$ 3.0 billion; (xix) and the successful launch of new 10 year and 30 year 144A sovereign bond in international debt capital markets, totaling \$ 800 million and reflecting a vote of confidence by the international investor community on Pakistan's economic policies, reform agenda and future outlook. The ultimate objectives of the government's socio-economic policy are to create jobs, raise incomes of the people and reduce poverty. This year has seen major successes on all these fronts. The pace of job creation has been brisk on the back of a sustained high economic growth, *real* per capita income has grown at an average rate of 5.7 percent per annum during the last three years, and accordingly, the overall poverty as well as rural and urban poverty has registered sharp declines.

While the economy of Pakistan has gained further traction in 2005-06, there are however, some weaker areas that need to be highlighted. First and foremost is the sharp pick up in the prices of some of the essential food items, particularly during the second half of the fiscal year. Although, this year has seen significant abatement of price pressure resulting in a steady deceleration in inflation from as high as 11.1 percent in April 2005 to 6.2 percent in April 2006 and food inflation from 15.7 percent to 3.6 percent in the same period, yet the prices of some of the essential food items (*out of the CPI basket of 370 items*) such as sugar, pulses, milk, beef, mutton, and some vegetables items have witnessed sharp increases, adversely affecting the low and fixed income groups.

In particular, the expenditure on food items constitutes bulk of the monthly expenditure of the poor segment of society. Within the food group, a significant proportion of the income of the poor are devoted to the consumption of the items listed above. Most of these items are part of minor crops (*various kinds of pulses and vegetables*) and livestock and dairy products (*beef, mutton, milk*). Both market and '*extra-market forces*' were responsible for the surge in prices of these food items. Infact, inadequate supplies of essential commodities provided rooms to '*extra-market forces*' to play their roles. Therefore, the challenge for the government is to maintain a balance between the supply and demand of these commodities through enhancing the production and imports. The key to addressing this challenge is to give due importance to minor crops and livestock and dairy sector. Currently there is a total disconnect between the importance given to these sub-sectors of agriculture and the relative roles they play in stabilizing overall inflation in general, especially food inflation.

Notwithstanding the sharp pick up in prices of some of the food items in the second half of the fiscal year; it is equally true that the prices of essential commodities in Pakistan are still relatively cheaper in the region. For example, the prices of wheat, wheat flour, rice basmati broken, masoor pulse, gram pulse, chicken, and red chillies in Pakistan are the lowest in the South Asian region. However, this does not mean that we have to pause or rest. The government is fully aware of the fact that there is an urgent need to take necessary measures not only to stabilize but also to reduce the prices of essential food items.

Secondly, four years of strong economic growth complemented by the benign interest rate environment have injected new life into domestic spending. The strengthening of domestic demand in conjunction with extra-ordinary surge in international price of oil, fueled import demand, which more than offset the improved outcomes for exports. Accordingly, this year has witnessed record trade deficit and widening of current account deficit mainly on account of higher oil bill, imports of machinery and raw materials. Although financing of current account deficit is not an issue yet it requires closer monitoring over the next few years.

Thirdly, although the number of people living below the poverty line has declined substantially, the consumption inequality has increased marginally during the period 2001-05. More attention will be required in skill development in both the urban and rural areas. While socio-economic and macroeconomic policies pursued during the year have had a strong influence on across-the-board improvement, an increasingly broad and dynamic global recovery has aided Pakistan in this endeavor.

Global Economic Environment

While solid pace of economic expansion this year was underpinned by the macroeconomic policies pursued by the government, Pakistan has also benefited from the buoyant global economic environment undeterred by the rising and volatile energy prices. The global economy continued its strong expansion, becoming geographically more broad-based, and global growth is expected to remain strong over the near term. Inflation and inflationary expectations

remained well contained but there is no room for complacency as there are downside risks, including those related to continued high and volatile oil prices, and abrupt tightening of global financial conditions, and a rise in protectionism.

Where reforms have been undertaken, the benefits have been enhanced by an expanding world economy. In 2004-05, global growth at 5.3 percent was the strongest in thirty years. Growth in 2005-06 though more moderate, was around 4.8 percent and similar strong growth is expected in 2006-07. The remarkable expansion we have seen in the past couple of years has been worldwide with almost every region of the world experiencing buoyant growth – including South Asia.

The United States and China remain the main engines of global economic growth, and that growth prospects in Japan and in some members of the euro area have steadily improved. The performance of many emerging economies and developing countries continue to be strong. As stated earlier, the United States continues to be a major driving force for global growth. Real GDP grew by 4.2 percent in 2004-05 and 3.5 percent in 2005-06 and is likely to moderate at around 3.3 percent in 2006-07. The buoyancy of the US economy has helped fuel growth in other regions. The pace of growth in emerging Asian countries especially in China, India and Pakistan, has also contributed to strong global performance in the past few years and this, too looks set to continue with growth in Asian emerging market forecast to exceed 7.0 percent this year.

In those parts of the world, where growth has been persistently sluggish, the future already holds a promising picture. The Japanese economy appears better poised for a strong recovery than for many years, with deflation almost squeezed out of the system, and more buoyant consumer demand. In some European countries, growth seems to be picking up, *albeit* slowly. South Asia, particularly India and Pakistan, appear to have overtaken the ASEAN region, in terms of their growth performance. Barring China, Hong Kong SAR, and Vietnam all the other Asian economies have fallen short to the South Asian giants (India and Pakistan) in terms of their growth performance. The Middle Eastern and African countries showing strong to modest growth for the last few years. The performance of oil rich countries (Saudi Arabia, Iran and Kuwait) was expected to be strong in the Middle East region owing to massive influx of petro dollars. With the exception of Nigeria (another oil producing country), all other countries in the African region showing a modest to weak growth performance.

There are many reasons for the global economic expansion. A major one is the reduction in inflation rates worldwide. For a long period, high inflation inflicted great harm on many countries. But in recent years, an extraordinary decline in inflation rates was observed worldwide. This has been a significant factor in the healthier rates of growth in many parts of the world. The low inflation environment has contributed significantly to the buoyancy of the global economy.

The recent expansion has, after all, taken place against a backdrop, which might have been expected to hamper global growth. Continuing geopolitical uncertainty, a sharp rise in oil prices and continuing concern about

global imbalances, the collective impact of these concerns so far, has been significantly less than many had predicted.

Overall, the current outlook, both at the global and at the regional level, is favourable. But there are nevertheless, some important downside risks to which all policy makers need to be ready to respond. High oil prices are clearly at or close to the top of the list. So far, the rise in oil prices has been satisfactorily absorbed in most countries. This is partly a reflection of the fact that unlike the price rises of the 1970s the current increases have been demand rather than supply driven; and it partly also reflects the fact that policy makers have taken to heart the lessons of the 1970s and have gradually reduced their dependence on oil to run the machines of their economies.

Global imbalances continue to pose a risk to continuing global growth. The current account deficit of the United States, now in excess of 6.0 percent of GDP, continues to increase and therefore, fuels concerns about sustainability. But the payment imbalances are part of a wider problem of imbalances in the global economy, with rapidly rising foreign exchange reserves in Asia, and sluggish growth in Europe and Japan. The main risk posed by these global imbalances is a disorderly resolution of the problem, for example, an abrupt adjustment of exchange rates and US interest rates, with obvious implications for emerging market debt.

GDP Growth

Real GDP grew strongly at 6.6 percent in 2005-06 as against the revised estimates of 8.6 percent last year and the 7.0 percent target for the year. When viewed at the backdrop of rising and volatile energy prices and the extensive damage caused by the earthquake of October 8, 2005 Pakistan's growth performance for the year has been impressive. The key drivers of this year's growth have been the service sectors and industry. Within industry, large-scale manufacturing grew weaker-than-expected by 9.0 percent as against 15.6 percent of last year and 14.5 percent target for the year, perhaps exhibiting signs of moderation on account of higher capacity utilization on the one hand and a strong base effect on the other. Construction also continued its strong performance, partly helped by buoyant activity in private housing market, spending on physical infrastructure, and reconstruction activities in the earthquake affected areas. This sector has posted a growth of 9.2 percent in 2005-06 over an extra-ordinary growth of 18.6 percent last year. Electricity and gas distribution, however registered a high *negative* growth of 8.4 percent purely on account of high operating expense of the WAPDA offsetting its gross value of sale. The operating expense has grown twice as fast as gross value of sale of the WAPDA.

The services sector continued to perform strongly and grew by 8.8 percent over an equally robust growth of last year.

All the components of services sector registered strong growth with the exception of ownership of dwellings and public administration and defense. Finance and banking sector posted a remarkable growth of 23.0 percent over an equally strong growth of 29.7 percent last year. The wholesale and retail trade

and transport, storage and communication registered strong growth of 9.9 percent and 7.1 percent, respectively. The performance of agricultural sector remained weak this year as major crops registered a *negative* growth of 3.6 percent. This is once again a reminder that exclusive focus on few major crops, heavily dependent on Mother Nature is not a viable policy. Due attention must be given to other components of agriculture, such as, livestock, minor crops, fishing and forestry. With economic growth at 6.6 percent in 2005-06, Pakistan's economy has grown at an average rate of almost 7.0 percent per annum during the last four years and over 7.5 percent per annum in the last three years and hence positioned itself as one of the fastest growing economies in the Asian region.

Agriculture

The performance of agriculture remained weak this year as it grew by only 2.5 percent, as against 6.7 percent of last year and the 4.2 percent target for the year, with major crops and forestry registering a *negative* growth of 3.6 percent and 5.7 percent, respectively. Agriculture, this year was subjected to adverse weather conditions. Major crops, accounting for 32.5 percent of agricultural value added, depicted a *negative* growth of 3.6 percent as against an impressive 17.8 percent growth of last year. Besides measuring from a high base of last year, major crops registered a decline primarily on account of a 13.0 percent less production of cotton (*12.4 million bales as against 14.3 million bales last year*) owing to adverse weather conditions. Sugarcane is another major crop which registered a *negative* growth of 6.2 percent (*from 47.2 million tons to 44.3 million tons*). Rice and maize, the two other major crops, however performed well with rice production increasing by 10.4 percent and maize production was up by 27.3 percent. Despite the impressive performance of these two crops, they failed to compensate the decline in production of cotton and sugarcane. Wheat production remained more or less at last year's level with a marginal increase of 0.4 percent (*21.7 million tons as against 21.6 million tons*). Livestock with almost 50 percent contribution in agriculture has been the only saving grace as this sector grew by 8.0 percent, as against 2.3 percent of last year and hence took the overall agricultural growth to a positive side.

Furthermore, during the current fiscal year (2005-06), the availability of water for Kharif 2005 (*for the crops such as rice, sugarcane and cotton*) has been 5.5 percent more than the normal supplies and 19.8 percent more than last year's Kharif. Excessive winter rainfalls, (January – March 2005) along with melting of snow on mountains top were responsible for higher than normal availability of water during Kharif 2005. The water availability for Rabi season (*for major crop such as wheat*) was 17.3 percent less than the normal availability but 29.8 percent more than last year's Rabi.

Manufacturing

Manufacturing is the second largest sector of the economy, accounting for 18.2 percent of GDP, and registered a growth for the third year in a row, *albeit* at a relatively slower pace of 8.6 percent as against 12.6 percent last year. Large-

scale manufacturing, accounting for 69.9 percent of overall manufacturing, registered weaker-than expected growth at 9.0 percent as against the target of 14.5 percent and last year's achievement of 15.6 percent.

The relatively slower pace of expansion perhaps exhibits signs of moderation on account of higher capacity utilization on the one hand and a strong base effect on the other. Several other factors contributed to the slower pace of expansion of large-scale manufacturing. Firstly, as a result of 13.0 percent decline in cotton production the overall performance of textile and apparel sector remained subdued. As against a hefty growth of 24.7 percent, textile and apparel grew by only 4.0 percent and production of cotton cloth remained flat. This sector has large weight in large scale manufacturing. Sugar production with large weight also registered a decline of 2.4 percent. Basic metal industries registered a sharp contraction of almost 59 percent because two coke oven batteries of the Pakistan Steel Mill went out of order in July 2005 and the Mill was operating at around one-third of its capacity. Consequently, the production of basic metal industries badly suffered. The performance of petroleum group also remained lackluster with 2.3 percent growth this year as against 9.4 percent last year.

Per Capita Income

Per capita income is one of the main indicators of development. It simply indicates the average level of prosperity in the country or average standard of living of the people in a country. Per capita income defined as Gross National Product at market price in dollar term divided by the country's population, grew by an average rate of 13.9 percent per annum during the last four years – rising from \$582 in 2002-03 to \$847 in 2005-06. Per capita income in dollar term registered an increase of 14.2 percent over last year – rising from \$ 742 to \$ 847. The main factor responsible for the sharp rise in per capita income include: a sharp pick up in *real* GDP growth, stable exchange rate, and rise in inflow of workers' remittances.

Consumption

Pakistan's economy is undergoing structural shifts that are fueling rapid changes in consumer spending patterns. In particular, the middle classes are becoming an increasingly dominant force. Pakistan's per capita *real* GDP has increased at an average of 5.6 percent per annum during the last three years (5.5% in 2003-04, 6.7% in 2004-05 and 4.7% in 2005-06), leading to a rise in average income of the people. Such increases in *real* per capita income have led to a sharp increase in consumer spending during the last three years. As opposed to an average annual increase of 1.4 percent during 2000-2003, the *real* private consumption expenditure has grown at an average rate of 10.9 percent per annum during the last three years. (11.5% in 2003/04, 13.1% in 2004/05, and 8.1% in 2005-06). The extra-ordinary strengthening of domestic demand during the last three years points to the following facts. Firstly, the higher consumer spending feeding back into economic activity is likely to support the on-going growth momentum. Secondly, it suggests the emergence of a strong middle class with strong buying

powers – good for business expansion. Thirdly, extra-ordinary rise in consumer spending over the last three years appears to have contributed, in part to building inflationary expectations in Pakistan.

Investment

Investment is a key determinant of growth. During the fiscal year 2005-06, gross fixed capital formation or domestic fixed investment in *real* term grew by 10.3 percent as against 9.3 percent last year. The *real* private sector investment grew by 11.0 percent this year as against an increase of 9.6 percent last year. Public sector investment on the other hand registered a substantial increase of 22.5 percent as against a robust growth of 10.0 percent last year.

As percentage of GDP, total investment is provisionally estimated at 20.0 percent - the highest in the last 12 years and is up from 18.1 percent last year. Fixed investment is estimated at 18.4 percent of GDP this year versus 16.5 percent last year. Almost 2.0 percentage points jump in investment is consistent with the rise in credit to private sector this year. This also reflects the confidence of the private sector on the improving macroeconomic conditions in the country.

Inflation Among the most appreciated developments, during fiscal year 2005-06, was the significant abatement of price pressure over the course of the year. For the first ten months of the current fiscal year (July–April 2005-06), all important barometers of price pressure in the economy indicated a steady deceleration in inflation. Inflation during the first ten months (July-April) of the current fiscal year is estimated at 8.0 percent as against 9.3 percent in the same period last year. Food inflation is estimated at 7.0 percent as against 12.8 percent in the same period last year. Non-food inflation at 8.8 percent is on higher side compared with 6.9 percent in the same period last year. The core inflation which excludes food and energy costs from the headline CPI, moved up and estimated at 7.7 percent as against 7.0 percent in the same period last year. House rent index also played an important role in building inflationary pressure this year. With second largest weight in the CPI (23.4%) after food (40.3%), the house rent component of the CPI registered a marginal decline to 10.3 percent as against 11.1 percent in the same period last year.

When viewed in the context of year-on- year performance of inflation, the current fiscal year exhibits significant abatement of price pressure and declaration in overall inflation as well as its sub-indices. The current fiscal year, started with an inflation rate of 9.0 percent in July 2005, but continued to decelerate, reaching at 23 months low at 6.2 percent in April 2006. Food inflation was closed to 9.7 percent at the beginning of the current fiscal year but decelerated sharply to 3.6 percent in April 2006- the lowest in the last 31 months. The measures taken by the Government, particularly since April 2005, when overall inflation reached 93 months high at 11.1 percent (the last time inflation was at this level in July 1997) and food inflation peaked at 15.7 percent in April 2005 (last-time it was at 15.7 percent in May 1994), yielded handsome dividend in the shape of overall inflation decelerating to 6.2 percent and food inflation to 3.6 percent in April 2006. Notwithstanding a steady deceleration in

inflation, the prices of some of the essential food items (*out of the basket of 370 items in CPI*) registered sharp increases, particularly during the second half of the fiscal year and therefore adversely affected the low and fixed income groups. The expenditure on food items constitutes bulk of the monthly expenditure of the poor segment of the society. Sharp increases in the prices of some of the strategic food items put pressure on the poor.

The higher inflationary trend in Pakistan over the last two years has been the outcome of pressure that emanated from demand and supply sides. Four years of strong economic growth has given rise to the income levels of various segments of the society. The rising level of income have strengthened domestic demand and put upward pressure on prices of essential commodities. Supply side pressure emanated from a variety of factors, prominent among those are: increase in support price of wheat for three years in a row, shortage of wheat owing to less than the targeted production, mis-management in wheat operation in one of the wheat deficit province, inter-provincial ban on the movement of wheat resulting in sharp increases in prices of wheat and wheat flour. The prices of other food item such as beef, mutton, chicken, milk etc also registered sharp increases owing to “*sympathy effect*” on the one hand and demand pressure on the other. Lower production of sugar due to a relatively lower production of sugarcane and a sharp increase in the international prices of sugar brought about by a significant diversion of sugarcane into ethanol (petroleum substitute), by the largest producer, Brazil, also contributed in building inflationary pressure in Pakistan. In recent months, prices of various kinds of pulses also registered sharp increases owing to a significant decline in domestic production as well as shortages in international markets. This inadvertently kept the prices of pulses at record high level. An unprecedented rise in international oil prices also contributed to the build up in inflationary pressure in Pakistan.

In order to keep the prices of essential commodities under control, the government has been taking various measures throughout the year. These measures include: a liberal import regime for food items including zero rating of the imports of these commodities. In order to provide relief to the low and fixed income groups, the government has been selling wheat flour and sugar through the outlets of the Utility Stores Corporation (USC) at much lower prices than the market. In order to augment supplies of essential commodities in shortest possible time and at lower freight charges, the government has also allowed the import of various items through land routes from neighbouring countries. The role of the Trading Corporation of Pakistan (TCP) has been enhanced. The TCP is active in importing sugar from around the world to build up strategic reserves with a view to continue selling sugar at less than the market price through the USC. The TCP has also been asked to import various kinds of pulses to meet the domestic consumption requirements and stabilize their prices in the country.

Monetary Policy

An important lesson that we learnt from the experience of the decade of the 1990s is the importance of a healthy banking and financial sector. This is a key

element of macroeconomic stability. A weak financial sector can undermine efforts to achieve stability through prudent fiscal and monetary policies. A strong and well-functioning financial and banking sector is also critical for sustained higher economic growth. They can provide credit to those investments that offer the highest risk adjusted rates of return. In recent years the banking industry in Pakistan has been transformed from state owned sector to a vibrant private sector industry. Banking industry has not only gained strength from the positive interplay of economic and political factors, but also has become an engine of growth for the economy. The State Bank of Pakistan has taken a number of steps in various areas to further enhance the effectiveness of banking industry in Pakistan.

The easy and accommodative monetary policy stance that had been pursued during the last few years by the SBP underwent considerable changes during the fiscal year 2004-05, switching from a broadly '*accommodative*' to '*aggressive tightening*' in the second half of the last fiscal year, more so since April 2005 to tame inflation. Overall inflation in general and core inflation in particular, continued to exhibit a rising trend during the fiscal year 2004-05; the overall inflation reaching as high as 11.1 percent and core inflation at 7.8 percent in April 2005. In order to arrest the rising trend in inflation, the SBP changed its monetary policy stance to aggressive tightening in April 2005 by raising discount rate from 7.5 percent to 9.0 percent. The same tight monetary policy stance continued during the current fiscal year despite declines in both core and overall inflation. Notwithstanding the tight monetary policy stance the SBP continued to strike a balance between promoting growth and controlling inflation on the one hand and maintaining a stable exchange rate environment on the other. Tight monetary policy stance is likely to continue until inflationary pressures are significantly eased off.

According to the credit plan for 2005-06, the SBP has set the target for monetary expansion to the tune of Rs.380 billion or 12.8 percent higher than last year (FY05) on the basis of a growth target of 7.0 percent and inflation target of 8 percent. The growth target of broad money (M2 definition) was deliberately kept below the growth of nominal GDP to absorb monetary overhang of the last few years.

The money supply during July-April 22, 2006 of the current fiscal year expanded by Rs 294.9 billion or 9.9 percent as against an expansion of Rs 332.4 billion or 13.34 percent in the same period last year. The pace of monetary expansion remained well within the Credit Plan target for the year (12.8%) primarily because of the moderate build up in net domestic assets (NDA). Within the NDA, both net budgetary and borrowings for commodity operations have also remained well within the credit plan targets. However, credit to private sector has exceeded the target and stood at Rs 345.1 billion as against Rs.330 billion envisaged for the year in credit plan reflecting the buoyancy in the economy. Expansion in net foreign assets (NFA) on the other hand exceeded the target (Rs.15 billion) and stood at Rs.37.8 billion owing mainly to the receipts of privatization proceeds and issuance of sovereign bond. The proceeds from privatization and sovereign bond not only helped build NFA but it also helped in

containing the growth in NDA through the retirement of government debt held by the SBP.

The net credit to government for budgetary purposes which had peaked at Rs.162.2 billion during July-March 11, 2006 sharply reduced to Rs.43.3 billion compared to the annual credit plan target of Rs.98 billion and Rs.15.0 billion borrowed in the corresponding period of last year. The net budgetary support to government decreased by about Rs.115 billion between March 31, and April 13, 2006 due to the inflow of proceeds from privatization and sale of bonds in the international capital market. Higher government borrowing for budgetary support reflects a large spending on earthquake related activities. Monetary expansion in fact, picked up substantially after the October 8, 2005 earthquake when broad money supply grew by 5.6 percent after a contraction of 1.2 percent during the first quarter (July-September) of the current fiscal year.

The tight monetary policy stance of the SBP was reflected in the slower pace of credit expansion to the private sector. The credit to private sector grew by 20.2 percent (Rs.345.1 billion) during July-April 22, 2006 compared with the growth of 28.0 percent or Rs.357.4 billion during the same period of last year. Credit to private sector continued to exhibit strong demand, reflecting the confidence of the private sector on the continuously improving macroeconomic fundamentals of the country. During the last three years (2003/04 to April 22, 2006) the cumulative credit flow to the private sector amounted to Rs.1108 billion, surpassing the total credit flow of Rs.921 billion in the previous 18 years (1984 - 2003).

The distribution of credit to the private sector during July-March FY06 has been broad-based. The manufacturing sector continued to be the largest recipient of bank credit amounting to Rs.130.0 billion during July-March 2005-06, — 17.1 percent more than the comparable period of last year. The overall manufacturing sector accounted for almost 47.9 percent of the credit to private sector businesses. Within the manufacturing sector, textile industry received Rs.69.5 billion or 53.5 percent followed by cement (Rs.15.1 billion), leather (Rs.2.2 billion), and fertilizer (Rs.3.6 billion). Commerce - related activities also picked up strongly as their credit off-take rose by 35.4 percent to Rs.51.2 billion. Wholesalers and retail traders as well as exporters received three – fourth of the credit under commerce – related activities.

The growth in consumer loans remained robust, and their scale expanded by 27 percent to Rs.67.2 billion. Most of the consumer loans were acquired to finance a range of products including automobiles (Rs.23.2 billion) followed by personal loans (Rs.21.5 billion), credit cards (Rs.10.4 billion) and house building (Rs.10.1 billion). Three major reasons may be given to account for higher growth in consumer loans. First, banks are more interested in consumer loans due to relatively higher spreads. Second, consumers find these loans still affordable amid expectations that interest rates may rise in the near future. Third, some of the banks are working more aggressively to tap their potential customers for consumer loans.

The tight monetary policy is also reflected in the rise of the weighted average lending rate. The average lending rate increased by 193 bps to 10.14

percent during July-March FY06 due to the lagged impact of 5-6 percentage point increases in cut-off yields on various TBs last year. It is for the first time in many years that the inflation – adjusted average lending rate has turned positive. It is expected that the private sector would now be more selective and prudent in terms of availing bank credit. The tight money market conditions also led the banking industry to raise the average deposit rate by 90 bps to 2.75 percent. However, this rise was not enough as the banking spread further rose by 103 bps to 7.39 percent since July 2005.

Stock Market

The stock market continued to maintain its strong performance and achieved new heights by creating many new records during the fiscal year 2005-06. The KSE-100 Index crossed the barrier of 12000 marks for the first time in the history of capital market and touched an all time high on April 13, 2006. The KSE-100 Index made further inroad and reached 12274 points on April 17, 2006, showing a growth of 64.7 percent over June 2005. Similarly, the total market capitalization also increased to Rs.3419.4 billion on April 17, 2006 (US\$ 57.0 billion) from Rs.2013.2 (\$33.7 billion) showing a growth of 70 percent over June 2005. At current levels, KSE's market capitalization is equivalent to about 46 percent of estimated GDP of FY06.

The improved performance of the stock market can mainly be attributed to consistent and transparent economic policies resulting in strong economic growth; a successful privatization process attracting foreign investors in prestigious organization like PTCL and National Refinery; sound monetary policy of the SBP, maintenance of fiscal discipline and the capital market reforms including development measures introduced by the stock exchanges with full support of the SECP. The government's economic policies and capital market reforms helped in promoting a fair, efficient and transparent capital market and restoring investors' confidence. The privatization of the government entities through the bourses helped broad-basing the equity ownership to a significant level.

The buying euphoria in the stock market has been spurred by a number of other favourable factors, including the continuation of the present policies on the banking sector by the SBP, renewed interest of large number of buyers of shares, bright prospect of reaping dividends, good capital gains and presence of institutional investors in the market. The KSE saw robust activity especially during the first 4 months of 2006, with all vital indicators pointing in the right direction.

The Securities and Exchange Commission of Pakistan (SECP) has been actively pursuing a capital market reform program geared towards the development of a modern and efficient corporate sector and capital market, based on sound regulatory principles that provide impetus for high economic growth. The reforms introduced over recent years in the fields of risk management, governance and transparency have contributed significantly towards the growth and development of capital market and building investor confidence.

Fiscal Policy

Fiscal policy primarily deals with the levels and composition of taxation, spending and borrowing by the Government. A sound fiscal policy is essential for preventing macroeconomic imbalances and realizing the full growth potential. Pakistan has witnessed serious macroeconomic imbalances in the 1990s mainly on account of its fiscal profligacy. Persistence of large fiscal deficit resulted in unsustainable levels of public debt, adversely affecting the country's macroeconomic environment. Pakistan, accordingly paid, a heavy price for its fiscal indiscipline in terms of deceleration in economic growth and investment, and the associated rise in the levels of poverty. Considerable efforts have been made over the last six years to inculcate financial discipline by pursuing a sound fiscal policy. Pakistan's hard earned macroeconomic stability is underpinned by fiscal discipline.

In order to address the structural problems in the tax system and tax administration, the government has been introducing wide-ranging tax and tariff reforms, as well as reforms in tax administration. These reforms have already started yielding handsome dividends. During the last seven years, tax collection by the CBR has increased by 130.0 percent – that is, more than doubled. The revenue deficit (the difference between total revenue and total current expenditure), a measure of government dis-saving, was 2.2 percent of GDP in 2000-01 but it has almost been eliminated in 2005-06. Under the Fiscal Responsibility and Debt Limitation Act 2005, the government was bound to eliminate revenue deficit by 2007-08. This target has almost been achieved two years in advance. The primary balance (total revenue minus non-interest total expenditure) was in surplus from 2000-01 to 2004-05. However, primary balance has entered into deficit zone in 2005-06, though the number is small (*0.2% of GDP*). Pakistan must not allow primary deficit to get entrenched.

The share of indirect taxes declined from 82 percent to 69 percent since 1990-91 and until 2005-06. Even within the indirect taxes, dramatic changes have taken place. The collection from custom duty used to account for 45 percent of total tax collection and 55 percent of indirect taxes in 1990-91, its share has now been reduced to 19.3 percent and 28 percent, respectively. This is the consequence of the tariff reform implemented by successive governments since 1990-91. The share of sales tax increased at a tremendous pace from 14.4 percent to 40 percent of total taxes and from 17.6 percent to 60.2 percent of indirect taxes during the same period. Central excise as a tax is losing its importance and gradually being faded out. Its shares in total taxes and indirect taxes were 22.5 percent and 27.5 percent, respectively in 1990-91. These have now been reduced to 8.4 percent and 11.9 percent, respectively during the same period.

The total expenditure remains more or less stable in a narrow band of 17.0 to 18.8 percent of GDP during the last six years. A substantial decline in interest payments from as high as 7.5 percent of GDP in 1998-99 to 3.1 percent of GDP in 2005-06, has provided fiscal space to re-orient expenditure in favour of development expenditure. Resultantly, the share of current expenditure in

total expenditure declined from 89 percent of total expenditure in 1998-99 to 78 percent in 2005-06. In addition, the share of development expenditure doubled from 11 percent to 22 percent in the same period. During the last six years the development expenditure improved from 2.2 percent of GDP in 2000-01 to 4.2 percent of GDP in 2005-06 and is likely to make a further jump to 4.7 percent of GDP in 2006-07.

The second largest component of the current expenditure, namely, defence spending remained stagnant at around 3.1 percent to 3.3 percent of GDP during the last six years. It is more useful to analyse the trend in expenditure after adjusting for inflation. The analysis in trend in expenditure in *real* term reveals some interesting facts.

During the last six years, the *real* growth in current expenditure averaged 3 percent per annum as compared with 4.5 percent in the 1990s. Total expenditure in *real* term grew by 3.4 percent in the first three years (2000-03) but accelerated to 5.6 percent during the last three years (2003-06). The main contribution has come from development expenditure which grew by 7.4 percent per annum in first three years (2000-03) and by 23.8 percent in recent three years (2003-06). Non-defence non-interest expenditure in *real* term grew by 13.9 percent and 11.2 percent in these two periods, respectively. This tremendous growth is mainly contributed by massive fall in *real* incidence of interest payments which depicted negative growth of 7.4 percent and 7.2 percent in first and second three years period. Defence spending, in *real* term grew by an average rate of 1.5 percent per annum during the last six years. Development expenditure in *real* term on the other hand grew by an average rate of 15.6 percent per annum during the same period. This fact, hopefully, will dispel some misconception in the minds of various analysts on the issue of defense versus development expenditure.

The fiscal policy stance remained decidedly growth-oriented during the fiscal year 2005-06, providing for strong public sector spending, intensification of spending on poverty alleviation and investing in infrastructure. Pakistan has made considerable progress in recent years on fiscal side. The overall fiscal deficit that averaged nearly 7.0 percent of GDP in the 1990s has declined to 3.3 percent in 2004-05. Fiscal deficit was targeted at 3.8 percent of GDP for the current fiscal year (2005-06) which was higher than the deficit of previous year (3.3% of GDP). Higher deficit was targeted to finance higher public sector development program (PSDP), particularly towards financing infrastructure projects. Better than the targeted revenue position helped Pakistan over perform in achieving the underlying fiscal deficit. The underlying fiscal deficit for the year is estimated at Rs.261.6 billion or 3.4 percent of GDP as against the target of Rs.285 billion or 3.8 percent of GDP. The earthquake-related expenditure for the year amounted to Rs.65.8 billion or 0.85 percent of GDP. Thus, including the earthquake-related spending, Pakistan's overall fiscal deficit stood at Rs.327.4 billion or 4.2 percent of GDP. In the next two years, Pakistan will continue to report overall fiscal deficit with and without earthquake-related spending to keep track of its underlying deficit.

Total revenues are estimated at Rs.1095.6 billion in 2005-06 compared with Rs.900 billion in 2004-05, thereby showing an increase of 21.7 percent. Tax revenue is provisionally estimated to have risen by 22.2 percent while non tax revenue is estimated to rise by 16.9 percent. The Central Board of Revenue (CBR) was targeted to collect Rs.690 billion but it is likely to collect Rs.710 billion – Rs.20 billion more than the target and over 20 percent more than last year. Total expenditure without earthquake-related spending on the other hand is estimated to grow by 21.5 percent. The higher growth in expenditure was mainly on account of a 43.4 percent increase in development spending which simply points toward the fact that the fiscal policy stance adopted by the government was growth-oriented. The government has provided almost Rs.66 billion for earthquake – related spending this year and will continue to provide adequate resources for the rehabilitation of the affected people and for the reconstruction of the affected areas.

Public debt burden continues to decline rather sharply for the sixth year in a row on account of prudent fiscal management. Public debt was 85 percent of GDP in 1999-2000 but has declined sharply to 54.7 percent in 2005-06 – a decline of over 30.0 percentage points in just six years is one of the significant achievements of the government.

During the year, public debt as percentage of GDP declined from 61.4 percent to 54.7 percent – a 6.7 percentage points decline in one year in the midst of earthquake-related spending is other stellar occurrences of the current fiscal year. Since public debt is a charge on the budget, its burden must be viewed in relation to government revenue. Public debt was 448.9 percent of total revenue last year but declined to 384.9 percent this year – a decline of 64 percentage points in one year is not a mean achievement.

External Sector

Pakistan's external sector is being affected both by structural and cyclical factors. On the domestic side, four years of strong economic growth strengthening domestic demand and triggering a consequent pick up in investment spending, has led to a massive surge in imports. On the external side, the global economy continues its strong and broad – based expansion with growth reaching close to 5 percent in 2006 with similar expansion projected for the next year – which will be the fifth successive year that the world economy has grown by more than 4.0 percent. A strong and geographically broad – based growth has helped world trade to expand strongly and at the same time the rapid expansion of global trade has been a key driving force for growth in almost every part of the world. Like many other developing countries, Pakistan has also benefited from a strong and sustained growth in world economy. Notwithstanding global economic expansion, the sound macroeconomic policies that Pakistan pursued coupled with wide – ranging structural reforms, particularly in the areas of trade and tariff that it implemented over the last six or seven years have helped Pakistan doubled its exports in seven years.

Exports

Exports were targeted at \$17 billion or 18.1 percent higher than last year. Exports during the first nine months (July-March) of the current fiscal year are up by 18.6 percent – rising from \$10.18 billion to \$ 12.07 billion in the same period last year. The exports of primary commodities were up by 22 percent; prominent among those are exports of rice (33.6%), fish and fish preparation (30.2%) and fruits (20.6%). Exports of textile manufactures grew by 19.2 percent; prominent among those are exports of bed-wear (58.4%), readymade garments (31.0%), cotton yarn (29.4%), cotton cloth (16.5%) and towels (12.0%). Exports of other manufactures also registered a high double digit growth of 19.2 percent. Within this category, exports of petroleum products grew by 80.8 percent and leather manufactures were up by 44.0 percent. In recent years, Pakistan has also entered in the exports of engineering goods. Though relatively small in numbers, exports of engineering goods were up by 10.3 percent. The overall exports posted an increase of \$1890.2 million, in absolute term in the first nine months, of the current fiscal year over the same period of last year. Of this increase, 61.4 percent or \$1160.5 million has come alone from textile manufactures followed by other manufactures (20.9% or \$395.7 million), primary commodities (11.1% or \$209.6 million) and other exports (6.5% or \$124.5 million). In other words, over 82 percent incremental exports in the first nine months (July-March) of the current fiscal year owe to textile and other manufactures and the remaining 18 percent to primary and non-traditional exports. It is encouraging to note that exports this year have been largely quantity driven and with firming up of the price of exportable, Pakistan's exports may rise substantially in the medium terms. During the first nine months (July-March) of the current fiscal year, over 88 percent increases in exports are driven by quantity (quantity effect) and the remaining 12 percent are due to the increase in unit values of exports (price effect).

Pakistan's exports are highly concentrated in few items namely, cotton, leather, rice, synthetic textiles and sports goods. These five categories of exports account for 74.5 percent of total exports during the first nine months of the year with Cotton manufacturers alone contributing 58.4 percent, followed by leather (6.1%), rice (6.9%) and synthetic textiles (1.2%). Pakistan's exports are also highly concentrated in few countries. The seven countries, namely USA, Germany, Japan, UK, Hong Kong, Dubai and Saudi Arabia account for 50 percent of its exports. The United States is the single largest export market for Pakistan, accounting for 27 percent of its exports followed by the United Kingdom, Dubai, Germany and Hong Kong. Japan as Pakistan's export destination is fast losing its significance less than one percent of its exports entering Japan. Pakistan needs to diversify its exports not only in terms of commodities but also in terms of markets. Heavy concentration of exports in few commodities and few markets could cause serious export instability.

Imports

Pakistan's imports continue to be pushed higher by unprecedented rise in oil prices and continued strength of non-oil imports owing to buoyant domestic

demand. Imports were targeted to grow by 4.25 percent for the fiscal year 2005-06 – rising from \$14.4 billion to \$ 20.7 billion. Imports are up by 43.2 percent in the first nine months (July-March) of the current fiscal year – rising from \$14.45 billion to \$20.69 billion in the same period last year. Disaggregation of total imports suggests that food imports grew by 35.9 percent up from \$990.7 million to \$1346.7 million. Major contributors to the substantial rise in food imports include wheat, sugar and pulses; they together contributed 93 percent to the rise in food imports.

Imports of petroleum group have played a key role in taking Pakistan's import to a new height. Emerging as a single largest item in country's import bill, Petroleum group import amounted to \$4.6 billion during the first nine months (July-March) of the current fiscal year as against \$ 2.8 billion in the same period last year, thus registering an increase of 64.5 percent. Although the quantity of imports of crude as well as petroleum products are down by 2.3 percent and 5.8 percent, respectively, the prices of these two items were up by 76.6 percent and 62.9 percent compared with last year, causing import of these two items to rise by 64.5 percent in value terms. Despite reduction in quantity, Pakistan was forced to pay \$1.9 billion more to import crude and petroleum products – a very heavy price for a developing country like Pakistan.

Overall imports during the first nine months (July-March) of the current fiscal year grew by 43.2 percent. In other words, imports in absolute terms have increased by \$6.25 billion. Major contributions to this year's incremental imports have come from petroleum group, raw materials and machinery. Almost 35 percent contribution came from machinery and raw materials, and 29 percent from petroleum group. Therefore, these three items alone are responsible for 64 percent additional import and 27.6 percentage points to the 43.2 percent growth in total import this year. Consumer durables including cars, have contributed only 6.4 percent to the additional increase in total imports and 2.8 percentage points to the 43.2 percent growth in total import this year. Within this category of imports, electrical machinery and appliances contributed merely 1.7 percent while the contribution of cars has been 4.7 percent only. More importantly, had the price of oil in international market remained at last year's level, the growth in overall imports would have been 30.7 percent, that is, 12.5 percentage points less than what is currently estimated.

On the contrary, had the total value of import of car would have been at last year's level or had there been no growth in import of cars in value term, the growth in total imports would have been 40.4 percent instead of 43.2 percent. Car has merely contributed 2.8 percentage points to the overall growth in imports.

Like exports, Pakistan's imports are also highly concentrated in few items namely, machinery, petroleum & petroleum products, chemicals, transport equipments, edible oil, iron & steel, fertilizer and tea. These eight categories of imports accounted for 72.5 percent of total imports during 2005-06. Among these categories machinery, petroleum & petroleum products and chemicals accounted for 53.4 percent of total imports. Concentration of imports remained,

by and large, unchanged over the last one decade with the exception of 2000-01. Pakistan's imports are highly concentrated in few countries. Over 40 percent of them continue to originate from just seven countries namely, the USA, Japan, Kuwait, Saudi Arabia, Germany, the UK and Malaysia. Saudi Arabia is emerging as major suppliers to Pakistan followed by the USA and Japan.

Trade Balance Despite sizable export gains, the merchandise trade deficit continues to widen, on the back of Pakistan's strong domestic demand fueling non-oil imports. High global price of oil also inflated the oil import bill owing to its increasing dependence of imported crude oil. The merchandise trade deficit stood at \$8.62 billion by the end of the third quarter (July-March) of the current fiscal year as against \$4.3 billion in the same period last year, thereby showing a deterioration of over 100.0 percent. Once again, the major contributors to further widening of trade deficit have been the petroleum group, machinery and iron & steel and scrap. These three items alone accounted for 75 percent to the further rise in trade deficit. Contrary to the general perception, the contribution of consumer durables has been 9.2 percent in the increase in trade deficit. Going forward, no one is expecting another 65 percent increase in oil prices in 2006-07 therefore, import growth is likely to decelerate in 2006-07. The sign of deceleration is already visible as import growth has slowed substantially in recent months.

Current Account Balance Pakistan's current account balance that slipped into red in 2004-05 after posting surpluses for three consecutive years remained in deficit in 2005-06 with gap continued to widen owing to higher oil import bill on the back of high global crude oil prices and hefty rise in non-oil imports fueled by strong demand. Apart from further widening of trade deficit, higher freight charges by international shipping lines as a result of sharp increase in global trade and higher fuel cost, and growth in personal travel due to the rising level of income of middle and high income groups have also contributed to the widening of current account gap. Deceleration in the growth of net transfers is also responsible for widening of the current account deficit.

The current account deficit, excluding official transfers, stood at \$ 4.7 billion in the first nine months (July-March) of the current fiscal year, compared to \$ 1.18 billion in the same period last year. As percentage of projected GDP for the year the current account deficit stood at 3.7 percent as against 1.1 percent in the same period last year. Although trade deficit almost doubled over the last year and services balance deteriorated by 27.5 percent, the strong inflows under private transfers fueled by rising workers' remittances offset some of the negatives with current account deficit standing at \$4.7 billion.

Workers' Remittances

Workers' remittances, the second largest source of foreign exchange inflow after exports, continue to maintain its rising trend. Workers' remittances totaled \$ 3.63 billion during the first ten months (July-April) of the current fiscal year, as against \$ 3.45 billion in the same period last year, depicting an increase of 5.2 percent. The United States continues to be the single largest source of cash workers' remittances accounting for 27.4 percent or \$995 million, followed by

Saudi Arabia (\$585 million or 16.1%), UAE (\$556 million or 15.3%), UK (\$346 million or 9.5%) and other GCC countries (\$426 million or 13.2%). Given the trend so far, it is likely that workers remittances may touch \$ 4.4 billion in 2005-06. Remittances have so far proved remarkably resilient and have hovered around \$ 4.0 billion since 2002-03. According to the *World Economic Outlook*, April 2005 published by the *IMF*, remittances can help improve the country's development prospects, maintain macroeconomic stability, mitigate the impact of adverse shock and reduce poverty. The *Outlook* further states that remittances allow families to maintain or increase expenditure on basic consumption, housing, education, and small-businesses formation. To the extent, the poorer section of the society depend on remittances for their basic consumption needs, increase remittances could be associated with reduction in poverty and possibly inequality. The *Outlook* also finds strong empirical evidence that suggest that construction activity is highly correlated with remittances inflow. Pakistan has been receiving, on average, over \$ 4.0 billion per annum during the last four years. Such a massive inflow of remittances has helped Pakistan builds its foreign exchange reserves which, in turn, have provided stability in exchange rate. For the families, the massive flow of remittances has helped increase their consumption spending, helped improve their housing facility and improve their overall living conditions. It has also played an important role in reducing poverty in Pakistan.

Foreign Direct Investment

Foreign Direct Investment (FDI) has become an important source of private external finance for developing countries. It is different from other major types of external private capital flows in that it is motivated largely by the investors' long-term prospects for making profits in production activities in the host countries. FDI in the first ten months (July-April) of the current fiscal year has reached \$3.02 billion – the highest ever in the country's history, as against \$ 0.89 billion in the same period last year, thus registering an increase of 238.7 percent. By the end of the current fiscal year, FDI is expected to reach \$ 3.5 billion or 2.7 percent of GDP. Almost 75.0 percent of FDI has come from six countries, namely, the UAE, US, Saudi Arabia, Switzerland, UK and Netherlands. The UAE with 42.5 percent (\$1284.6 million) has topped the list of foreign investors followed by the US (13.9% or \$419.1 million), Saudi Arabia (9.06% or \$273.7 million), Switzerland (5.34% or \$161.5 million), UK (5.0% or \$151.4 million) and Netherlands (2.9% or \$87.1 million).

Telecom, energy (oil, gas and power), financial services, trade, construction, chemicals, food and personal services have been the major recipient of FDI, accounting for almost 94 percent or \$2.082 billion. Telecom sector has been the single largest recipient of FDI with \$1.0 billion followed by the energy sector (\$304 million), financial services (\$265.5 million), trade (\$81.9 million), construction (\$54.4 million), food (\$52.7 million), personal services (\$45.2 million) and cement (\$33.6 million).

Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at \$13.0 billion at the end of April, 2006. Of which, reserves held by the State Bank of Pakistan amounted to \$10.6 billion and by banks stood at \$2.4 billion. Since end-July 2005 (\$12.6 billion) and until end-April 2006 (\$13.0 billion), Pakistan has added \$407.0 million in its foreign exchange reserves. Many factors contributed towards this comfortable position of reserves. The most prominent among those are: private transfers that include remittances, higher export proceeds, floatation of bonds, higher FDI flows and privatization proceeds. With this build up in reserves, Pakistan is in a position to meet any abnormal external shock.

Privatization

A wide-ranging structural reform introduced during the last six year coupled with macroeconomic stability and rapid, strong and sustained economic recovery has transformed Pakistan into one of the ideal locations for foreign investment. Foreign investors are not only entering into the green field projects but are also actively participating in Pakistan's privatization program. This is also the reflection of the confidence of the global investors on the transparent privatization program that has been followed in the past several years. Since January 1991 and until April 18, 2006, Pakistan has completed 160 transactions with gross proceeds of Rs.395.2 billion. Of which, 57 transactions worth Rs.338 billion were completed during October 1999 to April 2006. During the first ten months (*July-April*) of the current fiscal year, 11 transactions worth Rs.217.9 billion have been completed. The major milestones achieved under the privatization program for the year include the strategic sale of the entities like KESC, Pak-Arab Fertilizers, PTCL, Pakistan Steel Mill, Pak-American Fertilizer, Mustehkam Cement, Javedan Cement and CTI. The upfront payment of \$1.4 billion by Etisalat and transfer of management control of PTCL has been one of the major achievements of privatization program for the year. The major privatization initiatives which are under process and are likely to be complete soon include: Pakistan State Oil (PSO), Pakistan Petroleum Limited (PRL), Oil and Gas Development Company Limited (OGDCL), Faisalabad Electric Supply Company (FESCO), GENCO-1 Jamshoro, National Investment Trust (NIT) and other industrial units.

External Debt

Until a few years ago, Pakistan was facing serious difficulties in meeting its external debt obligations. Not only was the stock of external debt and foreign exchange liabilities growing at an average rate of 7.4 percent per annum during 1990-99, but the debt carrying capacity of the country was weakening at a similar pace. Consequently, the debt burden (*external debt and foreign exchange liabilities as percentage of foreign exchange earnings*) reached an unsustainable level of 335 percent by 1998-99. Following a credible strategy of debt reduction, over the last six years, Pakistan has succeeded in not only slowing the pace of debt accumulation but also succeeded in reducing the country's debt burden in a substantial manner. Pakistan's external debt and liabilities have declined by \$

2.4 billion in seven years — down from \$ 38.9 billion at the end of the 1990s to \$36.5 billion by end-March, 2006. The other indicators of debt burden which are widely monitored by the international financial institutions, rating agencies, and participants of the international debt capital markets, have shown sharp reduction. For example, the external debt and liabilities as percentage of GDP which stood at around 52 percent in end-June 2000, declined to 28.3 percent in end-March 2006. Similarly, the external debt and liabilities as percentage of foreign exchange earnings was reduced from 335.4 percent in 1998-99 to 127.6 percent by end-March 2006. It may also be pointed out that Pakistan's external debt and liabilities were 22 times of its foreign exchange reserves in 1998-99 but declined sharply to 3.1 times in just seven years. These statistics suggest that Pakistan's external debt burden has declined at a much faster pace than anticipated and that it is now on a solid downward footing. It may also be noted that the maturity profile of the debt has also improved during the period. The short-term debt was 3.2 percent of the external debt and liabilities but declined to 0.9 percent in the same period.

Pakistan's Link with International Capital Market

With the successful implementation of first generation structural reforms and after gaining economic stability, Pakistan decided to give signal to the international capital markets through issuance of debt instruments. On February 12, 2004 Pakistan made a successful return to the international capital markets for the first time in more than five years. Pakistan issued \$500 million 5-year Regulation – Eurobond due 2009 lead managed by JP Morgan, Deutsche Bank and ABN Amro Bank. This transaction attracted strong demand from high quality and diversified international investors resulting in 4 times over subscription and consequent tightest possible pricing of the bond in comparison to similar rated sovereign offering for 5-year new issues. The success of this transaction reflected a vote of confidence by the international investor community on Pakistan's economic policies and reform agenda. Pakistan's Eurobond was priced at 370bps above US Treasury to yield 6.750% which looked very tight when compared with emerging market peers. The Pakistani bond was priced some 50bps inside the Philippines, despite the fact that it was rated three notches lower. Pakistani paper was tightly priced when it was also compared with the weighted average spread of 435bps for the Emerging Market Bonds at the time of Pakistani deal. Since the issue of Pakistan's Eurobond, due 2009, it has undergone compression by about 201bps as on May 04, 2006. As compared to the issue spread of UST + 370bps, the bond is trading currently at a spread of UST + 169bps, about 54 percent less.

In January 2005, Pakistan issued US\$ 600 million Islamic Sukuk lead managed by Citi Group and HSBC. The 5 year notes, structured to comply with Islamic law (*"Shariah"*) were priced at 6 month US\$ Libor + 220 bps benchmark. Pakistan's debut Islamic Bond issue saw considerable interest from both conventional as well as Islamic investors across the three regions, Asia, Middle East and Europe. It attracted orders worth \$1.2 billion, with more than 80 accounts participating in the transaction. Pakistan decided to increase the

transaction size from the original US\$ 300-500 million to US\$ 600 million to cater for the significant demand and to allocate the bonds to high quality accounts. Pakistan had over 80 accounts with a well-distributed book (Middle East 47%, Asia 31% and Europe 22%).

The Pakistan *Sukuk* 2010 over the past year have witnessed tightening of spreads over US\$ Mid Swaps which is the evidence of continued investor confidence in the Pakistan economy.

Eurobond of 2016 and 2036

On March 23, 2006, Pakistan successfully issued US\$500 million new 10-year Notes and US\$300 million new 30-year Bonds in the international debt capital markets lead managed by JP Morgan, Citi Group and Deutsche Bank. This transaction, which represented the first international 144A bond issued by Pakistan since 1999, raised significant interest amongst US QIBs and international Institutional investors. The 10-year notes were priced with a coupon of 7.125% to yield 7.125%, framing a spread of 240bps over the relevant 10-year US Treasury benchmark. The 30-year bonds were priced with a coupon of 7.875% to yield 7.875%, framing a spread of 302bps over the relevant 30-year US Treasury benchmark. Pakistan was able to achieve spreads on both the new 10 and 30-year bonds that were tighter than its previous 5-year issues. By issuing 10 and 30 year bonds, Pakistan completed its primary objective of establishing a full Pakistani International yield curve in record time. This remarkable achievement was completed against a backdrop of increased volatility in the US Treasury and Asian credit markets. With over 170 accounts participating, books closed with total orders exceeding US\$2bn. The issue was over 2.5 times oversubscribed. Since the issue of the new Pakistan bonds due 2016 and 2036, the EM credit markets have continued to tighten. The Pakistan '2016 and '2036 bonds have performed in line with the markets with the spread over UST undergoing compression by about 24bps and 36bps respectively, within just over a month since issued. As compared to the issue spread of UST + 240bps, the 2016 bond is trading currently at a spread of UST + 216bps, about 10% less. The 2036 bond, as compared to the issue spread of UST + 302bps, is trading currently at a spread of UST + 266bps, about 12% less.

It is important to note that this offering was the largest ever funding exercise of the government. The largest deal, prior to this transaction has been the \$ 600 million *Sukuk* in 2005. It was the longest ever tenor achieved by Pakistan. Both the new 10 and 30 year offerings are debut offerings for Pakistan and the US dollar yield curve was extended out to 30 years in just 2 years. Most emerging market sovereign issuers have taken longer time to extend their yield curve from 5 to 30 years. It took Philippines 4 years and Brazil and Turkey 3 years to extend their yield curve to 30 years.

Poverty

The fight against poverty represents the greatest challenge of our times. Considerable progress has nevertheless been made in different parts of the world in reducing poverty. The proportion of people living in extreme poverty on

global level fell from 28 percent in 1990 to 21 percent in 2001 (*on the basis of \$1 a day*). In absolute numbers the reduction during the period was 130 million with most of it coming from China. In Sub-Saharan Africa, the absolute number of poor actually increased by 100 million during the period. The Central and Eastern Europe and the CIS also witnessed a dramatic increase in poverty. While incidence of poverty declined in South Asia; Latin America and the Middle East witnessed no change.

The recent trends in global and regional poverty clearly suggest one thing and that is, that rapid economic growth over a prolonged period is essential for poverty reduction. At the macro level, economic growth implies greater availability of public resources to improve the quantity and quality of education, health and other services. At the micro level, economic growth creates employment opportunities, increases the income of the people and therefore reduces poverty. Many developing countries have succeeded in boosting growth for a short period. But only those that have achieved higher economic growth over a long period have seen a lasting reduction in poverty – East Asia and China are classic examples of lasting reduction in poverty. One thing is also clear from the evidence of East Asia and China that growth does not come automatically. It requires policies that will promote growth. Macroeconomic stability is therefore, key to a sustained high economic growth. Although extreme poverty on global level has declined, the gap between the rich and poor countries is increasing, even when developing countries are growing at a faster pace than developed ones – perhaps due to the large income gaps at the initial level. In a world of six billion people, one billion have 80 percent of the income and five billion have less than 20 percent. This issue of global imbalance is at the core of the challenge to scale up poverty reduction.

In Pakistan, Poverty Reduction Strategy was launched by the government in 2001 in response to the rising trend in poverty during 1990s. It consisted of the following five elements: (a) accelerating economic growth and maintaining macroeconomic stability, (b) investing in human capital, (c) augmenting targeted interventions; (d) expanding social safety nets; and (e) improving governance. The net outcome of interactions among these five elements would be the expected reduction in transitory and chronic poverty on a sustained basis. The reduction in poverty and improvement in social indicators and living conditions of the society are being monitored frequently through large- scale household surveys in order to gauge their progress in meeting the targets set by Pakistan for achieving the seven UN Millennium Development Goals by 2015.

Pakistan's growth performance over the last four years is enviable in many respects. Sound macroeconomic policies and implementation of structural reforms in almost all sectors of the economy have transformed Pakistan into a stable and resurgent economy in recent years. The real GDP has grown at an average rate of over 7.5 percent per annum during the last three years (2003/04 to 2005/06). With population growing at an average rate of 1.9 percent per annum, the real per capita income has grown at an average rate of 5.6 percent per annum.

The strong economic growth is bound to create employment opportunities and therefore reduce unemployment. The evidence provided by the Labour Force Survey 2005 (First two quarters) clearly supports the fact that economic growth has created employment opportunities. Since 2003-04 and until the first half of 2005-06, 5.82 million new jobs have been created as against an average job creation of 1.0-1.2 million per annum. Consequently, unemployment rate which stood at 8.3 percent in 2001-02 declined to 7.7 percent in 2003-04 and stood at 6.5 percent during July-December 2005. The rising pace of job creation is bound to increase the income levels of the people.

In recent years the role of remittances in reducing poverty has been widely acknowledged. Remittances allow families to maintain or increase expenditure on basic consumption, housing, education, and small-business formation. Total remittances inflows since 2001-02 and until 2005-06 have amounted over \$19 billion or Rs.1129 billion. Such a massive inflow of remittances particularly towards the rural or semi-urban areas of Pakistan must have helped loosen the budget constraints of their recipients, allowing them to increase consumption of both durables and non-durables, on human capital accumulation (*through both education and health care*), and on real estate. To the extent that the poorer sections of society depend on remittances for their basic consumption needs, increased flow of remittances would be associated with reduction in poverty.

Although, growth is necessary but it is not sufficient to make any significant dent to poverty. Realizing this fact the government had launched a directed program under the title of Poverty Related and Social Sector Program some five years ago. Over the last five years the government has spent Rs.1332 billion on poverty-related and social sector program to cater to the needs of poor and vulnerable sections of the society. Such a huge spending on targeted program is bound to make a significant dent to poverty.

The Household Integrated Economic Survey (HIES) – a component of Pakistan Social and Living Standards Measurement (PSLM) Survey provides important data on household income, consumption expenditure and consumption patterns at national and provincial level with rural-urban breakdown. The information pertaining to income and expenditure of the households are used to estimate poverty. The HIES is specifically designed to monitor poverty status of population by collecting information on consumption expenditure at the household level. With a representative sample size of 14706 households, it covered 5808 and 8898 households in the urban and rural areas of the country, respectively. The Survey was started in July 2004 and the entire field operations were completed in June 2005. The poverty line is based on 2350 calories per adult equivalent per day. It is also comparable with poverty line of 2000-01 as it was also based on 2350 calories and calculated from Pakistan Integrated Household Survey (PIHS). The poverty line of 2004-05 is adjusted by the inflation rate during the period 2001-2005.

The latest estimate of inflation - adjusted poverty line is Rs.878.64 per adult equivalent per month — up from Rs.723.40 in 2001. Headcount ratio, i.e., percentage of population living below the poverty line has fallen from 34.46

percent in 2001 to 23.9 percent in 2004-05, a decline of 10.6 percentage points. In absolute numbers the count of poor persons has fallen from 49.23 million in 2001 to 36.45 million in 2004-05. The percentage of population living below the poverty line in rural areas has declined from 39.26 percent to 28.10 percent while those in urban areas, has declined from 22.69 percent to 14.9 percent. In other words, rural poverty has declined by 11.16 percentage points and urban poverty is reduced by 7.79 percentage points. Consumption inequality increased marginally during the period. These findings are consistent with the developments on economic scene that have taken place in Pakistan since 2000-01. A strong growth in economy, rise in per capita income, a large inflow of remittances and massive spending on poverty-related and social sector programs were expected to reduce poverty in Pakistan.

It is important to note that the methodology and the estimates of poverty have been endorsed by the development partners such as the World Bank, the Asian Development Bank, the United Nations Development Program (UNDP) and the Department for International Development (DFID), UK. The service of world renowned poverty expert, Professor Nanak Kakwani was hired by the UNDP to independently look into the methodology as well as poverty estimates. He also authenticated both the methodology and estimates. In order to maintain consistency across years, it is essential that we apply the same agreed upon methodology over the years, irrespective of its weaknesses and strengths.

Second Generation Reforms

Structural reform is the essence of development. Broadly speaking, structural reforms entail measures that change the institutional framework and constraints governing market behaviour and outcomes. In general, structural reforms have been associated with the notion of increasing the role of market forces and reducing the extent to which government regulations or ownership of productive capacity affect the decision making of private firms and households. It would, however, be misleading to equate structural reforms with the goal of abandoning regulation altogether. Structural reforms aim at adapting institutional frameworks and regulations for markets to work properly. But it is well-known that some markets are prone to market failure or inefficiencies, therefore, there is a role of the government to correct the market failure and improve the efficiencies of the markets.

Structural reforms, therefore, do not abdicate the government to play its due role. Pakistan has been implementing wide-ranging structural reforms in almost every sector of the economy to improve supply-side response by removing impediments to private sector development, removing irritants to improve investment climate and improving the allocation of resources. The reforms implemented thus far include: financial sector reforms, capital markets reforms, tax and tariff reforms, reforms in tax administration, fiscal transparency, reforms in privatization program, governance reform, particularly with respect to devolution and capacity building, agricultural reform, particularly with respect to agriculture pricing, movement of commodities and introducing private sector in wheat operation, and most importantly, the passing

of the Fiscal Responsibility and Debt Limitation Act 2005. The last one was very essential to pursue a rule-based fiscal policy to inject financial discipline. Pakistan has benefited immensely from what is known as first generation reforms.

Pakistan's economic recovery has been strong, rapid and sustained. Going forward, Pakistan is targeting a growth rate of 6 to 8 percent per annum in the next five years. However, it is clear that a growth of this magnitude would not be achievable automatically. To sustain a growth momentum of 6 to 8 percent per annum more efforts and more '*growth-critical*' reforms would be required.

Over the next five years the Government's reform agenda include: strengthening institutions, improving the competitiveness of our industry, building a robust financial system in an environment of global financial restructuring, further strengthening of tax administration, promoting transparency in economic policy-making, further reform in capital market and strengthening the country's physical and human infrastructure. While it is not possible to discuss each element of reform, an attempt has been made to provide some flavour of these reforms.

Strengthening of institutions is vital to remove obstacles to higher growth and better social service delivery. As part of institutional strengthening the government has already launched major initiatives, prominent among those include reforms in judiciary, police, civil service, and pension, the restructuring of the Central Directorate of National Savings (CDNS), transforming the existing Monopoly Control Authority (MCA) into a Competition Authority Organization, and introduction and adoption of E-Government Strategy. Furthermore, the government has already setup a Commission to assess existing regulations and procedures affecting the interaction between the administration and the business with a view to eliminating red tape and with it, corruption opportunities. It is clear that judicial reform is aimed at strengthening the rule of law and enhancing the transparency and accessibility of the legal system by modernizing the court system at all levels and strengthening capacity, effectiveness, and accountability of law enforcement agents. This is an on-going and difficult reform program. Some progress in police reform has also been made. The civil service reform is also an on-going reform and major progress has been made in enhancing the capacity of our civil servants through training within and outside the country. On pension reform, the government is working towards introducing a contributory Provident/ Pension Fund Scheme for the new entrants. The work on converting the existing CDNS into a corporate body is also at a fairly advance stage. The government believes in free-market system but in recent years the rise of '*extra-market forces*' have been observed, leading to market failures and creating hardship for ordinary consumers. It is in this perspective that the government is revamping the existing Monopoly Control Authority by converting it into a Competition Authority with proper powers to deal with extra-market forces. In order to improve the efficiency of various ministries the government is working towards achieving ISO 9001 Certification. A beginning has already been made with Ministry of Finance working towards

achieving this certification. The restructuring of the Federal Bureau of Statistics with a view to converting it into an autonomous institution is also high on the agenda of reform. To implement the second generation reform the government is setting up an Economic Reform Unit in the Ministry of Finance with a view to coordinating with other ministries in implementing various reforms. This unit will also serve as Secretariat for the Private Sector Development initiatives.

Improving competitiveness of Pakistan's industries is central to the reform agenda. It deals with improving investment climate by strengthening microeconomic sources of competitiveness. Improving competitiveness requires understanding of various impediments and policy bottlenecks that affects competitiveness of our industry. Most important element of improving competitiveness is the strengthening of the country's physical infrastructure, that is, the supply of gas, power, working of ports, roads, rail linkages, telecommunication network, and water availability.

Given the resource constraints on the one hand and the role strong infrastructure in enhancing competitiveness on the other, the government has recently setup Infrastructure Project Development Facility in line with public-private partnership. Furthermore, to improve the competitiveness of our industries the Government has commissioned a number of studies with the help of development partners to examine microeconomic constraints in improving investment climate and promoting private sector development.

The banking and financial sector of Pakistan is much stronger today than it was some one decade ago or in comparison to other countries in the Asian region. However, further strengthening of the banking system to meet the challenges arising from global financial restructuring is required. Future reforms include: voluntary mergers and consolidation of smaller banks to become effective and strong banks; further strengthening of the legal infrastructure of the banking system; formulation of new Banking Law to deal with current and future challenges; a deposit insurance scheme to protect the small depositors; further liberalization of financial services in the context of TRIMs; promoting transparency and accountability in banking system; and observance of international standards.

Tax administration reform is the cornerstone of the reform agenda. A major overhaul of the Central Board of Revenue (CBR) is being implemented. It aims at increasing the CBR's effectiveness, reduce corruption opportunities, and raise the buoyancy of the tax system through organizational restructuring, self assessment, elimination of personal contacts between tax-payers and tax authorities, simplified processes, tax-payers facilitation, revised terms and conditions for employment of the CBR officials and improved IT management. A considerable progress in these areas have been made but much more is required to make CBR an efficient tax administration for which many initiatives have been launched and are at various stages of implementation.

Concluding Remarks

Economic success brings fresh challenges. Pakistan has witnessed strong, rapid and sustained economic recovery with growth averaging at 7.0 percent per

annum during the last four years. This has positioned Pakistan as one of the fastest growing economies in Asia. The economic landscape of Pakistan has changed altogether therefore; its challenges are also different today. How to sustain the on-going growth momentum in an environment of macroeconomic stability is the biggest challenge going forward. Linked with this are the challenges of job creation, poverty alleviation, improving social indicators and most importantly, strengthening the country's physical infrastructure to support 6-8 percent growth in the medium-term.

An impressive economic recovery from an economic downturn is a good time to enhance the speed of implementation of the second generation reforms. Many economic problems are due to shortcomings in the markets, rather than to resource shortages or an excess or deficiency of overall demand. There is a broad consensus that where there are such problems, structural reforms, that is policy measures that change the institutional and regulatory frameworks governing market behaviour, can lead to a greater efficiency in the allocation of resources.

Notwithstanding extra-ordinary successes in the face of headwinds Pakistan still faces many challenges in fully realizing its potential for sustained economic growth, better living standards, and greater resilience to shocks. The moment such as this does not mean that we have time to pause or rest. Although we have made great strides over the last six years, we are fully aware that much remains to be done.

Pakistan Economic Survey 2005-06, Economic Adviser's Wing, Finance Division, Government of Pakistan, Islamabad. www.finance.gov.pk

IV. Human Rights

HRCP fact-finding mission's (December 2005 – January 2006) Report on conflict in Balochistan

Executive summary

Disturbed by reports of renewed armed conflict in parts of Balochistan that began to pour in during December 2005, an HRCP fact-finding team visited the troubled areas Kohlu and in January, as fighting expanded, another mission visited Dera Bugti and Sui.

The fact-finding mission to Balochistan was led by HRCP chairperson Asma Jahangir. Former chairperson Afrasiab Khattak and Dr. Mubashir Hasan formed a part of the team which visited Quetta and Sibi from 26 to 28 December. Ms. Jahangir, Mr. Khattak, Balochistan vice-chairperson Zahoor Ahmed Shahwani and Mr. Zainuddin visited Dera Bugti and Sui from 8 to 10 January to assess the situation there.

The teams talked to local people, including those who had suffered as a result of the conflict, activists, political leaders and members of the local administration.

Human rights abuses

In both Dera Bugti and the Kohlu area, HRCP received evidence that action by armed forces had led to death and injuries among civilians. Populations had also been subjected to indiscriminate bombing.

Many of the victims were women and children. Lists of casualties are included in the report. The dead included some Hindus, many of whom had been forced to leave their homes due to the fighting.

There was also an immense sense of fear prevailing among ordinary people, particularly in Dera Bugti, from where 85 percent of the population had fled. Many of the citizens that the HRCP team members spoke to complained about the heavy deployment of paramilitary forces in the area, use of excessive force by the Frontier Constabulary, a paramilitary force, and harsh behaviour towards the people, including children, by personnel linked to these forces.

The views expressed by ordinary people contradicted the opinions put forward by FC officials, who maintained citizens appreciated their presence in the area. Members of the paramilitary forces and the district administration, while extending cooperation to HRCP, gave detailed accounts of abuses they alleged had been committed by the Baloch tribal leaders. They also blamed fugitives or 'furraris' for much of the unrest in the province. Racism directed towards the Baloch people surfaced quite openly during some of the discussions.

HRCP expressed grave concern over the fact that militants had placed land mines along roads, and appealed to all sides in the conflict to give up violence in favour of a negotiated resolution to the complex issues of the province. It also regretted the death of personnel of the paramilitary forces.

It was however obvious that the people's perceptions regarding discrimination against them by the federal government, notably an establishment that they saw as being dominated by the Punjab, had played a role in fomenting the deep sense of resentment and anger found in the province. These sentiments had significantly contributed to the new conflict. Citizens meeting the HRCP team also expressed the apprehension that the military wished to establish control over the vast natural resources of Balochistan.

There were alarming accounts of summary executions, some allegedly carried out by paramilitary forces. HRCP received credible evidence that showed such killings had indeed taken place.

Across Balochistan, the HRCP team found widespread instances of 'disappearance', of torture inflicted on people held in custody and on those feeling from their house and hearth in fear. Cases that could be credible, have been detailed in this report. Among the most disturbing is the account of the 'disappearance' of 18 labour union leaders of Pakistan Petroleum Limited (PPL) in December 2005, while they were in Karachi to negotiate various issues with the management.

The findings of the high-level HRCP team, and the interviews they conducted with persons who had been picked up by State agencies, corroborated a growing number of complaints received from Balochistan over the past year. Some of the cases reported, that could not be verified during the team's brief visit, are being investigated further.

While on their way to Dera Bugti, members of the HRCP team, including Ms Asma Jahangir and Mr Afrasiab Khattak, faced an attack on their vehicle near Kashmore. Unknown persons unleashed several volleys of Kalashnikov fire for a period of at least five minutes. The team was particularly disturbed by the brazen manner in which the attack was carried out and the fact that authorities had not lodged all FIR. The credibility of a claim reportedly made by the Baloch Liberation Army (BLA) of carrying out the attack has been questioned by HRCP.

Tribal feuds

Complicating the prevailing situation in Balochistan were the disagreements and rivalries between various tribes and sub-tribes. These feuds seemed to be most marked in the Bugti area. HRCP expressed concern over accounts of abuses by tribal 'sardars', including allegations that some of them maintained private jails, had subjected opponents to deliberate humiliation and had been involved in various criminal acts.

These allegations were refuted by Nawab Akbar Bugti, who was met at a location away from his home in Dera Bugti.

While HRCP expressed its inability to resolve tribal disputes, it called on the authorities to play a positive role in this matter, which had over the years obviously created difficulties for the people living in Balochistan.

Conclusions

At the end of its mission, HRCP reiterated its demand that all parties engaged in the conflict gave up violence, and opened dialogue on the issues of the province. It was also evident that the only resolution to the problems facing Balochistan lay in a political settlement, which also addressed the satisfactory issue of provincial autonomy.

The recommendations based on its findings made by HRCP follow.

Conclusions and Recommendations

1. There is currently a war-like situation, militarization and politico-economic conflict in Balochistan. By denying this the government is only confusing the issue and making it more intractable.

- a) There must be an immediate ceasefire and parliament must meet in a special session to ensure a sustained process of negotiations and dialogue, which must continue till the underlying issue of provincial autonomy and the rights of the people of smaller provinces is resolved. At the same time, a time-bound plan must be drawn up and publicly announced for the demilitarization of the province, which must start immediately.
- b) In the short term all constitutional mechanisms of an inter-provincial nature must be reactivated with a genuine desire to include all shades of opinions while reaching consensus. However, in the long term, the political forces will have to make a stronger bid for the restoration of the democratic process, which will fully respect the federal foundations of Pakistan.

- c) The economic and political rights of the tribal population must also be shown due respect.
 - d) All unnecessary check-points erected in Balochistan must be dismantled forthwith and the recommendation of the parliamentary committee on Balochistan respected.
 - e) HRCP urges all Baloch militant parties and groups to desist from laying land mines and to cooperate in clearing those that are already in place.
 - f) The authorities must not strike inter-tribal feuds, nor arm militias themselves. Such tactics cannot alter the political reality on the ground, they will only aggravate it.
 - g) The official campaign of disinformation must immediately come to an end. In particular, exaggerated accounts of ethnic disharmony must not be propagated from government forums. The law enforcement apparatus must remain confined to its specified legal role and not indulge in any form of propaganda.
 - h) Till normalcy is restored, the government must appoint independent human rights monitors, acceptable to all sides, in the area of conflict.
2. The security forces as well as the decision-makers have remained completely unaccountable for the gross human rights violations in the province, including responsibility for the internally displaced people.
- a) A high-level investigation, under an independent public prosecutor, must be carried out into the reports of extra-judicial, summary and arbitrary execution, torture, disappearances and injury caused due to excessive use of violence. The perpetrators of any offence committed must be brought to justice. In addition, an internal inquiry should be also held into allegations of excesses by the security forces.
 - b) All places of irregular detention must be immediately closed down and the interior ministry should submit a report on this issue to a parliamentary committee. The committee must have the authority and mandate to be able to scrutinize this process, so that they can publicly assure the people that all necessary steps have been taken towards abandoning such abhorrent practices.
 - c) All intelligence agencies of the country should be reined in and made accountable to oversight bodies as well as to public representatives.
 - d) It is critical that the superior courts play their appointed role in the protection of citizens. They must use the legal tools at their disposal to punish abuses perpetrated by the agents of State.
 - e) The media, and indeed all civil society organizations, must not be denied access to specific areas of the country nor must information about events taking place be deliberately distorted. On the contrary, it is the obligation of government to facilitate adequate media coverage of areas under special circumstances.
 - f) To enable the many internally displaced people to return home, it is, essential not only that a ceasefire go into place but also that all roads be opened and the Frontier Corps be removed from pickets in the interior of

towns and cities. Compensation to people who have suffered human, financial or other losses must be granted.

- g) The law enforcement agencies must be given training in human rights and humanitarian law. Their chain of command must be strictly adhered to and rules of engagement made public.

3. There is great mistrust of the government across Balochistan. The credibility of government must be rebuilt to narrow the immense gap that has developed between citizens and the State in the province. HRCP is convinced that the writ of the government can only be respected by the people if it is based on principles of fairness, rule of law and a lack of discrimination.

- a) The government of Pakistan, must as a first step, review its agreement with the International Committee of the Red Cross (ICRC) and enlarge its scope. In case of doubt, as exists in Balochistan over loss of life and injury, the government must utilize the services of the ICRC to regain the confidence of the people.
- b) Misguided obsession with State versions of development while children are not able to go to school because of ongoing confrontation, Will undermine development itself. In order to ensure that children attend school, it is essential to win the confidence of civil society and the public at large, by reducing the presence of paramilitary forces.

4. There is a growing lack of cohesiveness between the people of all provinces. This is promoted by the fact that the structures of governance are dependent upon the goodwill of the central government and have lost the will to retain independence. In order to re-involve the people in the decision-making process, confidence building measures are urgently required at all levels.

- a) The government must provide complete and unimpeded access to human rights organizations to visit jails and police stations.
- b) The concerns of the people of Balochistan, regarding the demographic balance in the province, must be taken on board when making decisions. This is especially crucial with regard to mega-projects, such as the Gwadar Port, and the acquisition of land by those based outside the province. The opinions of local people must be included in planning schemes and giant projects.
- c) The civil administration in the province must remain accountable to their executive heads rather than take orders from paramilitary forces.
- d) The chief minister of the province, who has not so far visited the areas of conflict since tensions began, is urged to do so that he may make an independent assessment of the situation.

5. The government's development plans must be directed towards the full empowerment of people. The people must be recognized as stake-holders in the decision-making process, and their interests must be placed at the top of the list of priorities. For this to happen, the people must be given a voice. This is possible only if civil society organizations make a greater effort to visit areas of deprivation and interact with the people and are allowed to do so. At the same time, all movements must alter their approach to seeking rights from one of

aggression, to a broader based initiative aimed at building countrywide and even international alliances for their campaigns.

- a) HRCP urges that all steps be taken by the government as well as tribal leaders to end the practice of penal sanctions through jirgas as well as to do away with any form of private prisons that may exist. In its place, HRCP encourages the government to set up public-private legal aid centres and legal instruments, so that alternate dispute resolutions can be reached, in civil disputes, through traditional procedures and yet remain compatible to international human rights standards.
- b) To meet the needs of people, educational institutions and vocational training centres must be established across Balochistan. Development cannot be limited only to building infrastructure or setting up giant projects.
- c) Development plans must focus on building civil society, including establishing press clubs, bar associations and community radio and television networks. This would connect the population of Balochistan to the rest of the country and enhance the cultural environment within which they lead their lives.
- d) The low visibility, negligible educational attainments and virtual lack of any voice in decision-making of Balochistani women is a serious hurdle in the development of the province. This situation needs the serious attention of the government, leaders of tribes, regional political parties as well as nationalist movements.
- e) In the explosive situation in Balochistan, the more vulnerable members of society, such as children, members of minority communities and unemployed youth not only deserve special protection, their social and economic advancement must be guaranteed through appropriate plans of action.

* * * * *

The province of Balochistan Appendix 'A'

The tribal system in Balochistan has existed for centuries. Historically, the Baloch heartland consisted of the Kalat state, a strong tribal confederacy ruled by its chief, the Khan of Kalat, from 1666 to 1839 when British colonial rule expanded to the North West of the Indian subcontinent. After consolidating their grip over the area in the second half of the 19th century the British divided it into three zones: British-ruled Balochistan, native Balochistan or the Kalat state union and 'Nabat' or the leased areas. The British exercised direct control over British Balochistan while the bigger part consisting of Kalat state and its three constituent states of Lasbela, Kharan and Makran were under indirect British control, enjoying internal autonomy. This part of Balochistan was merged into the newly created state of Pakistan on April 1, 1948 after military action by the government of Pakistan against the Khan of Kalat. In 1955 Balochistan was merged into One Unit when the provinces and administrative units in West Pakistan were abolished to create one Province. In 1970, after the dismemberment of One Unit the province of Balochistan regained its identity

and was recognized as one of the four federating units of the country in the Constitution of 1973.

Resources and social indicators

According to official records, Balochistan generates a revenue of 1.622 billion, apparently just enough to pay the monthly salaries of government officials. The provincial government receives a grant of Rs.27 billion from the Federal Government and has a deficit of Rs.15.5 billion. Though starved for revenue the province is rich in natural resources. It is endowed with rich reserves of natural energy (gas, oil, coal) and minerals (gold, copper).

The government says it is keen to explore these reserves, but there is strong resistance from Baloch nationalists who are vehement that natural resources of Balochistan should no longer be exploited for the benefit of the Punjab. They argue that the royalty formula and the rate fixed for the natural gas of Sui is unfair and manipulated by the federal government. The Balochistan National Party says that Baloch nationalists are not opposed to development but against the exploitation of these natural resources, without benefit to the local communities. On the other hand the federal government is distressed at the obstacles placed by local tribes in the way of development.

To resolve these issues an inter-party Parliamentary Committee on Balochistan was formed in September 2004. The sub-committee, headed by Senator Wasim Sajad, to look into inter-provincial matters has still not submitted its report. Another, sub-committee, formed to examine the current issues, concluded its report. It is criticized for hedging comment on the basic dispute, but it did make a few observations and recommendations. It was a step in the right direction and could have led to further negotiations, but for various reasons, this initiative could not be carried forward.

In its report the Committee noted that all multinational enterprises wishing to invest in Balochistan, wanted sovereign guarantees from the Federal government, which it was unable to provide without the co-operation of the tribal leaders. At the same time, they noted, that the 12.5% royalty fixed for gas, drawn from the Sui area, was based on 'wellhead value', which was much below the market value received by other gas fields in other Provinces. The royalties are received by the provincial governments.

A large number of Balochistanis never fail to point out that natural gas was discovered in Balochistan in the early 1950s but it was only in 1976 that the Province got its first liquefied petroleum gas (LPG) in Quetta. Later, pipelined gas was made available in Quetta but Sui town, which houses the gas plant, mostly does not have piped gas connections.

Angered by, a perceived or real sense of deprivation, Baloch nationalists have long conducted a campaign of protest against the Central government, which has sometimes erupted into violence. The Musharraf government argues that, the unending cycle of militancy by Baloch nationalists has impeded the federal government's efforts at development in the region. The President of Pakistan publicly blamed the tribal chiefs for their anti-development stance. He then amended his statement saying that only three out of 78 tribal

chiefs in the province were ‘troublemakers’ – these being Nawab Akbar Bugti, Nawab Khair Baksh Marri and Sardar Ataullah Mengal. On another occasion, while speaking to a local private channel the President warned Baloch militants that it, was not the 1970s, promising that ‘they will be struck with weapons – they will not know what happened to them’. Balaach, the son of Khair Baksh Marri, retorted that this was indeed not the 1970s and that Pakistan’s rulers should learn a lesson from Iraq.

The hostilities and violence has escalated on the plea of giving the local populations better economic opportunities; yet they are the worst sufferers of the conflict. The socio-economic conditions of the people remain abysmal. According to a report published by the Karachi-based Social Policy and Development Centre (SPDC) in 2005, the incidence of poverty is much higher in Balochistan than any other province. On average 48 percent people are living below poverty line. The condition in rural areas is worse as 51 percent population does not have proper food, clothing and shelter. Moreover they do not have access to pure water, health and education.

According to the 1988 census Balochistan had a population of 6,511 million in an ‘area of 347,190 km. The population density is 19 persons/km making development, particularly of building infrastructure, more difficult and expensive. The table below shows some the social indicators:

Federal structure of Pakistan

Since its inception, and particularly on the basis of the 1973 constitution, Pakistan has been a federal state with a parliamentary system. Due to numerous disruptions during democratic transitions, by way of military coups, a number of distortions have crept in, making its system very centralized and practically unitary in nature. The military has held most power in this set-up.

In such systems, the principles of separation of powers and a structure of federalism remain seriously undermined. Despite a feeble attempt at creating a parliamentary system, there remains little doubt that decision-making is in the hands of the military. The expression ‘unity of command’ is often used by military leaders and thus the overwhelming impression in Balochistan is that the military and Punjab’s establishment run the country to fulfill their stakes. Baloch nationalists also argue that Balochistan was given a step-motherly treatment even during the brief periods of transitional democracy. They lament that even the Constitutional guarantees (though inadequate), have not been respected by the Federal government.

The Constitution of Pakistan distributes powers between the Federation and the Provinces. The federal parliament has an upper and a lower House. In the latter there is representation on the lines of population while the composition of the former is based on the principle of provincial parity. In addition to this, the Constitution gives two lists of subjects, the Federal and Concurrent, The Federal Parliament has powers over matters mentioned in both lists, while the provinces have exclusive rights over matters not mentioned in either list, as well as, over subjects mentioned in the concurrent list. However, if both the Federal

and Provincial parliament legislates at variance on subjects in the concurrent list, the enactment of the Federal parliament will prevail.

Three main mechanisms established in the Constitution for dealing with inter-provincial and Federal-provincial matters are the Council of Common Interests (CCI), the National Economic Council (NEC) and the National Finance Commission (NFC).

The Constitution has set out a formula of royalties and duties to be charged on natural gas. In the present situation, any dispute, given the right opportunity, could have been resolved through these inter-provincial mechanisms. These remain dysfunctional and have not met with any regularity. Their composition is also loaded against smaller provinces. Above all, mistrust between the main actors of the federal and provincial set-ups means disharmony has multiplied over the years.

Structure of governance

The management of the army, navy and air force as well as of cantonments is a federal subject, while maintaining law and order including policing remains a provincial subject. The Constitution obliges the federation to protect every province against external aggression and internal disturbances, as well as to ensure that the provincial government runs in the accordance with the provisions of the Constitution.

The federal government may direct a Province to take steps to prevent any 'grave menace to the peace and tranquility or economic life' of Pakistan. The federal government may also proclaim an emergency. Article 245 empowers the federal government to direct the Armed Forces to act, 'in aid of civil power,' when called upon to do so.

According to the Constitution the federation may acquire land situated in a province for matters connected with the powers of the Central government. Building of national highways and strategic roads remains within the preview of the federal government.

The structure of superior courts in Balochistan is the same as in other provinces. The High Court, is the apex provincial court, and an appeal can be made against its decision, to the federal Supreme Court. All criminal appeals related to offences under the Hadood laws are made to the Federal Shariat Court and not to the High Court. Lawyers from Balochistan complain that travel to Islamabad is expensive and time consuming. Litigants suffer on account of distances. Furthermore, all Constitutional matters are eventually decided by the Supreme Court, which according to a number of lawyers remains partial to the interests of Islamabad.

The standoff over provincial rights with the federal governments has, from time to time, ended in tensions and violence. The bone of contention has been the economic and political rights of the Baloch people. In recent years, the indigenous populations are also demanding rights over their resources and wealth in a more articulate manner. As always, these populations remain poor and the primitive tribal system has kept them voiceless. Their voice is only heard through the very tribal chief, who has in some ways, also been

instrumental in their deprivation. But it appears that for now, they prefer the 'known' sardar as their spokesman, rather than, 'a distant and exploitative federal government'.

All sides to the present conflict depend on violent means, each blaming the other for having initiating the violence that led to an armed conflict. HRCP hopes that, all sides to the conflict realize that resort to violence will not resolve the intricate issues of rights. It will only make it worse. Governments, especially, are bound to keep peace. Acts of violence perpetuated by the administration can only be justified if these are resorted to as a very last option and are carried out strictly according to the established rules of proportionality.

In the case of Balochistan, there are undoubtedly unresolved political issues. An absence of dialogue has given way to brute force on all sides. Baloch nationalists see the expansion of military presence in the province as an ominous sign. They feel the urgency to claim their stake in the natural resources of the Province. On the other hand, the government is adamant about going ahead with its plans on development under the direct supervision and patronage of the military. This serious conflict of interests, at a critical moment – where the military is desperate for resources and the Baloch nationalists fear they are losing out for good – needs to be resolved by the intervention of honest brokers.

The parliamentary commission on Balochistan, which was established in September 2004 in an attempt to resolve the crisis in the province, could have played this role. However, even the recommendations it made, in an interim report submitted to the Senate in September 2005 after various meetings with Baloch tribal leaders and politicians, have gone largely unheeded. These recommendations included the withdrawal of the Frontier Constabulary and coastguard from interior Balochistan, the payment by the federal government of all arrears on gas royalties and the shifting of the head office of the Gwadar Port Authority (GPA) from Karachi to Gwadar and attention to addressing the issues of poverty and under-development in Balochistan. Criticism of the composition of the commission by opposition parties, and a distancing from the stands taken by it by some Baloch leaders, adversely affected the credibility and standing of the commission.

Law and order

Balochistan has 26 districts. In terms of policing the province is divided into category 'A' and 'B'. The 'A' areas consist mainly of towns and cities and remains under a regular police force. There are 89 police stations and the sanctioned strength of the police is 19,145. The Balochistanis complain that the head of the police force – a provincial subject – is invariably a non-Balochistani. They also complained the Governor was from outside the province.

The 'B' area (almost 95% of Balochistan) is under the control of the Levies who maintain 286 thanas and employ 13,357 personnel. According to the statistics available, the crime rate in 'A' area is comparatively lower than in 'B' area managed by the Levies. The government plans to merge the Levies force with the police force. Presently, the recruitment of Levies is not based on merit, but on the recommendation of the 'local influentials'.

The conversion of the Levies into the police force has also become controversial. Many Balochistani members of the parliament expressed fears of rising unemployment among Balochistanis on being relieved from the Levies force. The government has, however, assured them that the Levies will be trained and inducted into the police force. They further hope to provide 6,000 jobs for local inhabitants in the Balochistan Constabulary, being raised for policing purposes.

The Frontier Corps (FC) works under the Federal Interior ministry. It is a paramilitary force. It controls smuggling, law and order and drug trafficking. According to the authorities 24% of the FC is from Balochistan. In theory the provincial Home Department requests the Interior ministry of the central government to come to the aid of the provincial government. However, given the highly centralized system of governance in Pakistan, the Centre takes the decision and the Provinces simply back it.

A bone of contention and bitterness are the check posts established by the security and law enforcement agencies. The FC has set up 493 check posts. A vast number of citizens in Balochistan have complained of abuses by those running these posts. The complaints range from extortion, humiliation, threats and outright use of lethal force without any provocation.

According to the Frontier Corps Ordinance 1959, the FC is deemed to be in 'active service' against external aggressor or enemy, against hostile tribes, raiders or other hostile persons, or persons co-operating with or assisting them. In the present conflict, the FC appears to be playing the coordinating role for implementing the decisions of the central authorities.

Around 1,200 Coast Guards watch and police over 960 kilometers of coastline in Balochistan. Their role has been discussed at length in the previous report of HRCP on Balochistan. Under the Pakistan Coast Guards Act, 1973 they have powers of imprisonment and capture of deserters. At present they too have set up 87 check posts for the discharge of their duties.

In addition there is a heavy presence of the military. According to press reports, Sardar Akhtar Mengal stated that there are 35,000 FC, 12,000 Coast Guards, 1,150 Levies, 6,000 Balochistan Reserve police, 2,000 marines and four army brigades deployed in Balochistan.²² Baloch nationalists also accuse the state intelligence agencies of creating private armed militias in opposition to nationalist tribal leaders. For example, Mir Bazaar Bijrani, who is an opponent of NawabKhair Baksh Marri, has been provided with resources and weapons to raise a levy force of one thousand people, from the bajrani sub-tribe of the Marris.

The Baloch nationalists see this as a precursor to building further cantonments closer to the natural resources of the Province. They fear that their resources of natural gas and oil, mainly in the Bugti and Marri area will be used for the Commercial purposes of the army. They are equally apprehensive about other mega projects undertaken for development. During the meeting of the Parliamentary Committee on Balochistan, Senator Raza Muhammad Raza cautioned that, the land acquired by the army was owned by tribes who may part

with it for defence purposes, but would be unwilling to give it up for the commercial activities of the defence force.

A plan to build further cantonments has turned into an explosive issue. Lt. General (retd.) Hamid Nawaz Khan, Secretary Defence told the Parliamentary Committee on Balochistan that presently there were .Cantonments in Quetta and Sibbi which could not cover the entire province because of logistic constraints. The government has, therefore, decided to build additional cantonments in Gwader, Dera Bugti and Kohlu areas. All three locations are strategic in terms of natural resources.

Ethnic composition and intra-tribe rivalry

As per official records 45% of the population in Balochistan is Baloch, 38% Pakhtoon and 17% of mixed ethnic origins.

During the war against the Soviets in Afghanistan, the government of the late General Zia-ul-Haq settled a number of Afghan refugees in Balochistan. Some Baloch nationalists lament that the delicate ethnic balance was-disrupted and fear that further development will attract non-Baloch settlers thereby reducing them to a minority in their own province.

The tensions are not limited between the central authority and those aspiring for self governance of Balochistan. Some Pakhtoon and Baloch differences emerge from time to time in the province. In addition, the government has pointed toward the intra-tribal hostilities that exist in Balochistan. The DIG Frontier Corps brought these up before the Parliamentary Committee on Balochistan. He enumerated these feuds are under:

- Bugti vs. Kalpars
- Bugti vs. Ahmedans
- Bugtis vs. Mazaris
- Bugtis vs. Raisanis
- Gazinis vs. Bejranis (clans of Marris)
- Marris vs. Loonis
- Hameedzais vs. Ghaibezais (clans of Achakzais)
- Rind vs. Rajsani
- Suleman Khels vs. Lawoons

Nevertheless political leaders and activists in Balochistan underplay these differences. They feel assured that a positive role by the central government would remove many of these feuds. According to them, the government stokes these differences and creates divisions within the tribes. They are able to give several examples, where the central government has been able to win over tribal Sardars and encourage intra tribal feuds. The government denies it.

Independent sources believe that, both the government and the tribal chiefs have no interest in advancing a modern form of governance They are equally to blame for the persistence of some traditional practices that undermine human dignity Indeed, the HRCP has credible information of cases of arbitrary,

discriminatory, and cruel punishments, administered through decisions of jirgas. HRCP has also intervened in some cases and in others appealed to the authorities to protect the integrity of the victims. There are verified reports of honour crimes, which are carried out with impunity under the garb of tradition. In the name of tribal tradition, women's rights are mercilessly abused. Reports of private prisons maintained by tribal chiefs are confirmed by a number of activists in Balochistan, though many of these are in the form of open jails. The chiefs have – at least in the past – boasted of administering 'unadulterated' justice by making an accused person walk barefoot over a heap of burning coals. According to them, the innocence of the accused can only be established after walking over burning coals.

Political landscape of Balochistan

Political trends in Balochistan are mixed. The religious parties, nationalists, ethnic based parties and those led by local Sardars are all in the field. In the Pashto speaking northern belt of the province bordering Afghanistan, the Jamiat-i-Ulema-i-Islam, led by Maulana Fazal-ul-Rehmanis presently the predominant force. It is also strongly represented in the Balochistan assembly, as are the Pashtoon nationalists led by Mehmood Khan Achakzai. The vast Baloch south and northeast is divided between nationalists and the pro-establishment elite. The Pakistan Muslim League-Q represents the pro-establishment politicians. There is a four party Baloch nationalist alliance consisting of the Jamhoori Watan Party led by Nawab Akbar Bugti, the Balochistan National Party led by Sardar Attaullah Mengal, the National Party led by Abdul Hai Baloch and Baloch Haq Tawar Party: The Pakistan People's Party and Awami National Party also have pockets of support in different parts of Balochistan. Tribal structures are stronger in Marri and Bugti area followed by Jalawan and Sarawan areas. Makran division in the south, towards coastal areas, has by and large grown out of the old tribal system and new social formations have taken root in the area.

Tribal militancy

Balochistan is awash with arms. All tribal chiefs carry private armed guards and some maintain private armies. All tribal chiefs, including of Bugti and Marri tribe, maintain private militias. According to unconfirmed reports the Marris have a force of around 3,000 people, while the Bugtis a few hundred less. The Frontier Corps commandant, in Dera Bugti, reportedly told the press that Nawab Akbar Bugti runs some 60 armed training camps. In another press briefing, he accused the Bugti militants of, running 62 'Furrari' camps to train Marri tribesmen. He said, more than 5000 people are being trained. Other officials informed the HRCP mission that Nawab Balaach Marri, the son of tribal chief Nawab Khair Baksh Marri, is running several 'furrari' camps. He, reportedly, trains and indoctrinates militants; The HRCP mission team was also told by the authorities that criminals from Sindh and Punjab are being protected in these camps. The government figures of armed tribesmen maintained by the Bugtis

and the Marri are disputed and the tribes deny running of the so-called farrari camps.

An army official met the HRCP mission in Quetta. He was able to give official figures of acts of violence committed by the Bugti and Marri militants. According to him in 2003-2005, the security forces suffered 20 fatalities and 53 injuries in the Dera Bugti. There were 73 incidents of firing, nine abductions and 15 incidents of damages to gas pipelines. Similarly 86 incidents of firing rocket launchers were recorded in the Kohlu area (which is mainly inhabited by the Marri tribe). The official complained that the Bugti militants had abducted seven policemen since July 2005. He gave other harrowing incidents of abduction and imprisonment of people including of Masoori Bugti and Ghulam Qadir.

There were further complaints of extortions carried out by members of the Marri tribe under the instructions of Balaach Mari. All interlocutors representing the government expressed their helplessness in the face of 'no-go' areas in the Dera Bugti and Kohlu areas. At the same time, most interlocutors, including government functionaries, conceded that the malaise lies in the systems of governance and that escalation of violence would not solve it. It could lead to greater loss of lives of innocent people.

In this spirit, the former Prime Minister Chaudhry Shujaat Hussain, formed a special Parliamentary Committee unanimously approved by both Houses of the Parliament on September 23, 2004. It was a first step in the right direction. As reported earlier, the Committee's recommendations have so far not been followed and Islamabad appears to have hardened its position. The HRCP team sadly learnt that Islamabad, now believes that the 'low-intensity', approach to Baloch insurgency had failed and that a change of tactics was necessary.

The Bugti and Marri leaders expressed their willingness to hold meaningful talks. They agreed that issues could only be resolved politically, but they continue to blame the military-backed government, of breach of trust and for surreptitiously preparing for a full-fledged armed conflict.

As violence escalates, serious accusations are being made by all parties. New factors are being introduced to the conflict and controversy. The federal government has openly accused the Baloch nationalists of having foreign support. In turn, the Baloch nationalists have accused the military of having ulterior motives to their plans of development and of disinformation to conceal their actual designs. Press reports quote the Information Minister Sheikh Rashid Ahmed of looking into the possibility of involvement of Al-Qaida elements in the Sui incidents.²⁸ Such accusations are absurd.

Baloch nationalists have also accused the government of using a poisonous substance to pollute the water reserve in Dera Bugti and during their operations in Kohlu. The government denies this vehemently. HRCP found no evidence of the use of poisonous gas. However, a number of people in Dera Bugti complained that the bombs used in the military operations burnt and melted objects and flesh.

The government continues to maintain that there is no army operation or action in Balochistan. The President, the Prime Minister, the Information Minister and Governor Balochistan as well as the Chief Minister of the province

are reported in the press denying any army 'action' or 'operation'. They claim that the use of force by the government is in relation to the law and order disturbances created by a few 'miscreants' and deny bombing civilian targets

A brief historical perspective

There is a history of armed conflict and of military operations in Balochistan, starting in 1948. The Khan of Kalat, was compelled through an army action to accede to Pakistan, after he declared independence for the princely state of Kalat.

Tensions again led to an armed uprising after one unit was declared in West Pakistan. The federal government dominated by Punjabi leadership amalgamated all four provinces of West Pakistan into one single unit in 1955. This political decision marginalized smaller provinces and undermined minority ethnic identities. After a few years of conflict, the central government took control of the province. An amnesty was declared but when the Baloch leaders came down from the mountains, they were caught and hanged. This betrayal has left bitter memories and deepened the, mistrust between the Central government and the Baloch nationalists.

A low-level of insurgency continued, and once again intensified in 1964-65, breaking into an armed conflict between the military and Baloch nationalists. The number of fatalities and casualties are not documented, but independent sources say that at least 2000 people including military personnel lost their lives.

In 1972, Balochistan had its first elected provincial government and many Baloch members blessed the new Constitution. Soon afterwards, the government of Zulfikar Ali Bhutto dismissed the provincial legislature of Balochistan after accusing the ruling party of being involved in transporting Soviet arms to Balochistan. The Bhutto government claimed that these arms were discovered in Islamabad and were destined for Balochistan. The leadership of National Awami Party (the ruling party in the province) was arrested. Baloch nationalists reacted strongly. The main leaders amongst these were the Marri and Mengal tribesmen led by Khair Bux Marri and Sardar Ataullah Khan Mengal. Many of them took up arms and fled to the mountains. In September of 1974, the government sent 80,000 troops to put down the insurgency. It is reported that at least 3,000 people lost their lives. There are, however, no official figures available. It is widely acknowledged that indiscriminate use of superior force including air power was used against Baloch camps and villages.

After the suppression of the revolt, the two Baloch leaders went into exile. Marri went to Afghanistan and Mengal to the united Kingdom only to return years later. During this period the name of the Balochistan Liberation Army (BLA) cropped up. They were accused of being behind the insurgency which lingered on into the 1980s. The BLA is reported to have been a pro-Moscow underground militant group, but faded away from public view after the disintegration of the Soviet Union. There are some unconfirmed reports that their initial recruits were drawn from the Baloch Student Organisation (BSO), but the present BSO denies any connection to BLA.

In recent years, the BLA has surfaced again and seems to have swelled its support. It has claimed responsibility for a number of acts of violence. Their identity is, however, unknown. Official sources allege that they operate throughout Balochistan but also admit that they have no firm knowledge of its structure and shape.

The new crisis

A simmering insurgency has continued in Balochistan over the last three decades, but, since the early 1970s, there has been no open armed conflict between the government and the Baloch tribes. There were press reports of tensions followed by consultations and meetings between leaders of the ruling party and Nawab Akbar Bugti. Former prime minister Mir Zafarullah Jamali visited the Nawab in Dera Bugti. Balochistan's Chief Minister publicly acknowledged the need to consult the Nawab. In early 2000, tensions rose but by the beginning of 2005, it boiled over. Some key incidents appear to have flared tempers leading to the present crisis. Since incidents of violence against the Baloch have been poorly reported, they are not traced here with any precision. These tensions can broadly be traced to the following incidents:

- On January 7th, 2000, the gunning down of a judge of the Balochistan High Court, Justice Nawaz Marri and subsequent arrest of Nawab Kpair Baksh Marri on charges of having authored the crime. The judge was shot dead by unknown assailants. The Nawab was released in July 2001, after remaining in prison for 18 months. A team of HRCP members visited him in Quetta jail and confirmed that he was kept in solitary confinement. He was disoriented and extremely bitter when the HRCP representatives met him.
- Soon after the arrest of Nawab Marri, the BLA re-emerged. Their identity is unknown but the organization has claimed responsibility for a number of bomb blasts, acts of sabotage and rocket attacks. Their spokespersons identify themselves as Azad Baloch, Mirak Baloch or Colonel Doda Baloch.
- In June 2002, army troops were deployed in Dera Bugti, giving Nawab Akbar Bugti and his tribesmen, a dead line to surrender. A complete siege and blockade of the town was widely reported. A case was registered against Nawab Bugti and others, accusing them of providing protection to criminals and terrorists responsible for rocket attacks on gas installations in Sui.
- Arbitrary detentions and disappearances of members of the Balochistan Student Organization (BSO) were reported.
- Incidents of violence increased steadily with the pace of construction in Gwadar, expansion of cantonments and the acquiring of land for cantonments and other enterprises of the military.
- A number of reports of torture, disappearances, and abuse by security forces against citizens of Balochistan.
- The kidnapping, of Chinese technicians working in Gwadar, reported in early 2004.
- In August 2004, the Balochistan Chief Minister Jam Muhammad Yousaf's cavalcade was attacked by unidentified persons.

- More troops moved to the Bugti and Marri area.
- On January 2nd, 2005 the rape of Dr. Shazia Khalid, a lady doctor working at Pakistan Petroleum Limited was reported in the press. Nawab Akbar Bugti accused army officer, Captain Emad of the offence. The PPL and the government tried to cover up the 'incident. The Captain was allowed the facility of giving a lengthy statement on Pakistan Television, presenting his side of the story and the President publicly vouched for the Captain's innocence.
- On February 26th, 2005 paramilitary forces raided locations at New-Kahan, a Marri area, in Kohlu district. Local people including women and children were allegedly roughed up and a Pakistani flag hoisted on the guesthouse of the Sardar –a gesture of show that they have been conquered.
- On 3rd March 2005 police raided a Marri camp in Quetta where HRCP received confirmed reports of arrest and harassment of innocent people including women. Families were living in this camp at the time.
- On March 17th 2005, tensions were high when patrols of FC and armed Bugti tribesmen came face to face, leading to harsh words between them. An exchange of fire, with rocket launchers followed. According to credible reports eight paramilitary personnel die 62 people including 33 Hindus were killed by the attacks made by the security forces.
- In March, police arrested members of the Baloch Student Organisation in Karachi after a peaceful demonstration against army action in Dera Bugti.
- On December 12th and 13th 2005, the security forces started an aggressive search operation, taking away 25 people. HRCP could not follow this case.
- On December 14th, 2005 eight rockets were fired at a paramilitary base on the outskirts of Kohlu city as President Pervez Musharraf visited it.
- Rockets were fired at a helicopter carrying Inspector General of the Frontier Corps, Major General Shujjat Zamir Dar and DIG, Brigadier Salim Nawaz on December 15th in Kohlu, injuring both passengers.
- On December 17th, 2005 parts of Kohlu area were bombarded and heavy artillery used by security forces, killing civilians, including women and children.
- Since then there have been regular reports of heavy use of force by the security forces and retaliatory firing and use of rocket launchers by Baloch militants.

Source: Conflict in Balochistan – A report of the fact-finding mission, December 2005-January 2006, Human Rights Commission of Pakistan (HRCP), Lahore, pp.1-5, 36-46.