

# Washington Declaration Opens Other Fronts

Syed Talat Hussain writes from Islamabad

ty's trained men are still fighting in the slippery slopes of the Kargil sector.

This is a characterisation, which sums up the general perception about the Washington Declaration. It has not been lost on keen observers that the Joint Declaration is a total reversal of Pakistan's policy on Kargil.

The third paragraph puts the onus on Pakistan of taking the initiative for restoring the Line of Control to its original position. "President and prime Minister agreed that concrete steps will be taken for the restoration of the Line of Control in accordance with the Simla Agreement."

Mr Sharif by agreeing with President Clinton on this point in fact has admitted that not only that the Kargil constitutes a violation of the Line of Control, but that it was in Pakistan's power to undo this violation.

What is more it is only "once these measures have been taken", says the Declaration that India will cease hostilities. This is precisely what the Indians have been saying it all along—that Pakistan has to first withdraw its forces and the so-called infiltrators for the

Indians to talk peace with Pakistan. Moreover, there is no mention of the Kashmir dispute in the Joint Declaration and the word "sanctity" is used for the Line of Control, which is normally reserved for permanent borders between countries.

"No what you look at it, it is a climb down and a reversal," says Lt General (retired) Hamid Gul, former Director General ISI. It was partly to make for the glaring shortcomings of the Joint Declaration that the press statement issued from Washington by Pakistan's spokesman goes to extra lengths to underline that the Kargil issue's solution is connected with a solution to the Kashmir issue, which is a dispute between India and Pakistan.

But that is too little too late. There is hardly a soul in Pakistan who does not read the Washington Declaration as a unilateral decision to surrender the strategic advantage that Pakistan had by grabbing the heights in the Kargil sector.

The question now is how Mr Sharif will soothe a seething discontentment bred by this perception. Will he and his spin-doctors now harp the line that by restoration of the Line

of Control mentioned in the Washington Declaration mean another vindication of Pakistan's policy? Or will he come up front and declare in public that he has taken this decision to avoid war and to promote peace in the region?

Clearly the Army is not interested in commenting on what happened in Washington. The ISPR chief in his Monday evening briefing did not take questions on the Washington parleys. "With due apology I will abstain," was his response when he was asked how the end-result of Washington discussions changed the military situation in Kargil.

Let the prime minister come back and then we would know what said what and what was meant by which term," he added. Significantly, his entire briefing talked about the success of the Kargil operation for Pakistan and how badly the Indians have bled in that sector.

"They have got nothing to show for themselves in Kargil. If anything, it is burial upon burial upon burial of the dead bodies of those who have lost their lives trying to recapture these heights," said the Brigadier who wore a stern

look. He did give his interpretation of the phrase "restoration of the Line of Control" by saying that the Indians have violated the Line of Control repeatedly in the past and these violations should be remedied. But there are those who are less tactful in handling their first reactions to the Washington Declaration than the polished men in uniform.

"We lost him in the Kargil war and now there is talk of a pull out, of a withdrawal, of a compromise. It breaks our heart. Kargil carries the blood of our man," said a relative of a Major, who lost his life along with four others of the same rank. This kind of talk is commonplace among those who have lost their kith and kins in the two-month long battle in Kargil.

Then there are the hardliner groups some of whom have already said that they reject the Washington Declaration. More important is the question of the Army's stand on the issue. There is a general consensus in the Army that Kargil has been a brilliant tactical move and their media representatives have consistently maintained that it has cost India heavily. If the Washington Declaration now has to be followed up with what could mean losing these gains, the Army will not be a happy lot.

Part of the Kargil battle, it seems, will now be played on the domestic front.

## Fighting Goes on...

Sharif-Clinton deal has little effect in the battlefield, reports Binoo Joshi from Drass

THE news that Pakistani Prime Minister Nawaz Sharif has agreed to withdraw troops and guerrilla fighters from the Kargil sector of Jammu and Kashmir has had little effect on the battlefield here.

Soldiers were still fighting in the heights. The boom of guns was as furious as it was a few days ago. The sky was still periodically lit up by artillery shelling in the heights overlooking Mushkoh Valley, where Indian Army field commanders say is the next target.

Sharif, who flew to Washington for talks with U.S. President Bill Clinton, is reported to have agreed to respect the Line of Control (LoC) and call back the intruders.

The same questions were still being asked of Indian Army officers — how far is the LoC now; how many intruders remain in Indian territory; and when will Indian troops push back the intruders to touch the LoC.

questions irritating and refuse to answer. "We are making progress," Col. Avtar Singh keeps telling journalists, making a mention of several successes that have come the Indian Army's way in the past seven weeks.

Every day Indian soldiers go up the mountains and return after fighting, some in body bags carried by their colleagues. At times, descending from the heights means an uninterrupted trek for seven to eight hours.

The scenes are tragically familiar. How can you escape such scenes in a war? asks Subedar Major Ved Prakash of JAK Rifles whose units had recaptured Point 5140. He refuses to give details of the operations and how many bodies the soldiers are bringing down from the heights every day.

If there is no change on the front, there is no change on the ground either. The residents of villages close to the LoC — who fled to Minji and Sankoo after their homes were shelled when firing from the Pakistani side

started towards the beginning of May — come back only to tend their livestock and see if there is anything left of their crops.

"I am here to find out what is going on," says Shahid Hussain. He knows the strategic Tiger Hills have been captured by the Indians. But he says "that makes no difference to us as the shells come from across and continue to hit and there is no end to that."

But the residents' worries go beyond an end to the hostilities. Most of the houses have lost their roofs while their timber and mud plaster lies scattered. The homes in this area have to be built again, but hardly anyone has the money.

By evening, when the orange streaks of shells shoot across the sky, the residents are back in the refugee camps. Nearly 25,000 people have been displaced by the fighting. The area is once again deserted and the boom of guns reverberates.

—India Abroad News Service

## Kargil Bites

ABMS Zahur writes on India-Pakistan flareup and its impact on the other SAARC countries

cooperation from the western powers.

Her weak economy compelled her to remain ineffective in the Kosovo crisis.

The economic strength of both India and Pakistan does not enable them to continue a full-scale conventional war for a month even.

Any reasonably prolonged war will bring immense misery to their peoples. Their economic crises will make them more dependent on the wealthy nations who would try to dictate terms to gain economic concessions. It has now been established beyond any doubt that economic success ultimately raises the status of a country (e.g. Japan). In these days, developing a state into a nuclear power may not be too difficult. A number of even semi-developed states are capable of converting themselves into nuclear powers within a short time.

The reasons for her unsatisfactory relations with China and Pakistan are mainly ill-defined border with China and faulty partition plan of the British regime in 1947. Thus acquisition of nuclear capability by India appears to be more for raising her international prestige and less for any other consideration.

Not enough progress could be made in attaining the objectives of SAARC mainly because of inadequate interest shown by

India, the largest and the strongest of the members of the SAARC.

Without peace or political stability in the region, no multilateral cooperation can bring about any positive result. Apart from the common problems of poverty, health, population in the region the critical problems such as political crisis in India, economic crisis in Pakistan, political instability in Bangladesh and Tamil rebellion in Sri Lanka are positive hindrances to rapid economic development of the region. It is difficult even to make an intelligent guess about the time that may be necessary for achieving a reasonable level of solution to these problems. People of India are so much frustrated at the political instability that some businessmen even prefer military rule to such democratic

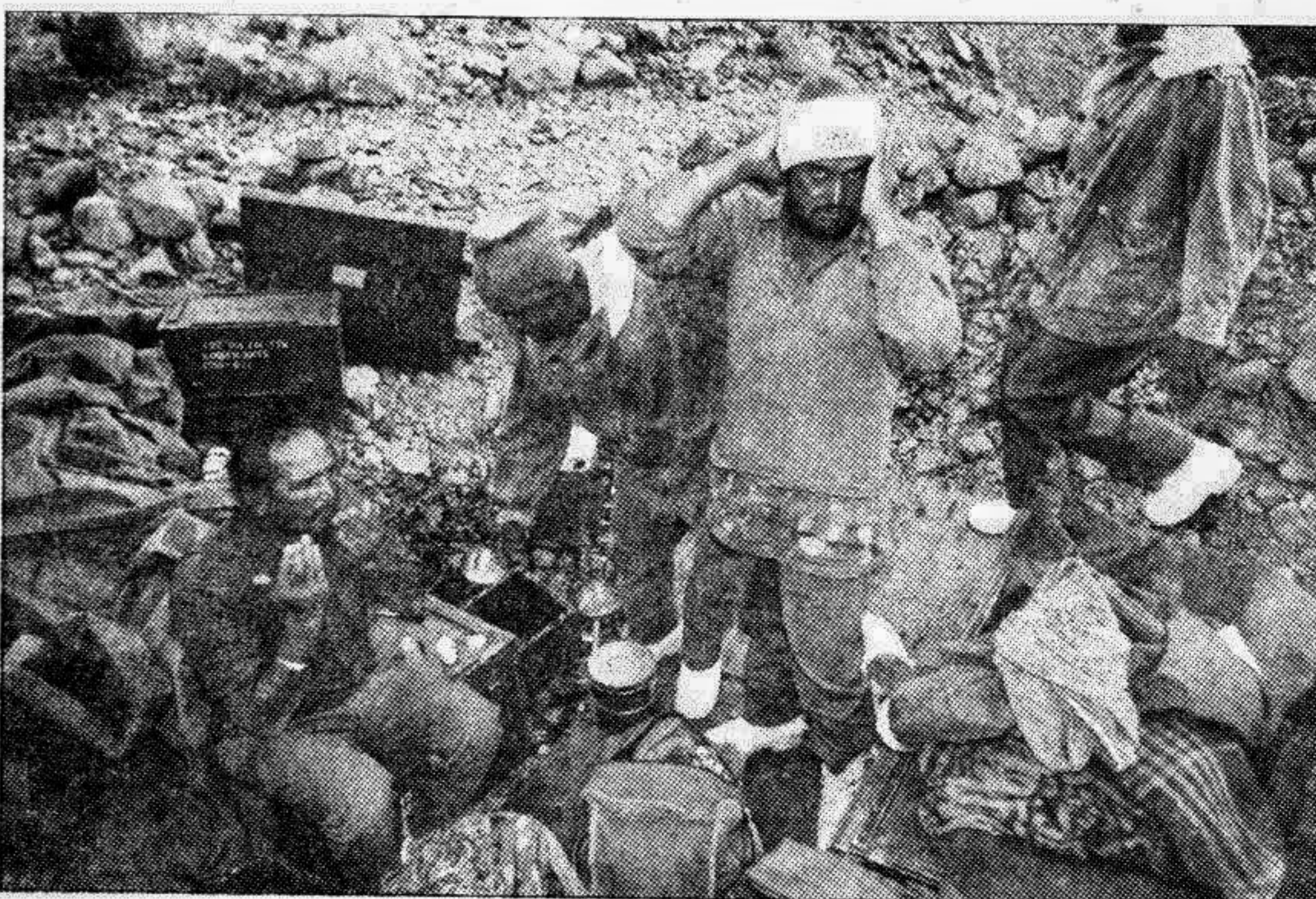
rule. Pakistan is maintaining a much bigger armed force (active 587,000 plus 513,000 reserve) than its economy can sustain because of India-phobia. This crushing financial burden due to military spending is depriving its common mass from appreciable advancement in health and education. In Bangladesh, there are two major political parties and though both of them are credited for the fall of dictatorial regime of Ershad through a long struggle for establishing democratic rule and both the parties include an appreciable number of freedom fighters, they have so far failed to come to a good understanding because of mistrust and lack of confidence.

Time is the greatest healer. We hope BNP and Awami League, sooner or later, will show better understanding for the sake of strengthening the basis of democracy in Bangladesh.

In Sri Lanka, one may not predict the time to be taken for a better understanding between Tamil rebels and the Sinhalese government. Establishing a strong democratic government may not be possible for Sharif government so long as it cannot diminish the influence of armed forces and the political bickering in the provinces, particularly Sind. It may not be incorrect to assume that political problems are relatively less intricate in Bangladesh among the SAARC countries.

As long as Kashmir dispute remains unsettled, good neighbourliness is not likely to develop between Pakistan and India, although common people appear to be eager to develop good relationship between the two countries. India as the largest of the SAARC countries must give leadership for ensuring a peaceful SAARC. An interesting development emerging from the recent Kashmir crisis, India has successfully started persuading the major powers to pressurise Pakistan to take back the Pakistan infiltrators from the Indian side of Kashmir for the sake of ending hostility in Kashmir. On the other hand, she does not like to internationalise the Kashmir issue. What does she want then? Is she convinced that military solution or bilateral dialogue is no more appropriate for Kashmir solution? Only time may tell.

The author is retired joint secretary to the government of Bangladesh.



Time-out in the front?

INDIA and Pakistan are virtually at war in the Kashmir valley though both the countries appear to be interested in confining it to a limited war. India does not appear to have responded to the UN effort for diffusing the tension. India considers the Kashmir issue as a bilateral one between India and Pakistan. As such there is no scope for making any attempt at solving this crisis multilaterally. The very recently concluded Lahore declaration once again emphasised the need for solving India-Pakistan problems through bilateral discussion. However, diplomatic efforts of the G-8 countries, particularly of USA, Russia, and the UK, are on.

Despite the major powers' attempt to diffuse tension, it may not be unrealistic to apprehend the danger of a total war.

The SAARC was established to bring peace and prosperity to the region where there is the largest concentration of absolute poverty. Despite the passage of more than a decade, no appreciable progress could be made to alleviate poverty of this region. The bus diplomacy of Atal Behari Vajpayee, the Indian Prime Minister, created some hope for a better understanding between India and Pakistan. The recent events in Kashmir will definitely dampen the spirit of the people of these countries.

With the open declaration of India that its ballistic missiles can hit not only deep into Pakistan but they also have the ability to hit some places in China as well, the political atmosphere both in India and Pakistan started to heat up. Such an announcement, however, could not bring any benefit to the Vajpayee government. In fact, it gave Pakistan an excuse for testing her own missile system. This development was not accepted with good grace by other countries, developed or developing.

Though both India and Pakistan are more or less self-sufficient in food production, the economic conditions of their common people are far from satisfactory. Billions of dollars have to be invested simply to provide the bare necessities of housing, sanitation, education and health care facilities to their people. Except for acquiring some prestige as nuclear powers, these countries will not be benefited in any way. With all her nuclear capability, Russia cannot face the current economic crisis without help and

THE Kargil operation, it is now official, is likely to be prolonged. With the immediate shock of being dragged into a "virtual war" having waned, attention is increasingly being focussed on the internal consequences of the war-like situation.

An area in which the fallout is of obvious concern is the economy, since diversion of financial and material resources is inevitable in a military operation conducted in demanding terrain. Needless to say, with even the intensity and duration of the operation being anybody's guess, the quantum of resources required can only be a guess.

Financial estimates therefore vary. The cost of the basic operation has been variously estimated at between Rs.10 crores and Rs.30 crores a day. To this must be added the cost of equipment which would have to be acquired to continue with this operation as well as guard against future infiltration of a similar kind. Based on extrapolations of different kinds, expenditure estimates going up to as much as Rs.10,000 crores this fiscal year are being circulated through the media. Whatever be the exact sum involved, it would amount to a large increase in defence-related expenditures budgeted at Rs.45,700 crores in this year's Budget.

The real issue, therefore, is the consequence of such spending. A cursory examination of economic conditions suggests that the fallout could in fact be positive from the point of view of growth. Indian industry is today in the midst of a recession,

saddled with considerable excess capacities. Foodstocks with the government are comfortable, and the current dilemma relates to how the additional amounts that are being procured can be disposed of. Inflation, at least as measured by the wholesale price index, is at an 80-plus-week low. And, if the government is to be believed, India's foreign exchange reserves position is extremely comfortable.

With no material bottlenecks and with foreign exchange available to deal with any specific shortages of tradable commodities, additional expenditures on commodities which are being virtually 'blown up' in Kargil and its neighbourhood should stimulate demand and spur growth, without leading to inflation. That is, a series of blunders committed by the government that have led up to the current wasteful and dangerous confrontation could turn out to be an advantage for a coalition which bears the burden of incumbency when returning to the electorate.

THERE is, however, one hitch. This relates to the fact that, influenced by international finance and its backers (in the G-8, the Bretton Woods institutions and the media), liberalisation and fiscal-deficit targeting have in official economic thinking taken precedence over other objectives like

growth. So whatever the material consequences of the expenditure triggered by Kargil may be, the primary concern and fear appears to be that the operation would result in an 'unsustainable' increase in the fiscal deficit.

This is not because such an increase in the deficit cannot be prevented. Since any "war-like situation" calls for austerity on the part of the nation as a whole, the most obvious way of meeting the cost of Operation Vijay is a progressive direct tax, either in the form of a hike in rates of taxation or of a surcharge.

This, of course, cannot be implemented by a caretaker government. But there are still ways around the problem and in any case the current government has already displayed its willingness to stretch its definition of "caretaker" responsibilities to great lengths whenever convenient. So the reason why the tax option to finance expenditures is not being mentioned lies elsewhere. To start with, the Bharatiya Janata Party-led government, which has a lot of explaining to do on why the present situation has come to pass, would hardly want to risk its popularity by touching the

wallets of the well-to-do in the country.

Secondly, if instances like the telecom licence fee controversy are any indication, in the run-up to the election, the government is keen to "pay off" big business at any cost rather than tax it. And, finally, an understated assumption behind the reform strategy that the BJP backs is that tax concessions are a crucial component of the effort to unleash private initiative and growth. As a result, there can be no discussion of the possibility of additional taxation.

It is for this reason that there appears to be an air of inevitability about an increase in the deficit on the government's budget to the tune of somewhere between Rs.5,000 crores and Rs.10,000 crores, despite the government's effort to quell all such speculation. Having made "deficit management" one of the indicators of his self-proclaimed competence as Finance Minister, Yashwant Sinha would hardly want to admit that strategic blunders since Pokhran-II have tied his hands in fiscal terms. And making any such open admission would definitely create a stir in inter-national financial circles,

which could influence the attitude of the United States.

Given the government has been desperate to win the favour of American officials and has made much of every sign that official U.S. opinion is biased in its favour and against Pakistan, anything that could adversely affect such opinion is anathema. So the "caretaker" Finance Minister has gone on record, without any explanations provided, that the Kargil operation would not upset his fiscal calculations. This is merely a continuation of the situation ever since the nuclear tests, wherein the BJP-led government has bent over backwards to please international capital and through them win back the favour of the U.S. government and its allies.

However, whatever the rhetoric, the reality is that given the optimistic estimates of tax buoyancy and proceeds from privatisation, realising the fiscal deficit target of 4 per cent of GDP for 1999-2000 was an impossibility even without the present conflict. This implies that Yashwant Sinha's claim that Kargil would make no difference to the deficit is nothing more than an unavoidable pretence.

His calculation probably is that this is a problem best dealt with later. After all, if the BJP does not return to power, he would not be called upon to defend the revised estimates for 1999-2000. But what would ensue if his party does return to power and he remains the Finance Minister? With the elections behind him, it is inevitable that he would try and shore up his deficit figures by cutting social and capital expenditures, on the one hand, and disposing of the more profitable sections of the public sector, on the other. With social and capital expenditures already under squeeze for the last few years, it is the disinvestment initiative that would be more crucial.

If there are few takers at home, sales to foreign buyers can be experimented with, on the grounds that the domestic market may not be able to bear a large-scale retrenchment of public assets. Even if this only partially helps him rein in the deficit, these policies would win favour from international capital and the Bretton Woods institutions.

As South-East Asia has made clear, the International Monetary Fund and its backers

can forgive a rising deficit so long as liberalisation that allows cheap acquisitions of valuable assets is adopted.

Expenditure estimates going up to Rs.10,000 crores during this fiscal year are being mentioned for the Kargil operation and its follow-up. However, even in this scenario the problem of a larger fiscal deficit is not likely to go away. Nor, therefore, would the problem of how to finance it. Since borrowing from the Reserve Bank of India through the issue of ad hoc Treasury Bills has been foreclosed by the process of debt, the only option, however, turning to the open market while keeping money supply growth under control can tighten money market conditions and lead to an increase in interest rates. This would only worsen the recession, forcing the government to consider seriously the option of borrowing abroad.

This is something the private sector would push for too. In fact, the Investment Information and Credit Rating Agency (ICRA), a rating agency, whose role is not to advise the government on policy but assess the creditworthiness of its clients, has reportedly come out with a gratuitous recommendation that the government should issue sovereign bonds denominated in foreign exchange to finance its post-Kargil deficit. Such recommen-

dations, which would only make India more dependent on foreign finance and therefore more vulnerable to the whimsical demands of foreign financial interests, are bound to intensify.

And they are likely to be accepted by the government, since they serve to win C-8 appreciation as well. If the government's recent record is any indication, initiatives to appease private foreign capital seems to be the bargain chip used most often in its post-Pokhran diplomacy.

Thus an accelerated movement down the 'liberalisation' road India has traversed ever since Pokhran-II is likely to be the most significant economic fallout from Kargil.

There are lessons here for both Pakistan and India. It was not India alone that paid the price of diminished economic sovereignty in the wake of Pokhran-II. Responding as Pakistan did, it too faced both the sanction and the subsequent compulsion to compromise on the economic front. Unfortunately, Pakistan learnt little from the experience. Its misadventure in Kargil is bound to aggravate the problem, just as India's need to respond to the infiltrators would weaken its economic independence in the days to come. In the

end no real decisions would be made in the course of skirmishes along the Line of Control. The two governments would have to turn to the third umpire ensconced in Washington.

By arrangement with the Frontline magazine of India

## Military Gains and Economic Losses

An accelerated movement down the 'liberalisation' road India has traversed ever since Pokhran-II is likely to be the most significant economic fallout from Kargil.

C.P. Chandrasekhar writes

growth. So whatever the material consequences of the expenditure triggered by Kargil may be, the primary concern and fear appears to be that the operation would result in an 'unsustainable' increase in the fiscal deficit.

This is not because such an increase in the deficit cannot be prevented. Since any "war-like situation" calls for austerity on the part of the nation as a whole, the most obvious way of meeting the cost of Operation Vijay is a progressive direct tax, either in the form of a hike in rates of taxation or of a surcharge.

This, of course, cannot be implemented by a caretaker government. But there are still ways around the problem and in any case the current government has already displayed its willingness to stretch its definition of "caretaker" responsibilities to great lengths whenever convenient. So the reason why the tax option to finance expenditures is not being mentioned lies elsewhere. To start with, the Bharatiya Janata Party-led government, which has a lot of explaining to do on why the present situation has come to pass, would hardly want to risk its popularity by touching the

wallets of the well-to-do in the country.

Secondly, if instances like the telecom licence fee controversy are any indication, in the run-up to the election, the government is keen to "pay off" big business at any cost rather than tax it. And, finally, an understated assumption behind the reform strategy that the BJP backs is that tax concessions are a crucial component of the effort to unleash private initiative and growth. As a result, there can be no discussion of the possibility of additional taxation.

It is for this reason that there appears to be an air of inevitability about an increase in the deficit on the government's budget to the tune of somewhere between Rs.5,000 crores and Rs.10,000 crores, despite the government's effort to quell all such speculation. Having made "deficit management" one of the indicators of his self-proclaimed competence as Finance Minister, Yashwant Sinha would hardly want to admit that strategic blunders since Pokhran-II have tied his hands in fiscal terms. And making any such open admission would definitely create a stir in inter-national financial circles,

which could influence the attitude of the United States.

Given the government has been desperate to win the favour of American officials and has made much of every sign that official U.S. opinion is biased in its favour and against Pakistan, anything that could adversely affect such opinion is anathema. So the "caretaker" Finance Minister has gone on record, without any explanations provided, that the Kargil operation would not upset his fiscal calculations. This is merely a continuation of the situation ever since the nuclear tests, wherein the BJP-led government has bent over backwards to please international capital and through them win back the favour of the U.S. government and its allies.

However, whatever the rhetoric, the reality is that given the optimistic estimates of tax buoyancy and proceeds from privatisation, realising the fiscal deficit target of 4 per cent of GDP for 1999-2000 was an impossibility even without the present conflict. This implies that Yashwant Sinha's claim that Kargil would make no difference to the deficit is nothing more than an unavoidable pretence.

His calculation probably is that this is a problem best dealt with later. After all, if the BJP does not return to power, he would not be called upon to defend the revised estimates for 1999-2000. But what would ensue if his party does return to power and he remains the Finance Minister? With the elections behind him, it is inevitable that he would try and shore up his deficit figures by cutting social and capital expenditures, on the one hand, and disposing of the more profitable sections of the public sector, on the other. With social and capital expenditures already under squeeze for the last few years, it is the disinvestment initiative that would be more crucial.

If there are few takers at home, sales to foreign buyers can be experimented with, on the grounds that the domestic market may not be able to bear a large-scale retrenchment of public assets. Even if this only partially helps him rein in the deficit, these policies would win favour from international capital and the Bretton Woods institutions.

As South-East Asia has made clear, the International Monetary Fund and its backers

can forgive a rising deficit so long as liberalisation that allows cheap acquisitions of valuable assets is adopted.

Expenditure estimates going up to Rs.10,000 crores during this fiscal year are being mentioned for the Kargil operation and its follow-up. However, even in this scenario the problem of a larger fiscal deficit is not likely to go away. Nor, therefore, would the problem of how to finance it. Since borrowing from the Reserve Bank of India through the issue of ad hoc Treasury Bills has been foreclosed by the process of debt, the only option, however, turning to the open market while keeping money supply growth under control can tighten money market conditions and lead to an increase in interest rates. This would only worsen the recession, forcing the government to consider seriously the option of borrowing abroad.

This is something the private sector would push for too. In fact, the Investment Information and Credit Rating Agency (ICRA), a rating agency, whose role is not to advise the government on policy but assess the creditworthiness of its clients, has reportedly come out with a gratuitous recommendation that the government should issue sovereign bonds denominated in foreign exchange to finance its post-Kargil deficit. Such recommen-

dations, which would only make India more dependent on foreign finance and therefore more vulnerable to the whimsical demands of foreign financial interests, are bound to intensify.

And they are likely to be accepted by the government, since they serve to win C-8 appreciation as well. If the government's recent record is any indication, initiatives to appease private foreign capital seems to be the bargain chip used most often in its post-Pokhran diplomacy.

Thus an accelerated movement down the 'liberalisation' road India has traversed ever since Pokhran-II is likely to be the most significant economic fallout from Kargil.

There are lessons here for both Pakistan and India. It was not India alone that paid the price of diminished economic sovereignty in the wake of Pokhran-II. Responding as Pakistan did, it too faced both the sanction and the subsequent compulsion to compromise on the economic front. Unfortunately, Pakistan learnt little from the experience. Its misadventure in Kargil is bound to aggravate the problem, just as India's need to respond to the infiltrators would weaken its economic independence in the days to come. In the

end no real decisions would be made in the course of skirmishes along the Line of Control. The two governments would have to turn to the third umpire ensconced in Washington.

By arrangement with the Frontline magazine of India