

Pakistan feels economic cost of struggle with India

REUTERS, Islamabad

Anaemic economic growth and a dearth of foreign investment is forcing Pakistan to look at the heavy cost imposed by a foreign policy mired in its conflict with India.

The spokesman for Pakistan's government, Major General Rashid Qureshi, noted a shared need for "economic progress" in welcoming Wednesday's long-sought Indian offer of talks with military ruler General Pervez Musharraf.

While many Pakistanis dismiss the image of a dangerous region as a distortion, few investors will venture into a country where the struggle over Kashmir has ensured nearly 54 years of hostility with giant neighbour India - especially when both have nuclear weapons.

Even Pakistan's involvement in the civil war in neighbouring Afghanistan is entwined with the conflict with India.

"A lot of political and geopolitical issues impact on economics," Finance Minister Shaukat Aziz conceded at a May 20 economic conference. "A peaceful environment will help the economy to grow. The issue is an important one: we are very conscious the issues cannot be divorced."

Aziz was responding after Canadian High Commissioner Ferry de Kerckhove had bluntly attacked a "parochial" foreign policy and a wide range of other concerns about the future of Pakistan.

Foreign investment is frightened off. Pakistan had meagre foreign direct investment of \$143 million in the last six months of 2000 - about a dollar per capita and down \$164 million from the same period a year earlier.

Islamabad denies it is helping the guerrillas fighting Indian rule in Kashmir but finds few believers when the organisations all have offices in Pakistan.

"Pakistan is stuck in a policy of wearing down India," said a senior diplomat. "On the Pakistan side there is a game plan that is not realistic and won't work. The Indian side has no game plan."

Economics dictates that Pakistan is the weaker side in this struggle. In a war of attrition the country with the higher growth - and the greater ability to afford new weapons - will prevail.

Pakistan's growth rate this year will be under four per cent not much above the estimated 2.4 per cent population growth that adds more than three million mouths a year - and no substantial improvement is expected for several years. Pakistan needs annual growth rates above six per cent - such as India has been running - to reduce poverty.

Pakistan finds itself in a situation where the adversary has far greater capability to fund its military modernisation, security analyst Ayesha Siddiqi-Agha wrote in a paper for the economic conference, arguing for a total military rethink. She likened spending on the 630,000-man armed forces and other parts of

"terrorists," produce a stream of fighters who find their way across Pakistan into the struggle in Kashmir.

Islamabad denies it is helping the guerrillas fighting Indian rule in Kashmir but finds few believers when the organisations all have offices in Pakistan.

"Pakistan is stuck in a policy of wearing down India," said a senior diplomat. "On the Pakistan side there is a game plan that is not realistic and won't work. The Indian side has no game plan."

The paper, however, did not address a question posed often by foreign observers: what concessions are needed to end the struggle over Kashmir that began in 1947.

As few foreign experts can foresee India ever withdrawing will Pakistan ever be willing to drop its 54-year-old goal of that happening? There is no sign that Pakistan is yet willing to accept the current lines between their forces as a permanent border.

In the public forum Finance Minister Aziz, a respected former executive with Citibank, with wide international experience, repeated Pakistan's familiar position that a resolution of the Kashmir struggle depends on India.

And despite acknowledging the economic burden imposed on a country slipping further behind its large neighbour, he felt compelled to defend the military spending: "We can't allow our defence and sovereignty to be compromised."

Other currencies looked less boisterous, with the Australian dollar hitting a three-week low and the Indonesian rupiah floundering amid an ongoing domestic political crisis.

Japanese yen: The yen rose against the dollar in Tokyo during the week after Finance Minister Masajuro Shiokawa said he was not worried about a strong yen, dealers said.

The Japanese currency traded at 120.37-40 to the dollar at 5:00 pm (0800 GMT) in Tokyo Friday, down from 123.25-28 a week earlier.

On Thursday, the yen jumped to a two-month high of 118.80 against the dollar as Shiokawa's comments triggered yen-buying.

"Investors bought the yen as investors became less wary of currency intervention following Shiokawa's comment that he was not worried about the foreign exchange market," said Sumitomo Mitsui Banking Corp's sales vice president Daichiro Horii.

But the yen slipped back to the 120 level as foreign investors sold the Japanese currency to adjust their positions ahead of a long weekend in the United States.

Tue US market will be closed for Memorial Day on Monday.

Australian dollar: After hitting a three-week low, the Australian dollar is unlikely to crack 53 US cents this week as the major currencies continue to experience turbulence and mixed local data is

expected, dealers said.

A run on the yen after major funds dumped the euro has trampled the Australian dollar, which dropped to 50.90 US cents on Thursday, 2.30 US cents down from the high earlier in the week of 53.20 US cents before it recovered to close at 52.15 US cents on Friday.

NEW ZEALAND DOLLAR: The New Zealand dollar closed Friday worth 42.41 US cents.

It recovered late in the week after going below 41 cents.

Bank of New Zealand foreign manager Mike Symonds said the kiwi had its trans-Tasman neighbour, the Australian dollar, to thank for the recovery.

"We have seen very large US-based buying in the aussie overnight and that has contributed to the gains in the kiwi," Symonds said.

SINGAPORE DOLLAR: In late session Friday, the US dollar traded at 1.8039 Singapore dollars from 1.8067 Singapore dollars on May 18.

HONG KONG DOLLAR: The Hong Kong dollar closed at 7.7994-7.8002 to the US dollar on Friday marginally higher than the previous week's close of 7.7995-7.8003.

INDONESIAN RUPIAH: The Indonesian rupiah weakened again to close the week at 11,450 to the dollar compared to last week's close of 11,370, with dealers citing continued domestic political confusion.

PHILIPPINE PESO: The Philippine peso fell to 50.505 to the dollar on Friday from 50.33 in the previous week as it was pulled down by the weakening of other regional currencies.

SOUTH KOREAN WON: The South Korean currency strengthened to 1,288.90 won Friday, compared with 1,304.00 won against the dollar a week earlier.

But the yen slipped back to the 120 level as foreign investors sold the Japanese currency to adjust their positions ahead of a long weekend in the United States.

Tue US market will be closed for Memorial Day on Monday.

Australian dollar: After hitting a three-week low, the Australian dollar is unlikely to crack 53 US cents this week as the major currencies continue to experience turbulence and mixed local data is

expected, dealers said.

A run on the yen after major funds dumped the euro has trampled the Australian dollar, which dropped to 50.90 US cents on Thursday, 2.30 US cents down from the high earlier in the week of 53.20 US cents before it recovered to close at 52.15 US cents on Friday.

NEW ZEALAND DOLLAR: The New Zealand dollar closed Friday worth 42.41 US cents.

It recovered late in the week after going below 41 cents.

Bank of New Zealand foreign manager Mike Symonds said the kiwi had its trans-Tasman neighbour, the Australian dollar, to thank for the recovery.

"We have seen very large US-based buying in the aussie overnight and that has contributed to the gains in the kiwi," Symonds said.

SINGAPORE DOLLAR: In late session Friday, the US dollar traded at 1.8039 Singapore dollars from 1.8067 Singapore dollars on May 18.

HONG KONG DOLLAR: The Hong Kong dollar closed at 7.7994-7.8002 to the US dollar on Friday marginally higher than the previous week's close of 7.7995-7.8003.

INDONESIAN RUPIAH: The Indonesian rupiah weakened again to close the week at 11,450 to the dollar compared to last week's close of 11,370, with dealers citing continued domestic political confusion.

PHILIPPINE PESO: The Philippine peso fell to 50.505 to the dollar on Friday from 50.33 in the previous week as it was pulled down by the weakening of other regional currencies.

SOUTH KOREAN WON: The South Korean currency strengthened to 1,288.90 won Friday, compared with 1,304.00 won against the dollar a week earlier.

But the yen slipped back to the 120 level as foreign investors sold the Japanese currency to adjust their positions ahead of a long weekend in the United States.

Tue US market will be closed for Memorial Day on Monday.

Australian dollar: After hitting a three-week low, the Australian dollar is unlikely to crack 53 US cents this week as the major currencies continue to experience turbulence and mixed local data is

expected, dealers said.

A run on the yen after major funds dumped the euro has trampled the Australian dollar, which dropped to 50.90 US cents on Thursday, 2.30 US cents down from the high earlier in the week of 53.20 US cents before it recovered to close at 52.15 US cents on Friday.

NEW ZEALAND DOLLAR: The New Zealand dollar closed Friday worth 42.41 US cents.

It recovered late in the week after going below 41 cents.

Bank of New Zealand foreign manager Mike Symonds said the kiwi had its trans-Tasman neighbour, the Australian dollar, to thank for the recovery.

"We have seen very large US-based buying in the aussie overnight and that has contributed to the gains in the kiwi," Symonds said.

SINGAPORE DOLLAR: In late session Friday, the US dollar traded at 1.8039 Singapore dollars from 1.8067 Singapore dollars on May 18.

HONG KONG DOLLAR: The Hong Kong dollar closed at 7.7994-7.8002 to the US dollar on Friday marginally higher than the previous week's close of 7.7995-7.8003.

INDONESIAN RUPIAH: The Indonesian rupiah weakened again to close the week at 11,450 to the dollar compared to last week's close of 11,370, with dealers citing continued domestic political confusion.

PHILIPPINE PESO: The Philippine peso fell to 50.505 to the dollar on Friday from 50.33 in the previous week as it was pulled down by the weakening of other regional currencies.

SOUTH KOREAN WON: The South Korean currency strengthened to 1,288.90 won Friday, compared with 1,304.00 won against the dollar a week earlier.

But the yen slipped back to the 120 level as foreign investors sold the Japanese currency to adjust their positions ahead of a long weekend in the United States.

Tue US market will be closed for Memorial Day on Monday.

Australian dollar: After hitting a three-week low, the Australian dollar is unlikely to crack 53 US cents this week as the major currencies continue to experience turbulence and mixed local data is

expected, dealers said.

A run on the yen after major funds dumped the euro has trampled the Australian dollar, which dropped to 50.90 US cents on Thursday, 2.30 US cents down from the high earlier in the week of 53.20 US cents before it recovered to close at 52.15 US cents on Friday.

NEW ZEALAND DOLLAR: The New Zealand dollar closed Friday worth 42.41 US cents.

It recovered late in the week after going below 41 cents.

Bank of New Zealand foreign manager Mike Symonds said the kiwi had its trans-Tasman neighbour, the Australian dollar, to thank for the recovery.

"We have seen very large US-based buying in the aussie overnight and that has contributed to the gains in the kiwi," Symonds said.

SINGAPORE DOLLAR: In late session Friday, the US dollar traded at 1.8039 Singapore dollars from 1.8067 Singapore dollars on May 18.

HONG KONG DOLLAR: The Hong Kong dollar closed at 7.7994-7.8002 to the US dollar on Friday marginally higher than the previous week's close of 7.7995-7.8003.

INDONESIAN RUPIAH: The Indonesian rupiah weakened again to close the week at 11,450 to the dollar compared to last week's close of 11,370, with dealers citing continued domestic political confusion.

PHILIPPINE PESO: The Philippine peso fell to 50.505 to the dollar on Friday from 50.33 in the previous week as it was pulled down by the weakening of other regional currencies.

SOUTH KOREAN WON: The South Korean currency strengthened to 1,288.90 won Friday, compared with 1,304.00 won against the dollar a week earlier.

But the yen slipped back to the 120 level as foreign investors sold the Japanese currency to adjust their positions ahead of a long weekend in the United States.

Tue US market will be closed for Memorial Day on Monday.

Australian dollar: After hitting a three-week low, the Australian dollar is unlikely to crack 53 US cents this week as the major currencies continue to experience turbulence and mixed local data is

expected, dealers said.

A run on the yen after major funds dumped the euro has trampled the Australian dollar, which dropped to 50.90 US cents on Thursday, 2.30 US cents down from the high earlier in the week of 53.20 US cents before it recovered to close at 52.15 US cents on Friday.

NEW ZEALAND DOLLAR: The New Zealand dollar closed Friday worth 42.41 US cents.

It recovered late in the week after going below 41 cents.

Bank of New Zealand foreign manager Mike Symonds said the kiwi had its trans-Tasman neighbour, the Australian dollar, to thank for the recovery.

"We have seen very large US-based buying in the aussie overnight and that has contributed to the gains in the kiwi," Symonds said.

SINGAPORE DOLLAR: In late session Friday, the US dollar traded at 1.8039 Singapore dollars from 1.8067 Singapore dollars on May 18.

HONG KONG DOLLAR: The Hong Kong dollar closed at 7.7994-7.8002 to the US dollar on Friday marginally higher than the previous week's close of 7.7995-7.8003.

INDONESIAN RUPIAH: The Indonesian rupiah weakened again to close the week at 11,450 to the dollar compared to last week's close of 11,370, with dealers citing continued domestic political confusion.

PHILIPPINE PESO: The Philippine peso fell to 50.505 to the dollar on Friday from 50.33 in the previous week as it was pulled down by the weakening of other regional currencies.

SOUTH KOREAN WON: The South Korean currency strengthened to 1,288.90 won Friday, compared with 1,304.00 won against the dollar a week earlier.

But the yen slipped back to the 120 level as foreign investors sold the Japanese currency to adjust their positions ahead of a long weekend in the United States.

Tue US market will be closed for Memorial Day on Monday.

Australian dollar: After hitting a three-week low, the Australian dollar is unlikely to crack 53 US cents this week as the major currencies continue to experience turbulence and mixed local data is

expected, dealers said.

A run on the yen after major funds dumped the euro has trampled the Australian dollar, which dropped to 50.90 US cents on Thursday, 2.30 US cents down from the high earlier in the week of 53.20 US cents before it recovered to close at 52.15 US cents on Friday.

NEW ZEALAND DOLLAR: The New Zealand dollar closed Friday worth 42.41 US cents.

It recovered late in the week after going below 41 cents.

Bank of New Zealand foreign manager Mike Symonds said the kiwi had its trans-Tasman neighbour, the Australian dollar, to thank for the recovery.

"We have seen very large US-based buying in the aussie overnight and that has contributed to the gains in the kiwi," Symonds said.

SINGAPORE DOLLAR: In late session Friday, the US dollar traded at 1.8039 Singapore dollars from 1.8067 Singapore dollars on May 18.

HONG KONG DOLLAR: The Hong Kong dollar closed at 7.7994-7.8002 to the US dollar on Friday marginally higher than the previous week's close of 7.7995-7.8003.

INDONESIAN RUPIAH: The Indonesian rupiah weakened again to close the week at 11,450 to the dollar compared to last week's close of 11,370, with dealers citing continued domestic political confusion.

PHILIPPINE PESO: The Philippine peso fell to 50.505 to