

SAARC and security

Translate resolves into results

THAT there should be more action than words is a common feeling of the people of the SAARC countries, as they continue to face natural as well as man-made catastrophes of severe kinds. After twenty-three years of its existence, it is justifiable for the people to look up to the leaders to implement policies that would remove wide-scale poverty and ensure social, economic and food security of the present generation and that of the future ones. Better disaster management by the respective governments in collaboration with member countries is another vital issue for the people of the SAARC countries, who often lose lives and property in flash floods, cyclones, landslides and earthquakes.

We hope Dhaka's call for making the body more effective in the context of regional and global realities should be taken up with due concern by other members. The burning realities common to all the countries are ever-increasing poverty, trade and tariff adjustment, energy crunch, climate change, terrorism and food security. While many of the issues have direct link to international productivity and price adjustment, we believe a common SAARC strategy to handle the problems would help us find better solutions. There is no denying that the most important of all the issues to be discussed at length is making SAARC Food Bank operational to ensure food security of the people. It is a matter of shame that people in this modern era of scientific advancement should go hungry and remain shelterless. We hope the charter of Saarc Development Fund and Saarc Regional Standardisation Organisation agreement will become effective soon enough to help member countries enjoy the fruits at the earliest.

One cannot but agree that the removal of existing barriers to trade and commerce would contribute to faster growth of the economies that are yet to take off outstandingly. In this context, Dhaka's call for the removal of existing non-tariff barriers to open more windows of opportunities in the least developed member countries should be deliberated upon with due seriousness.

We hope the cross-border incidences that tend to create misgivings among the member countries should be discussed thoroughly and consensus reached to create an environment of trust and goodwill among the security forces that man the borders as well as among the common people. The SAARC meetings no doubt provide opportunities for the policy makers to develop a better insight into their common problems and thereby seize it as an opportunity to find solutions. The common goal should be improving the economic condition and standard of life of the common people.

The furore at JU

Authorities must act fast

THE students of Jahangirnagar University (JU) must have been moved to a high point of desperation to have fallen back on an action that does not conform to the laid down standards of discipline in an educational institution -- but one must understand their frustration and the reasons for it. They were protesting the university authority's failure to protect them against harassment of the most abominable kind. It pains one to see a premier seat of learning in the country acquire a dubious distinction in terms of sexual harassment.

The recent allegation is not a one off case. Similar incidents had occurred in the past too and the offenders were taken to task. But such occurrences keep on being repeated at the JU. The matter becomes even more painful when one finds that it is again a teacher that the charge of harassment has been levelled against. It speaks so eloquently about the depraved mentality and the low level of morality, that those entrusted with the noble task of enhancing both the mental faculties and moral values of the students, have themselves sunk to.

The matter had come to such a pass that, reportedly, at one time some female students were compelled to give up their studies at the university. It speaks so poorly of the university authority's lack of sensitivity that nothing worthwhile had been done to see that such incidents did not recur.

When parents get their wards admitted at a university they expect that not only would they be offered the best facility to acquire a high standard of knowledge, they would also be safe and secure under the wings of their teachers. When something to the contrary happens it not only defiles the reputation of the institutions, it also taints the image of the teachers' community as a whole.

In this particular instance one finds it ridiculous that the authorities had formed a 'fact finding committee' followed by a 'higher fact finding committee' and eventually a 'high powered committee'. This move may well be construed as a way to procrastinate initiating action against the alleged offender.

Surely the allegation cannot brook any delay, and the authorities must also act fast to formulate a policy against sexual harassment - a longstanding demand of the female students - which for some inexplicable reasons have not been put in place even ten years after the demand was first made. The excuse this time, that certain provisos in the proposed policy conflict with the law of the land, is untenable.

Everything must be done to ensure the safety of the female students.

Dichotomy of inflation and credit expansion



ABDULLAH A. DEWAN

COMBATING inflationary spirals while pursuing credit expansion in tandem for achieving poverty reduction through growth is often a mutually exclusive stance -- a dichotomy most macroeconomists would consider at odds, especially when an economy, such as Bangladesh, is projected to grow at 6.5% with a 9% inflation target.

When Bangladesh Bank (BB) Governor Salehuddin Ahmed announced that BB would follow an expansionary monetary policy, rebuffing IMF's prescription for a tighter policy, I heard about outpouring of praise from our economists and business circles. I wasn't sure if the favourable reaction was for real or for BB's courage in defying the IMF.

Prior to defying directives from foreign aid agencies, the policy makers must examine both short and long-term perspectives, weighing the potential risks and gains.

What's the risk involved in BB's expansionary policy stance? That is profitably argued by The Daily Star's July 25 editorial, which says (rephrased): What is the guarantee

that BB would succeed in directing the flow of credit to the productive sectors of the economy to replenish the supply side (investing in factors of production)? Since the current domestic inflation is mostly driven by external factors such as surging oil and food prices worldwide -- the episode of international transmission of inflation -- failure to make up for any shortfall in business expansion through investment in machinery and equipment, including those in the

spread between deposit rate and lending rate. My May 19 piece, "Lending rate and deposit rate," has already argued why such a demand is ineffectual. Many of the same arguments also explain why banks may not accommodate any sermons for scaling back loans on high profit earning ventures and shifting to risky and uncertain investment loans.

Don't forget that banks, like any other businesses, operate to maximise profit while minimising risks

accompanied by sustained increase in money supply.

Aside from soaring costs of oil, food, and industrial raw materials, inflation in many Asian countries is partly fueled by the falling US dollar, particularly in countries that have let their currencies rise -- even if minimally -- against the dollar in an effort to hold on to export markets.

Justin Mott of the New York Times (April 8) reports that, in March, Vietnam's central bank had

Inflation breeds uncertainty about future prices, interest rates, and exchange rates, and this, in turn, breeds risks among potential trade partners, discouraging trade. For commercial banking, it erodes the purchasing power of depositor's savings as well as that of bank loans. These well-known fallouts associated with inflation increase the risk associated with investment and production activities of firms and markets.

The effects of high inflation on a

and may often get postponed -- hindering growth.

In the presence of unpredictable inflation, relative prices become uncertain -- both lenders and borrowers become reluctant to enter into long-term contracts, a prerequisite for capital investment. Inflation, thus, inhibits growth through scaling down investment in productive activities.

What's the solution then? The government -- not commercial banks -- must create a favourable credit expansion environment, which will stimulate the business of banking across the country. That environment is facilitated by low inflation growth objective.

China and India are reported to have blunted the full impact of inflation so far through a combination of price controls and subsidies, and more countries are joining them. Vietnam has imposed price controls on transportation and gasoline, for instance.

It should be underscored that high inflation is often associated with financial repression as governments take actions to protect certain sectors of the economy. For example, interest rate ceilings are common in high inflation environments. Such controls lead to inefficient allocations of capital that inhibit economic growth.

The BB policy has not resorted to any financial repression -- at least not yet -- and there are no signs of that happening, although we see some moral suasion and indirect pressure on lending institutions to narrow the gap between deposit rates and lending rates.

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NO NONSENSE

Inflation affects capital investment both directly and indirectly. It increases transactions and information costs, which directly hinders economic development. For example, when inflation makes real return uncertain, investment and planning become difficult -- and may often get postponed -- hindering growth. In the presence of unpredictable inflation, relative prices become uncertain -- both lenders and borrowers become reluctant to enter into long-term contracts, a prerequisite for capital investment.

agricultural sector, would only add fuel to the inflationary fire.

The editorial's concern over the decline in the growth of the industrial sector from a hefty 10% (2006-07) to 6.87% in recent months is compelling, but this nose-dive may not have simply been driven by credit crunch -- if there is one at all.

What BB is essentially asking for is investment targeted credit expansion, and for private banks to play an unstinting role to that end. A similar call is also echoed in the editorial, asking "the banks to channel funds from high profit earning trading and other activities to the real productive sectors."

Another expectation of BB from the banking sector is narrowing of

of losses. This is in line with a fundamental tenet in economics, which states that resources are always attracted to activities that promise the highest returns.

"Inflation is the major threat to Asian countries," said Jong-Wha Lee, head of the Asian Development Bank's regional economic integration office. For example, India, China and Vietnam have recently been experiencing inflation rates of 7%, 9%, and 19.4% respectively.

The causes of inflation could be traced to the private sector and government deficit spending, or to shortfalls in output. Whatever triggered the initial inflation dynamics, it couldn't persist unless

ordered the country's commercial banks to resume mopping up dollars within the narrow range of exchange rates set by the government.

Inflation in Taiwan has started to sneak up partly because the government waited until this year to let its currency -- the New Taiwan dollar -- appreciate. Taiwan's slim currency strengthening has started to hold down gasoline prices at the pump.

Persistent high inflation accompanies high costs. Its menacing effects not only disrupt the operation of a nation's financial institutions and markets, they also frustrate their integration with the global markets.

portfolio of financial assets depend on the type of stocks and bonds one holds. In general, inflation can discourage investors by reducing their confidence in long-maturity financial papers. The main problem with share prices and inflation is that a company's returns can be overstated -- one that portrays its earnings growth as overly impressive -- when, in fact, inflation is the reason behind the growth.

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Consolidating democracy in Pakistan



MUHAMMAD ZAMIR

FOR more than sixty years democracy has not always been the assured aspect in a Pakistani's life. It has been like a zebra crossing -- now you see it and now you don't. It is also this aspect that continues to interest some of us who have had experience of Pakistani governance in the past. We tend to follow any transition or evolution in the Pakistani political landscape with care. Consequently, the first few months after the recent elections in Pakistan, the continuing terrorist acts within that country and the inability of the government to usher in a "new dawn" in Pakistani politics have been a source of disappointment.

I have watched the hesitant steps that the new government of the PPP-PML-N governing coalition have taken to strengthen the legal system (so necessary for state building), develop a new economic model, strengthen state institutions and improve basic services. In this context, it would be pertinent to point out that even today, after nearly six months of the February elections, fragmented disagreements exist about reinstating suspended members of the judiciary. This is impeding movement forward within the body politic of that nation.

It would be important to recall here the three important events that took place during a "trau-

matic" 2007 in Pakistan -- the country's declaration of a state of emergency, the suspension of the 60 judges, and the assassination of Benazir Bhutto, which has been described by some emotional Pakistani analysts as being similar to "the assassination of President Kennedy and 9/11 rolled into one". These events exposed the fault lines in Pakistan, and the fact that it has failed to develop into a moderate Islamic state, and was still dominated by a 'predatory' elite

domestic savings and exports. There has also been very little investment in human capital and comparative failure in protecting local industry. Another challenge has been to inject good governance into a currently dysfunctional system. There has also been little investment in basic services, such as education. I am making such assessments on the basis of comparisons with its archrival and neighbour India.

Another of Pakistan's over-

(b) that its territory will not be used against any other country, and that (c) foreign terrorists will not be allowed to hide out in Pakistan. Unfortunately, the bombing of the Indian diplomatic mission in Kabul and allegations by the Afghan government has not added to Pakistan's credibility. Recent US air strikes on the Pakistan/Afghanistan border (in the Federally administered Tribal Areas -- FATA -- where Pakistani soldiers were killed) have also not

nize that the stakes are high in Pakistan and the rest of the region, and should offer it the support it needs. Pakistan stands at a strategic global crossroads and could easily deteriorate to become a seedbed for terrorism and extremism with more and more military intervention.

I feel that the EU will gain from increasing its engagement in Pakistan. I agree with a comment recently made in Brussels by Mr. Mahmood a Pakistani analyst. He

could support also the creation of a truly free press and judiciary and a vibrant civil society. Time has come for the US to put together a comprehensive plan to deal with support for services like schools and health clinics. It could also consider stopping its micro-management of Pakistan's affairs.

Presidential candidate Obama has mentioned about the need to increase non-security aid to Pakistan. I agree with such an assumption. This could be in the sector of institution building. The US has to engage with Pakistan on its important issues, and accept that the US is there for the long haul. While doing so, they need to take a regional approach on security issues and cross-border infiltration between Pakistan and Afghanistan. This will need opening the windows towards Iran. There has been in recent times a bit of thaw regarding Iran among US policy planners. This could be widened.

Pakistan has many challenges. The foremost among these is the high expectations Pakistanis and others from South Asia have of their new civilian government. There is a need in this regard to build confidence in the parliamentary system, build respect for the Prime Minister and help the Pakistani political parties to turn from fiefdoms into democratic parties.

Pakistan has been ruled for more than half its existence by the armed forces and the results have been mixed to say the least. They now have a democratic government. Within the South Asian context they deserve all our support. This will minimise the possibility of subsequent spread of radicalism and extremism from Pakistan to the rest of its neighbours.

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POST BREAKFAST

Pakistan has many challenges. The foremost among these is the high expectations Pakistanis and others from South Asia have of their new civilian government. There is a need in this regard to build confidence in the parliamentary system, build respect for the Prime Minister and help the Pakistani political parties to turn from fiefdoms into democratic parties.

which constitutes less than 1 per cent of the population.

Pakistan's challenge, as I see it, is to be able to address the weak foundations of democracy and rebuild the state. It would be pertinent to note here that over the last 60 years, the military has intervened in that country four times and the courts have legalized such illegal intrusion every time. Pakistan military expert Stephen Cohen has interestingly described it as "The generals can't govern Pakistan, but they will not let anyone else do so."

Recent riots in front of the Stock Exchanges in Karachi and Islamabad have demonstrated once again that there has been superficial growth but there is space for considerable improvement within Pakistan's economic paradigm. While there has been over 5 per cent growth per annum, this has relied mainly on foreign inflows, leading to a "casino economic model" that has neglected

riding problem has been its politics. That is geared towards the fulfilling of short-term US interests. Recent events have clarified that such a path is resented by a large section of the local Pakistani population. This has created in turn, deep structural governance problems.

Pakistan's importance as an ally of USA and its expected role in fighting the Taliban has now emerged as an integral part of US presidential politics. Various statements by the US political and Afghan leaderships have brought into question the continued military assistance being provided to Pakistan by external actors. Queries are now being made as to how the USA and Europe should engage with the newly elected government as to questions of strategy and security.

On the security question, the new government has said that -- (a) it will not hold talks with anyone who refuses to lay down their arms,

helped matters. These strikes have in fact created more political instability.

As it stands now, the West's interest in Pakistan appears to mainly centre round sorting out Afghanistan, a concern that Pakistan probably shares. There is however a slight catch in this equation. The Army in Pakistan possibly wants a peaceful and stable neighbour, but it also wants an Afghanistan that has not tilted towards India.

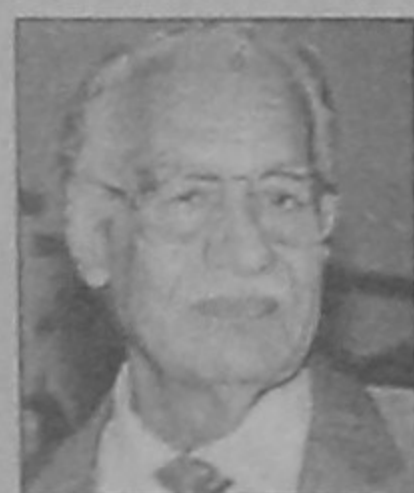
It is a very difficult situation. However, it is this complexity that should encourage the EU as well as the USA to make a more intensive constructive engagement. This is not the time for recriminations but for a positive approach. The EU can help Pakistan to make the structural reforms it needs, and member states such as Spain, Portugal, Greece and Poland could share their experience of moving from military/authoritarian rule to a democracy. The EU needs to recog-

has noted that a successful Pakistani democracy will demonstrate to the 1.3 billion Muslims worldwide -- including 20 million in the EU -- that "democracy works and is the best guarantee against terrorism, injustice and hopelessness". The EU, through such a move can be an engine for reform and a soft power.

It would be important to recognize at this point that the elections in Pakistan exceeded expectations by being transparent, free and fair and returned the country to a quasi-civilian government. Nevertheless, a danger still exists whereby the merger of three trends -- political uncertainty, economic downturn and security threats -- could create the perfect storm in Pakistan.

The other important partner in consolidating democracy in Pakistan could be the United States. Instead of just reiterating the need to fight terrorists on the border with Afghanistan, the US

The crisis of change



KULDIP NAYAR
writes from New Delhi

IN two different countries, at two different places, different peoples have met to discuss their age-old problems and find a collective solution. One was the People's Saarc at Colombo, the venue of the official Saarc Summit, and the other was at Jaipur, where people working at the grassroots gathered to pool experiences of their movements. How helpless did both feel in their fight against the vested interests?

Both meetings transcended boundaries, faiths and identities. Both challenged official policies, the mindset bureaucrats and the stock remedies. Both were anxious to confront the insensitive rulers on the one hand and the inhuman extremists on the other.

Limited struggles throughout the region provide ample evidence of change at the grassroots. Yet, our leaders continue to indulge in the same old game of gaining ascendancy through politics of manipulation and money. Many among them are the ones who go in for ideological posturing and populist rhetoric. They have little respect for public interest or popular sentiment, except to exploit them for ensuring their own political survival.

At the two-day conference of People's Saarc, some 400 delegates from India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan and Maldives threw down the gauntlet to the official Saarc to do something concrete for bringing the member countries nearer to one another instead of holding sterile debates and their armies firing at one another on the border at the slightest provocation. The unanimous demand of the delegates was for a borderless South Asia, with no visa and no restrictions, to enable people to travel and trade.

I recall how keen the late Benazir Bhutto was for a borderless sub-continent. When she talked to me in London a few months before her assassination, she said that if she ever returned to power her first task would be to make borders soft. I

wish the government led by her Pakistan People's Party (PPP) had pursued her dream. But the army and the bureaucracy appear to be having the better of the party. Were the PPP to take steps to have close contact with India, it would find Nawaz Sharif welcoming this. He has even proposed a unilateral move.

What comes in the way is too much emphasis on nationalism. This has made people set their sights on their own country and community, not on the bigger vision like a South Asia Union on the lines of European Union. In that arrangement, nations will retain their sovereignty while having common trade, commerce and other avenues of economic development.

Before independence,

Rabindranath Tagore wrote an article expressing his wish that India should not adopt nationalism as its creed. His fear was that nationalism would lead to chauvinism. This has more or less happened. Chauvinism is now leading to extremism and terrorism.

Terrorists have different front organisations in different countries. Somewhere, they call themselves Students Islamic Movement of India (SIMI), the Lakshar-e-Toiba (LeT), the Harkat-ul-Jihad Islami (HUJI) or just mujahideen. In fact, they are religious fanatics, who want to create a theocratic state. They are essentially fundamentalists drawing inspiration from the Taliban, if they are not the Taliban themselves.

They are killers and do not spare even women and children. They

target hospitals, as was seen earlier at Karachi and now at Ahmedabad. What Bangalore and Ahmedabad saw today was experienced at Karachi and Islamabad yesterday. Terrorism stalks the region. It cannot be countered piecemeal. A joint action by the Saarc countries needs to be initiated with the participation of scientists, technocrats and others. They have to have a long-term plan with new weapons to eliminate the menace because the general run of the police in the region is not adequate. The enemy has all the sophistication in the methods, and they use modern technology of chips to control the blasts.

It is heartening to find that India has not put the blame on Pakistan. But to name a particular organisation or an individual without suffi-

cient evidence is like saying that the terrorists are from among the Muslims. This exposes them to all types of risk because the media holds trials against them long before the real trial begins. The Bajrang Dal, an organisation of Hindu fundamentalists, should not escape scrutiny because they have been found indulging in certain incidents to see that the blame falls on Muslims, for example the attack on the RSS headquarters.

India and Pakistan have not gone very far in the Anti-terrorism Coordination Committee. Both have yet to overcome their mistrust of one another. Now that a democratic government is at the helm in Islamabad, it should not allow the army to influence policy matters. Bringing the ISI under the civil control was a good beginning. But this decision has been reversed and a status quo is maintained, with a Lt. General heading the organisation.

The People's Saarc also adopted a declaration to ask the countries in the region -- the Saarc has been expanded to embrace Afghanistan and Myanmar -- to enter into no-war pacts with one another. This, the delegates believed, would divert the funds allocated to the military to the departments work-

ing for eradicating poverty and ignorance.

Come to think of it, the official Saarc has nothing to its credit except pious resolutions and laudatory speeches. The governments have tended to live under one illusion or another -- illusion of being honest themselves. The fact is that they have never looked beyond their own territories, and have seldom assisted neighbours at the time of need. The record is full of discords and hostilities. They talk of friendship but frame their policies to harm one another. Saarc is a club which outlived its utility within a couple of years of its existence. The spirit of togetherness demanded to give, not to take. But that dream has gone sour.

The second meet at Jaipur was that of civil groups, concerned citizens and some leaders of movements which, in the words of famous writer VS. Naipaul, were like a "million mutinies." The groups constituted the Lok Rajnitik Manch (People's Political Platform) for making "political intervention" on the issues of livelihood, displacement, farm crisis and discrimination. The platform is meant to be an umbrella under which all

organisations engaged in arraying people against exploitation and fighting electoral battles will stand shoulder to shoulder with their individual identity. Together, they will confront the established political order, with which people are disillusioned. The effort is to evolve "a genuine interactive" restoring the of democratic values that formed the basis of national polity after independence.

Limited struggles throughout the region provide ample evidence of change at the grassroots. Yet, our leaders continue to indulge in the same old game of gaining ascendancy through politics of manipulation and money. Many among them are the ones who go in for ideological posturing and populist rhetoric. They have little respect for public interest or popular sentiment, except to exploit them for ensuring their own political survival.

The crisis of politics is a crisis of change. It reflects the widening gap between the base of the polity and its structure. Are the Saarc countries willing to bring about the change? Peoples have little confidence in the establishments.

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