Report No. 25

SAARC: PRESENT AND FUTURE
The Centre for Policy Dialogue (CPD), established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition front benchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.

In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include The Independent Review of Bangladesh's Development (IRBD), Governance and Development, Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System and Leadership Programme for the Youth. The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.

As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of the dialogue held at the CIRDAP Auditorium, Dhaka on May 20, 1999 on the theme of SAARC: Present and Future.

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CPD Dialogue on
SAARC: Present and Future

i) The Dialogue
A full day dialogue on the theme of *SAARC: Present and Future* organised by the Centre for Policy Dialogue was held at the CIRDAP auditorium on May 20, 1999. Abdus Samad Azad, Minister for Foreign Affairs, GOB inaugurated the dialogue. With Professor Rehman Sobhan in the chair the dialogue was attended by State Minister for Foreign Affairs, Abul Hassan Chowdhury, former ministers, senior government officials, experts, academicians and representatives of various development agencies. Dr. V.R. Panchamukhi, Director, Research and Information System (RIS), New Delhi and Dr. Mohan Man Sainju, President, Institute for Integrated Development Studies (IIDS), Kathmandu specially came to Dhaka to participate in the dialogue. The dialogue was attended by government officials, members of parliaments, distinguished policy makers, experts and academics (the list of participants is annexed).

In his speech Mr. Abdus Samad Azad, stated that SAARC countries should forge ahead by giving up the legacy of mistrust of the past to be able to solve their problems amongst themselves. He took the view that Bangladesh, India and Pakistan should solve their problems which they have inherited after the partition of the sub-continent in 1947. He pointed out that despite the nuclear arms race between India and Pakistan, they have established a bus link between Delhi and Lahore. Similarly, Bangladesh and India are also trying to establish a bus service between Dhaka and Calcutta. He urged the SAARC member countries to review their policies of confrontation in order to accelerate the present trend of cooperation in the region. Emphasising the need for a strong SAARC, Mr. Azad argued that SAARC is now at a crossroads. We now have to take stock of what we have achieved, and decide where we would like to see ourselves in the next century. He thought that scope for informal political consultations within SAARC provides a valuable mechanism for the countries to come together. He thought that regional cooperation was no longer a matter of choice for South Asia. The process of globalisation has left us with no other choices.

Professor Rehman Sobhan chaired the first session. In his introductory speech he pointed out that whether one likes it or not South Asia is now forced to come together in order to address the complex problems of globalisation. He observed that in a recent discussion, a well known South Korean economist perceived South Asia to be the major economic growth zone of the world by the mid 21st century; firstly this region has the largest concentration of population in the world and, secondly, there are potential markets and opportunities for economic growth in this region because of the unsatisfied needs of the large numbers of the poor in this region. The South Korean believed that in the next decade by upgrading its educational levels and upgrading the incomes of the poor, South Asia would emerge as a global economic leader. Professor Sobhan argued that the future prosperity of this region much depended on our capacity to free ourselves from the divisive influences of our own past.

ii) Keynote Presentation

Dr. V.R. Panchamukhi, Director General, RIS, New Delhi and former President, Indian Economic Association presented the report on the SAARC Survey of Development and Cooperation, 1998/99. Before presenting the findings of the survey he discussed the origin, context and the importance of SAARC in the South Asian region. He argued that cooperation is meant for development. It is therefore necessary to explore how cooperation can contribute to the process of development in this region. He proposed that as cooperation covers a wide ranges of issues such as trade, production, services, human resource development, globalisation and so on, the benefits and costs of cooperation needed to be carefully assessed so that cooperation programmes could be worked out as a package rather than in isolation. He also added that the potential areas for joint ventures in this region should be identified. He gave example of the gas resources of Bangladesh that could be used under joint venture projects to produce fertiliser. Taking account of the growing trade imbalance between India and other SAARC Member Countries (SMCs) he observed that the trade balance with India should not be treated as the only indicator of development of intra regional trade in this region. Because, India is the principal supplier of many raw materials at
competitive rates. These could add value in Bangladesh and be used to generate export. Thus, for example, Bangladesh adds to its trade deficit with India by importing yarn and fabrics. This is being converted into RMG for export to the US with whom Bangladesh enjoys a big trade surplus. He considered intra-regional trade as vital for enhancing effective cooperation among the SMCs. He also pointed out that SAARC region’s share in world trade has increased overtime. He argued that cooperation is needed to address various global issues.

Dr. Panchamukhi then presented the background paper for the discussion. The paper titled *SAARC Survey of Development and Cooperation 1998/99* was prepared by *Research and Information System for the Non-Aligned and other Development Countries*, New Delhi, India.

At the outset he talked about the economic growth of and future outlook for the South Asian countries in the light of the recent developments in the East Asian countries. He pointed out that during the period of 1994-97, South Asia region realised a healthy average rate of growth which was higher than the rate of growth recorded during the 1980s and early 1990s. He also reported that during the same period the extent of variability of the growth rates also declined further. Dr. Panchamukhi mentioned that though SMCs have largely escaped the direct impact of the East Asian currency and financial crisis however, their growth prospects were affected adversely by the crisis. Some of the channels of the impact were as follows:

1. As a result of the crisis, the affected East Asian economies have shrunk significantly. This will also shrink markets for SAARC countries’ exports in many of the East Asian countries.

2. SMCs compete with the affected countries in East and South East Asia in a number of products lines. Because of sharp depreciation of currencies in the East and South East Asia, their products would now be more competitive and might adversely affect SMCs’ exports.

3. An indirect consequence of the East Asian crisis is that the growth prospects of OECD countries have also been affected adversely. As a result of contraction of their
markets in Asia, the growth of the world economy in general would be affected adversely, which in turn would affect the demand for exports of SMCs.

(4) Living in the neighbourhood of the affected countries the flow of portfolio investments to SMCs would be affected adversely as the confidence in the region's prospects has been shaken and foreign institutional investors might divert their attention away from the entire Asian region.

(5) Some of the East and Southeast Asian countries have emerged as significant sources of FDI for the SMCs. Hence, FDI inflows to SMCs in the following years would be adversely affected as the East and Southeast Asian countries grapple with their own problems.

Dr. Panchamukhi then identified the causes of the East Asian crisis. According to him, a rapid build up of private debt, excessive liberalisation of the financial sector, a weak banking sector, poor governance and political instability were the main causes of the East Asian crisis. Drawing lessons for the South Asian countries he argued that South Asian countries should go slow on capital account convertibility whilst liberalisation of the economy needed to be accompanied by adequate safeguards as well as checks and balances on the activity of the private sector. He also argued for selective and strategic globalisation and a need for greater transparency in governance and financial dealings.

Dr. Panchamukhi then discussed the issues of savings, investments and the resource gap in the South Asian countries. He pointed out that savings and investment rates in the SMCs were very low in comparison to the rates prevailing in other parts of Asia, especially in the East Asian countries and also tended to fluctuate widely on a year to year basis. Again there was considerable variation across countries in the savings and investment rates as well as in their changes.

Dr. Panchamukhi then discussed the structural transformation of the South Asian economies. He argued that the share of agriculture in GDP has declined steadily, while sectoral shares of industry and services have increased significantly in almost all the South Asian countries. It is noteworthy that despite the fall in its relative importance over the years, the performance
of agriculture continues to influence the overall growth rate of GDP in the South Asian countries. He also observed that growth has been sluggish in the agricultural sector whilst the growth in the industrial sector has remained much below its potential.

Coming to the issues of budget, money supply and prices Dr. Panchamukhi argued that central government expenditure as a percentage of GDP in the SMCs has been consistently high. On the other hand central government revenue as a percentage of GDP has increased over time and there has been greater stability of this ratio during recent years. However, the ratio of the central government budget deficit to GDP has been high and volatile. Some of the SMCs have managed to contain budget deficits of the central government as a proportion of GDP in the 1990s in comparison to 1980s. However, the advantages of a lower budget deficit ratio seem to have been neutralised by relatively greater instabilities in the rate of growth of money supply observed during the 1990s. SMCs have also not been consistently successful in keeping inflation within reasonable levels during the process of structural adjustment in the recent period.

On trade performance and regional trade cooperation among the South Asian countries he stated that intra-regional trade in the SAARC region has been growing but the pace has been rather slow. He pointed out that the poor performance of intra-SAARC trade flows was due to several structural as well as policy induced constraints. Structural constraints were manifested in low export supply capabilities, lack of investable resources due to a low savings rate, and technological backwardness. The policy induced constraints include the presence of trade barriers, inadequate trade facilitation mechanisms and regulated investment regimes. He argued that for the transition from SAPTA to SAFTA by the targeted date an adequate understanding of various issues pertaining to trade imbalance, rules of origin, and the benefits of importing low unit value items from within the region was required.

Addressing the issue of trade imbalances among the SMCs, Panchamukhi suggested that this trade issue should be approached in a pragmatic manner. Larger countries' exports to smaller countries' could thus be viewed as a catalyst in promoting industrialisation in smaller countries' as well as stimulating the overall development process. He argued that viewing
imbalances from a negative connotation could become counter productive to the process of trade integration within the SAARC region. He observed that the approach to imbalances required an agenda to build production and export supply capabilities in the smaller countries of SAARC if the trade imbalance were to be reduced. Citing examples from Sri Lanka and Pakistan he also stressed that the cost of non-cooperation within SAARC could be high. He observed that SMCs were exposed to higher costs due to possible extra-regional sources of supply for many of their import requirements.

Panchamukhi further proposed for establishment of a SAARC investment area which would encourage the business community of the SAARC region and also the international investment community to explore the possibilities of finding optimum locations for their investment activities in different countries of the South Asia region. He highlighted the importance of technological cooperation among the SAARC countries. Building a regional technological base in different phases would meet the challenges of technologies and strengthen export supply capabilities within SAARC.

Dr. Panchamukhi moved to address the issue of external resource flows into the SAARC region. He observed that the relative dependence of the SMCs on external resource inflows has generally declined over the years. The bulk of the external resources attracted by the SMCs have been received in the form of overseas grants, debt commitments and to a smaller extent of FDI inflows. Although the indebtedness of most SMCs has increased, their debt service ratios have been kept within manageable limits due to the relatively softer terms on which external resources have been accessed, particularly by the least developed members of SAARC. SMCs also have improved their share in global FDI inflows received by developing countries in the 1990s. This growth in FDI inflows to the SMCs is, however, largely accounted for by India and Pakistan. The smaller and lesser-developed economies in the region have received insignificant amounts of FDI, notwithstanding considerable progress by them in liberalisation of their economic policy over the past decade.

Dr. Panchamukhi pointed out that the scale of science and technology (ST) activity in almost
all the SMCs measured in terms of the proportion of national income spent on R&D activity or the proportion of population engaged in such activity remained marginal. He thought that with the growing stringency of the IPR (Intellectual Property Right) regime, technology transfers to third world countries which used to take place as a matter of routine may become a grey area where such IPR becomes contested territory. In order to create conditions for more dynamic, broad-based, and sustained industrial development, SMCs need to take a collective view of the implications of their commitments at the forthcoming WTO session in the context of their agenda for cooperation in science and technology.

Panchamukhi also argued for development of environmentally sound technologies for sustainable development in this region. The environmental problems in the SAARC region are enormous and interrelated. The available estimates show that the natural resource degradation is a serious problem in the region. There is a need for urgency to strengthen SAARC initiatives on environmental issues through effective cooperation among member countries. He observed that the appropriate environmental awareness and education programmes could help in addressing issues of deforestation and bio-diversity loss. The specific policy recommendations should include measures to avoid fragmentation of those ecosystem which span national borders and the need to explore methods to develop non-consumptive uses of natural resources along with initiatives to enhance the climate monitoring capacity of the SMCs. Appropriate steps also need to be taken to develop substitutes for CFCs through research and development programmes.

On gender and development Dr. Panchamukhi observed that reducing the very wide gender gaps that exist in South Asia should be the foremost priority of the countries of this region. Such initiatives should be in those areas which have been recognised as the core elements in improving the status of women, viz. health, education and economic empowerment of women. The SMCs must commit themselves to provide necessary resources and jointly promote action to end gender discrimination.

Dr. Panchamukhi finally talked about the need for a visionary perspective to cooperation
among the SAARC countries. He pointed out the prospective areas of cooperation for realising a more integrated network of production, trade, investment and technology in the SAARC region. He suggested that various intensive studies would need to be initiated addressing issues pertaining to transition to SAFTA, rules of origin, creation of a SAARC Investment Area, technological partnerships, vertical integration of production and exports in SAARC and cooperation for sub-regional development.

### iii) Comments on Keynote Address

**Comments by Dr. Toufiq Ali**

Dr. Toufiq Ali, Additional Secretary, Ministry of Foreign Affairs, appreciated the Survey Report for its contribution to providing basic economic data on SAARC and for covering many other areas such as gender and development as well as environmental issues, which do not readily lend themselves to statistical constructs. He admitted that this was indeed an invaluable document for a researcher, for a historian, and for those who wish to focus on particular issues.

He thought that the Survey Report has given limited importance to the implication of the nuclear tests and also on the economic impact of this event, on both India and Pakistan. India, because of its size and stage of development, has quickly been able to weather the storm. But, Pakistan was still facing problems and her Government was now sitting with foreign banks to renegotiate the terms of its foreign currency loans. This is a direct economic outcome of the nuclear explosions. The impact on both the countries has not been covered at all in the analysis. Dr. Toufiq Ali also argued that the nuclear explosions have not only affected India and Pakistan, but the other neighbouring countries in this region who also share the burden.

Challenging the conclusion of the Survey Report which sees the economic crisis of East and South East Asia as indirectly associated with fears of world recession, Dr. Toufiq Ali argued that questions of recession have been on the cards even before this crisis. For some years, most (not all) countries in Europe have been facing severe unemployment and other common
problems. It was predicted that the US economy could not maintain its high growth rate. Now, of course, with the latest US inflation figures, there is a possibility that the interest rate will rise soon, acting as a break on growth.

Dr. Ali observed that when examining the impact of the East Asian crisis on the SMCs there were problems of comparison due to the diversity of exposure of SAARC countries to this crisis. He argued that the only two countries possibly affected due to the shrinking markets for SAARC exports to East Asia were India and Pakistan. Yet the economic analysis presented in the Survey was not focused enough to establish the impact of crisis on SAARC trade. On increased competition from East Asia for SAARC exports to third country markets, he thought that the analysis presented in the Survey has to be somewhat more thorough before we could reach any firm conclusion. Many of the export products of the South East Asian countries had been priced in US$ even before the crisis, so that there was no scope for price cuts due to currency depreciation. Therefore, product to product analysis was required to understand which exports from South Asia would be affected. On the issue of slowing down of the world economy, he agreed with the Survey that some economies have indeed slowed down. But, there is a contrary view that the US economy has been doing well precisely because inflation has been kept low (in the face of rising wages) on account of cheap imports from the developing countries.

On the flow of external resources – Ali was of the view that the Survey is more pre-occupied with portfolio investment which may be important to one or two countries, but not to all members of SAARC. Quoting a statement from the Survey, "The cumulative impact on these accounts could be quite considerable", he argued that without even examining the impact of the East Asian crisis such a judgement could at best be speculative. However, he thought the policy lessons presented in the Survey were sound though not necessarily supported by the analysis in the report. He observed that the approach of the Survey was one of extreme conservatism and an argument for "Managed Globalization".

He observed that the discussion on budget, money supply and prices has been presented
lucidly and factually though criticism of governmental policies has been very mild. He suggested that two elements be included in the next survey: (a) private sector activity in banking, and private sector borrowing, particularly for term-lending, and (b) cost of capital, including interest rates, with a comparison among SAARC countries.

While commenting on the paper he pointed to the importance of a deeper analysis of the costs of non-cooperation. Considering rules of origin as fundamental to the interests of the smaller countries' industrialization processes he thought that its implication on the smaller economies due to opposition by the larger countries has not been considered in the Survey. He also called for further discussion on the role of multinationals in the SAARC region. Finally, he mentioned that the concept of export-led growth should perhaps be examined in greater detail because its implications for smaller economies remains of importance.

Comments by Professor Salahuddin Ahmed

On the recent East Asian crisis Professor Ahmed from North South University stated that those countries who have invested in internal technological development would be able to emerge from the crisis with less damage to their future economic prospects. He perceived South Korea as a potential crisis-breaker, whereas Thailand and Malaysia might suffer due to their poor investment in internal technological development. He observed that such crises was very much a manifestation of capitalism and technological upgradation could help in overcoming the crisis. He also emphasised the need to protect domestic industries from premature external competition.

He suggested the need for detailed investigation of the major policy changes in this region. Regarding the WTO he was interested to see what would be the impact of the WTO in this region. He observed that the exchange rate policy was a vital issue in this region and it should be handled with care.

He thought inflation was a major issue for the development of the Bangladesh economy. He
also emphasised that the emergence of the Euro and globalisation could be of significance for Bangladesh. Arguing that the pattern of industries in the SAARC countries was complementary to each other he was in favour of technological cooperation and marketing collaboration among the SAARC countries.

**Comments by Professor Ali Rashid**

Professor Ali Rashid, Member, Tariff Commission observed that intra-SAARC trade is only 3-4 per cent of total trade of the region. We, therefore, need to look at the root causes of such low intra-SAARC trade. He considered the lack of complementarities as one of the factors responsible for slow growth of intra-regional trade. The bulk of exports of SMCs was made up of *other manufactures*, including textiles, garments and leather goods. The bulk of imports was also manufactured goods. Therefore, the SMCs have a comparative advantage and disadvantage in similar areas. He argued for joint ventures on the basis of regional comparative advantage. He was in favour of intra-industry trade and also intra-firm trade as dictated by the *Flying Geese* model. He welcomed Indian joint-venture investment in Bangladesh with buy-back arrangements and stressed the need for special fiscal and other incentives to attract such Indian investment. He observed that the export price of cotton from India to Bangladesh was higher than its domestic price in India and thought that such price discrimination needs to be eliminated within a more cooperative economic environment between SMCs.

Professor Ali Rashid identified the structural constraints such as, low export supply capabilities, shortage of investable resources, technological backwardness, as being responsible for the slow growth of intra-SAARC trade. These factors would inhibit not only intra-regional exports but also overall export growth. He identified the lack of market access as another constraint. Though there are attempts to remove NTBs these remain by far the most significant barrier to trade. Such NTBs have survived due to the gap between policy decisions and its implementations within SAARC. He thought that LDCs such as Bangladesh should be given zero-duty market access on a non-reciprocal basis. He mentioned that there are certain policy induced constraints for the slow growth of intra-
regional trade. He considered transit facilities as playing an important role in expanding intra-regional trade. However, transit facilities among SAARC countries have been governed by short-term bilateral trade and transit treaties and arrangements. He suggested that a common regional transit treaty, which would expand intra-regional as well as extra-regional trade should be negotiated.

Professor Rashid focused on the issue of the large trade imbalance of the small SMCs with India and noted that Bangladesh’s trade deficit with India has risen sharply from about 79 million dollars in 1987-88 to 1118 million dollars in 1997-98 – a 13-fold increase in 10 years. This was really a matter of concern. This trade deficit originated in the limited export supply capacity of Bangladesh. He stressed the need for intra-SAARC investment flows to overcome such export supply bottlenecks.

Professor Rashid also considered *rules of origin* as a serious problem for LDCs who were highly import-dependent. He argued for concessional *rules of origin* for LDCs, which would augment their intra-regional trade. He also suggested the need for strengthening of trade infrastructure for better transportation and communication facilities, harmonization of customs procedures and valuation, adoption of a regional approach to standardization, measurement and quality control.

Finally, he proposed a common stand on WTO issues in the forthcoming meeting of SAARC Commerce Secretaries. He also stressed the need for a change in the mind set and the need for a concrete strategy to implement meaningful programmes for cooperation.

**iv) Discussion (Session I)**

Taking part in the discussion Dr. Sadequl Islam, Visiting Fellow, CPD noted that we should be aware of whether trade blocs are causing trade diversion or not. He observed that the performance of SAARC countries in terms of intra SAARC-trade is poor. He also noted that the regional concentration index for the manufacturing sector is declining. He argued for a sectoral approach rather than a product by product approach for ensuring a more effective
outcome of liberalisation of trade within SAARC.

Mr. M. A. Muhit, former Finance Minister and Chairman, POROSH, commented that though we have a large number of SAARC technical committees, there was no effective integration among them.

Mr. Jamaluddin Ahmed, former Deputy Prime Minister, pointed out that the Survey report focused exclusively on economic issues. He suggested that the social sector should receive the first priority in the SAARC agenda. According to him the development registered in the SAARC region, as had been reported in the Survey report, was not, in fact, induced by the SAARC process but originated from the dynamic of individual country development. He observed that no single industrial establishment, particularly in Bangladesh had been set up which could be attributed to the SAARC. This weak impact of SAARC needed to be analysed since this was a region comprising one and half billion of people. He noted that the relationship between SAARC member countries was deteriorating as the nuclear power race between India and Pakistan was assuming alarming proportions. He observed that relations among the SAARC countries suffered from a lack of candour which was and not the case in ASEAN and the European Union where issues were discussed up front.

In response to Mr. Jamaluddin’s comment on ASEAN Professor Sobhan, Chairman, CPD said that ASEAN was not a good example of openness in inter-state consultations. It was to be noted that there had been a complete failure of the ASEAN countries to consult among themselves during the critical phase of the recent financial crisis in the region so no collective response to the crisis could evolve. Each country of ASEAN thus had to face that crisis individually and thereby made themselves more vulnerable to the contagion effect from their neighbours. The IMF could thus more easily impose solutions on each country.

Mr. Waliur Rahman, Director, BILIA, noted that there was a sizeable potential in the SAARC region as well as a plethora of difficulties constraining the realisation of this
potential. He thought that the Survey report should have discussed the economic and social consequences of the arms race among the SAARC countries.

Professor Muzaffer Ahmad of IBA observed that technology could be a potential area for regional cooperation. But, India’s achievements in developing jute technology were not shared in the region, he alleged. Citing the case of *terminator* seeds which pose a threat to agricultural development in Bangladesh he called for monitoring technology transfer in this region. He also stressed the value of cooperation for the development of the education sector in this region.

Dr. Hafeez Siddique, Pro-Vice Chancellor, North South University argued for changing attitudes of the member countries. He observed that India tended to imposed decisions on smaller countries. He pointed to the importance of developing the physical infrastructure of the region to facilitate joint venture investments within SAARC.

Mr. Sharif Afzal Hossain, President, Bangladesh Chamber of Industries (BCI), urged for cooperation among SMCs for poverty alleviation and to enhance the purchasing power of the poor in this region. He also argued for expanding the manufacturing base in the SMCs. He suggested that comparative economic studies were needed to review the distribution of benefits to SMCs arising out of programmes for financial and technological cooperation.

Ms. Laila Rahman Kabir, former President, MCCI, and former President, Bangladesh Cha Sangshad stated that the business community in Bangladesh believes that trade plays a crucial role in promoting cooperation among the SMCs. Therefore, trade has to be dealt with very seriously so as to motivate investment and other forms of cooperation. She argued that obtaining market access to the larger economies of SAARC was very important for the smaller SMCs, since the lack of market access may hinder the export growth of the smaller SMCs. She urged for consideration of these factors in relation to trade liberalisation. She thought that it would be much better to have a *SAARC Tea Association* before a *SAARC Tea Council* where SMCs could sit down and discuss various problems regarding tea exports and imports. She was of the view that India should set up a special investment fund to provide
funds to Indian investors who might be persuaded to invest in other SMCs.

Mr. Amir Khasru Mahmud Chowdhury, Member of Parliament and President, Chittagong Stock Exchange, observed that for ensuring effective cooperation in trade the first priority should be the access to the market. He cited the example of the development of the RMG sector in Bangladesh which has been facilitated by having market access in Europe and America through the GSP and the quota system. He placed importance on the development of transportation facilities among the SMCs. He also argued that the portfolio and FDI flows within the region should be in the form of additions to the present stock of investment rather than buying up equity in sunk investments.

The first session ended with a response from Dr. Panchamukhi. He pointed out that the basic idea behind producing such a report was to generate debate. He observed that in the absence of a multilateral free trade agreement India had negotiated a bilateral trade agreement with Sri Lanka. Some 100 items had been identified for tariff withdrawal. He proposed that all the SMCs should sit together to reach a general agreement on withdrawal of NTBs, with India as the most developed SMC, taking the lead in withdrawing their NTBs. However, trade alone was not enough for ensuring effective cooperation which remained part of a long term process of political and economic interaction amongst the SMCs.

**Session II: SAARC Vision beyond the Year 2000**

Mr. Abul Hasan Chowdhury, MP and State Minister for Foreign Affairs presided over the session. He initiated the session by observing that the SAARC process inspired hope for the development of this region. He suggested that all member countries have to work both intensively and sincerely to make SAARC a success. He perceived that India, as the most developed SMC, had a major role to play in ensuring the success of SAARC.

v) Keynote Presentation
Professor Rehman Sobhan, Chairman, Centre for Policy Dialogue, initiated a dialogue on *SAARC Vision Beyond the Year 2000*, a report which was prepared by the *SAARC Group of Eminent Persons* (GEP) established by the ninth SAARC Summit of 1997 at Malé which had been presented to the tenth summit meeting in Colombo in 1998. He pointed out that the GEP report had not been published and that as a result it had not had public attention or impacted on public discussion on SAARC. This was regrettable as the GEP report was designed to project a vision for the future of SAARC. Since the report was commissioned by the heads of state it was not designed as an academic document but was designed to influence both policymakers in the SMC as well as to promote public debate. Given the potential impact of such a report it needed to be widely discussed throughout the SAARC region since the future of SAARC was not the exclusive concern of the heads of state but had to be determined by the consent of the citizens of the region.

Professor Sobhan called for an evaluation of the ongoing programmes being carried out by SAARC to provide a realistic assessment of the achievements and problems of SAARC. He pointed out that in the original charter of SAARC there was no provision for economic cooperation. But later it was felt that without addressing economic issues no effective cooperation could be realised within SAARC. Economic issues were not effectively placed on the SAARC agenda till the end of the 1980s so that in assessment of progress registered in the area of economic cooperation within SAARC we should have some perspective on how long this process has been underway in South Asia compared to ASEAN.

The fact that SAARC had within a span of 10 years committed itself to move towards SAFTA by 2001 was a remarkable development even if this target remained somewhat unrealistic. Sobhan informed the meeting that a series of technical committees had been set up by SAARC to share information and to coordinate activities in priority areas identified by member countries. To provide a framework for cooperation, two Conventions have been concluded, namely the *SAARC Regional Convention on Suppression of Terrorism* (1988) and the *SAARC Convention on Narcotic Drugs and Psychotropic Substances* (1990). A *SAARC Food Security Reserve* (SFSR) has also been established to provide for a reserve of
food-grains to meet situations arising out of emergency food shortages in the SMC.

Sobhan observed that though a SFSR had been established it has not been utilised in case of emergencies within the SMC. He gave an example of the recent devastating floods in Bangladesh when Bangladesh faced a major threat to its food security following the flood which had damaged the principal rice crop. At that time India had official foodstocks of around 20 million tons and was the major commercial supplier of food grains within the SMC. However, the presence of the SFSR remained unnoticed and unused by both the governments of India and Bangladesh. Instead private importers in Bangladesh imported nearly 2 million tons of rice from India on a commercial basis, in the wake of the floods. Whilst such a process was a positive manifestation of economic cooperation in SMCs through the market place he also called for the activation of the SFSR to serve as a supplement to market transactions. He suggested that the SFSR facility be publicised and modalities for its activation be discussed at the official level in anticipation of future food security emergencies.

He was of the view that during the past 12 years that SAARC has been operationalised it has some important achievements to its credit. A number of institutions have been set up to serve SAARC and they have been attached to different national institutions. These, in general, have succeeded in fostering contacts between experts facilitating exchange of information, sharing of experiences and compilation of data. These exercises may appear modest in their impact on the process of cooperation but they have contributed towards the development of an agenda of cooperation on some of the most pressing socio-economic concerns relating to poverty, environment, technology, etc. in the SAARC region. However such official level consultations were still a long way from graduating into operational programmes of cooperation.

Sobhan argued that in spite of a great deal of formal activities little success has been achieved to impact on changes in the quality of life of the mass of the people of the SMCs. He pointed out that in the Dhaka Summit of 1993 the SAARC Commission on Poverty
Eradication had submitted its report and the SAARC leaders had committed themselves to the eradication of poverty by the year 2000. In practice however little progress had been registered in any state towards eradication of poverty. He observed that in subsequent summits no mention was made of this commitment or progress reported on attaining the summit goals nor were any reforms programmes underway to realise this target. He thought that as Mr. Bhattari was the Chairman of that SAARC group and was now about to take office as the Prime Minister of Nepal, it would be interesting to see how his commitment in the SAARC group translates into a reality as he was going to have at his disposal the power of the state to implement his commitments to poverty alleviation with the SMC.

Sobhan observed that in the SAARC committee meetings there was little scope for taking operational decisions. The joint secretaries of the SMCs who served these meetings usually come carrying with no clear brief from their government. Nor did the governments send officials who have any vision or decision making capacity, to take the SAARC process forward. Therefore the SAARC Secretariat was the only body which could pursue the SAARC agenda. But this Secretariat was built in a dysfunctional manner with little authority, resources or expertise at its command. It was not surprising that of all the Secretariats of various regional grouping the SAARC Secretariat was one of the most ineffective. Fortunately, the SAARC process did not depend exclusively on official efforts. Sobhan pointed out that people to people cooperation and also professional interaction at the level of civil society was taking place among the SMCs at an accelerated pace. Civil society participation in responding to crises within a country has also increased not just at the national level but at the regional level where civil society bodies in one country were responding to appeals of their counterparts in other South Asian countries. As a result a sense of community among civil society groups within SAARC has emerged. This has happened not because any government has a part to play but is happening at a people-to-people level. There is a growing realization of a common destiny among the civil society of South Asia.

Sobhan informed the house that the GEP report has argued for a realistic attitude towards free trade. The target for formation of SAFTA by 2001 set at the Male summit in 1997 does
not appear to be realistic due to the lack of preparation in the member countries for realising such an ambitious goal. Therefore, the GEP report has argued for a longer time period for freeing trade during which emphasis needed to be placed on preparing the economies of the weaker SMCs to derive the free benefits of SAFTA by expanding their export capacities.

Sobhan noted that in practise trade liberalisation had been underway in the region for some time. Nepal and Bhutan have free trade with India from quite some time. In the case of Bangladesh, a process of trade liberalisation as part of the World Bank agenda of structural adjustment reforms had been underway since the mid 1980s and had been accelerated in the beginning of the 1990s under the elected BNP regime. The trade liberalisation had opened up Bangladesh’s market to Indian exports and, as a result we had witnessed an exponential growth of imports from India in the first half of 1990s whereby India is now Bangladesh’s largest source of imports. These official figures however only tell part the story. Unofficial imports from India have been sizeable and growing in volume over the last 20 years and even longer. A BIDS study indicated that in 1994 unofficial imports from India to Bangladesh were higher than officially reported imports. This meant that imports from India were close to US$2 billion which was an end result of the liberalisation process. Bangladesh and Sri Lanka which have also increased their imports from India have moved ahead more rapidly than India in liberalising their imports. Since it was not feasible to reverse this process what was needed for Bangladesh and Sri Lanka to also have full access to the Indian market. Sri Lanka had already initiated a fast-track bilateral move towards building a free trade area with India. Sobhan suggested that Bangladeshi and Indian businessmen should put pressure on the Indian government to provide comprehensive unrestricted access for Bangladesh exports to the Indian market.

Recalling that under the WTO agenda free trade area should be in place by 2005, any move by India to open up its market to Sri Lanka and Bangladesh would only anticipate what was going to happen anyway. Even if the GEP target of a SAFTA by the year 2010 in case of the least developed member states and by 2008 in the case of the other member states was deemed as a more realistic target, he observed that to put in place such a process is a long
and painful process. A number of intervening mechanisms had to be put in place with care and sensitivity to the concerns of the weaker countries. He urged the SMCs to at least begin a process of negotiation for SAFTA and to identify specific measures needed to enable weaker economies to cope with a freer trading regime within the SMCs. Giving an example of Bangladesh where around 50 percent of revenue come from tariff and tariff elimination under SAFTA would lead to sizeable revenue reduction, he suggested that this would require some revenue compensating measures to help Bangladesh cope with the revenue loss. A similar process of revenue compensations had been used in the EC to help such countries as Spain, Portugal and Greece to cope with revenue loss as a result of their joining the EU free trade area.

Sobhan furthermore asked for massive investment in the infrastructure of the SMC’s LDC. He cited the example of the European Union where large fund was put in place specifically for financing infrastructure development in the less developed EU member countries to enjoy them to strengthen and diversify their economies. He also observed that Bangladesh requires massive investment in the industrial sector to establish a more diversified industrial and export sector. For this access to the Indian market was of great importance so as to attract FDI to Bangladesh. He thought that the way by which Mexico exploited market access to the USA under SAFTA by attracting billions of dollars of FDI, Bangladesh and Nepal should also exploit their access to Indian market to attract investment from abroad. Professor Sobhan mentioned that the GEP report argued for the establishment of a South Asian Economic Union (SAEU) by the year 2020 in successive stages. By 2020 free trade in goods should be backed up by freed up movements of capital and labour in the SMCs. Such a liberalisation of trade and services needed to be supplemented by moves to harmonise macro-economic policies. For example, the SMCs should avoid competitive depreciation of currencies and move towards some form of exchange rate harmonisation.

Sobhan stressed the need for cooperation in infrastructure development in the SMCs. He pointed to the need to integrate the transport systems of the SMCs. According to him the
Dhaka-Calcutta bus service was a significant step forward in this regard as was the Lahore-Amritsar bus and train service. But this was only a partial step. What is also is needed a comprehensive process of integration within all SMCs to permit for unrestricted flow of people and goods within the region and beyond East West and Central Asia. Within such a transport network Bangladesh could emerge as a link between South Asia and South East Asia and Yunnun province of China and urged Bangladesh to exploit this advantage effectively. He argued that passport and visa systems have to be substantially eased to facilitate intra-regional trade and communication. On the question of the development of the energy sector he reported that multinationals are coming in to make huge investments in the energy sector in this region. Rather than leave the initiative for promoting interaction in the energy sector with the SMCs to these multinationals we should, within SAARC, plan out our own agenda for emerging cooperation culminating in a SAARC energy grid.

Sobhan further observed that recommendations were made in the GEP report that the status and privileges enjoyed by the Secretary General of SAARC Secretariat should be upgraded to that of a minister. This was seen as part of process of augmenting the authority of the SAARC secretariat and initiating a more proactive agenda to promote cooperation within SAARC, Sobhan concluded by saying that human development in SMCs should achieve at least the levels attained by Sri Lanka, Maldives or Kerala. He observed that most of the agenda of SAARC was not being effectively or expeditiously realised. He called for an effective negotiating strategy among the SMCs and a common negotiation strategy of the member countries at the WTO in the next round of negotiations beginning in Seattle.

vi) Comments on Keynote Address

Comments by Dr. Mohan Man Sainju, President, IIDS, Kathmandu

While commenting on Sobhan’s paper Dr. Sainju pointed out that the main issues prevailing in South Asia have been sidelined in the report of the SAARC Group of Eminent Persons. First of all, both in the presentation of Professor Sobhan and in the report economic issues have received the major emphasis. He also questioned the SAARC charter where economic reform was prioritised in order to engineer economic growth in the belief that economic
growth would alleviate poverty in this region. He argued from the experiences of other developing countries that mere economic growth was not sufficient for eradication of poverty. He noted that in the Report the poverty alleviation issue has not received adequate priority. Therefore, the centrality of the issues have been lost in the Report. He thus called for much more attention on poverty alleviation and the presence of an effective political will in this regard.

Secondly, he found that the problem of mistrust among the SMCs has also been sidelined in the Report which needed to be substantively addressed. He called for policy decisions within SAARC on the basis of unanimity. He pointed out that the GEP report should have suggested a mechanism for political consultation in order to eliminate mistrust among the member countries.

Thirdly, he observed that the report had not taken account of how to incorporate SAARC concerns into the agendas of major political parties in the member countries. He cited the example of Nepal where none of the political parties in their manifesto has anything to say on SAARC. Unless the political players addressed the issue of SAARC and supported the process of cooperation no significant progress would be registered in realising such ambitious agendas of cooperation. He thus suggested that as a priority exercise the GEP report should be publicly disseminated so that the public should be made aware of its recommendations.

Finally, he stated that the report was silent about the bureaucratic process which in many cases eroded the commitments made by the political parties in this region. He called for a guideline to deal with the bureaucrats and to change their mindset if both domestic reform and South Asian cooperation were to move ahead.

Comments by Professor Nurul Islam
According to Professor Islam there are three objectives driving regional cooperation: (i) learning from each other (ii) developing a common strategy and (iii) programmes for economic cooperation. He noted that the third objective appears to have dominated the GEP report. He argued that Bangladesh, Bhutan, Nepal and Maldives should be treated separately from other SMCs as they are least developed countries in this region. He discussed the differential economic structures prevailing in the countries of South Asia and pointed out that India exercised a dominant presence in the SAARC economic region. Citing examples from NAFTA and comparing it with SAARC he observed that there appears to have been perceptual inadequacy guiding the negotiations among the SMCs on issues of economic cooperation.

Islam suggested that Dr. Panchamukhi should in future calculate not only the costs of non-cooperation but also demonstrate the benefits of such cooperation. He cited the example of European Union where its beginning was marked by the emergence of the European Steel Community. He was of the view that Bangladesh and other least developed South Asian countries should have access to the Indian market for their products in order to derive benefits from economic cooperation.

Islam was of the opinion that trade liberalisation in Bangladesh has taken place not within the prescriptions of the WTO, but by the pressures from the donor community as part of the structural adjustment reform process. As India still retained NTBs mostly on import of finished consumer goods, this inhibited access to its market by other SMCs. The resultant asymmetrical approach to trade liberalisation with India may thus contribute to a process of deindustrialization in Bangladesh.

He proposed as possible solutions to the problem of asymmetrical liberalisation that: (i) there should be preferential access to Indian market at least for LDC, SMCs (ii) India will have to liberalise her external sector on the lines directed by WTO, and (iii) India will have to more rapidly liberalise its import for other SAARC countries compared to the rest of the world.

Finally he expressed his pessimism regarding civil society in Bangladesh. According to him
our civil society was totally unable to change or at least influence the policies at the national level let alone the policies at the regional level.

**Comments by Dr. Panchamukhi**

Panchamukhi observed that the report tried to do too much, bringing everything under one umbrella. The GEP would have done better to prioritise some issues. He also criticized the report for its textbook style of sequencing of the issues, which rather needed to be sequenced on the basis of priority attached to each of them. He further argued that shifting the target for SAFTA tended to have a damaging effect on the process of liberalisation in this region. He pointed out that rationalisation of tariffs and NTBs in India began in 1977, long before the WTO agreement. Moving towards an economic union as was envisioned by the report was somewhat unwarranted because of difficulties implicit in this process. He noted the SFSR has not received appropriate importance and there has not been any withdrawal from the SAARC Food Reserve. He pointed out that the report has put much more emphasis on the SAARC Secretariat whereas strengthening the work programme was more important. He also admitted that the importance of access to Indian markets for Bangladesh was of utmost importance for Bangladesh. He called for strategic combination of projects in this region.

**vii) Discussion (Session II)**

Citing example from the Franco-German Council Dr. Imtiaz Ahmed, Department of International Relations, University of Dhaka, argued for changes in the entire curriculum in education in the SAARC region in order to highlight the importance of cooperation among SMCs. He noted that the report has not given the necessary emphasis in this regard on the role and quality of education. He also pointed to the importance of the migration issue, particularly the issue of illegal migration which received inadequate attention in the report. He observed that insecurity was growing in this region and this suggested the need for a common security strategy. He was of the view that looking at the whole problem from a more decentralised perspective could help solve the problem of big vs. small states in this region. In support of his argument he proposed that Bangladesh, Bhutan, North East India
rather than the whole Indian state and Nepal can go for sub-regional cooperation.

Dr. Binayak Sen, Senior Research Fellow, BIDS, suggested that each country should go for learning the best practices in this region. He gave the example of the micro-credit programme in Bangladesh and observed that this micro credit programme has been exported by Bangladesh to 38 different countries, but not significantly to the other South Asian countries. He also argued for highlighting the interdependence among the SMCs, because a decision taken in one country in this region affects the lives of people in other neighbouring countries. He enquired about why the early flood-warning system has not been working in this region. He was in favour of reducing military expenditure and deceleration of the arms race in this region. Cooperation should be registered not only at the state level but also at the decentralised level. Finally he suggested that since the border is open then we should not put undue emphasis on having market access, rather efforts should be made to develop our own economy.

Mr. Enayetullah Khan, Editor, The Holiday, observed that major disagreements at the political levels among the South Asian countries acted as a constraint in building effective cooperation among these countries. He cited the example of ASEAN where a common political stand among the member countries against the expansion of the power and ideology of the communist states of China and Vietnam contributed a unifying influence on ASEAN. He was of the view that South Asia has now become a free trade region for India. In this context he thought SAARC to be much more relevant for replacing bilateral trade with multilateral trade. Mentioning that India is pushing Bangladesh to give transit for the access to her Eastern states, he called for treating the transit issue not just on a bilateral basis but as part of a process of liberalisation of transit throughout the South Asian region as a whole. He finally urged for sharing resources as well as for joint water management etc. among the SAARC member countries.

Mr. Abul Hassan Chowdhury, chair of the session thought that SAARC should be designed to serve the people of this region. He stressed the importance for learning from the ASEAN
experience. He was of the view that India as the largest country bears the major responsibilities to make SAARC a success.

The final observation was made by Prof. Rehman Sobhan who admitted that the agenda of poverty alleviation did not receive priority in the GEP report. He pointed out that the GEP took the view that poverty alleviation had already been addressed in the special committee set up by the SAARC Summit so that the GEP did not do much more than draw attention to the heads of state of SAARC to honour their commitments to eradicate poverty. The point at issue was to recognise that eradication of poverty was a priority agenda not just for SAARC but for each country. In the final analysis SAARC could do little to eradicate poverty which was the responsibility of individual governments. Thus he argued that the GOB should prioritize poverty eradication in its own policy agenda and should use this as its message for the next SAARC Summit where it should use its influence on other heads of state to move from rhetoric to substance in the war against poverty. On the broader issue of addressing the long term strategies on the future of SAARC, he suggested that within Bangladesh a cabinet sub-committee should be asked to review the report which should also be addressed by the relevant Parliamentary Committee. The State Minister Mr. Abul Hasan Chowdhury was invited to place the GEP report before the cabinet as well as to use the initiative of the Bangladesh Foreign Ministry to have the report discussed internationally at the Foreign Ministers level.
Annex A

Inaugural speech by the Chief Guest, Hon’ble Minister for Foreign Affairs, GOB
Mr. Abdus Samad Azad

Mr. Chairman
Distinguished Guests
Ladies and Gentlemen

Assalam Walaikum,

It gives me great pleasure to participate in your dialogue on “SAARC: Present and Future” organised by Centre for Policy Dialogue. The CPD has been playing a leading role in organizing dialogues on issues of national, regional and international concern. These sessions provide opportunities for researchers, scholars from home and abroad, former ministers, policy makers and practitioners to interact with one another. It was my pleasure to listen to Professor Rehman Sobhan, Dr. V.R. Panchamukhi and Dr. Mohanman Sainju, speaking as they do from their wealth of experience and expertise.

The topic for this dialogue is timely. At the last SAARC Council of Ministers meeting at Nuwara Eliya, we deliberated on the Report of the Group of Eminent Persons. Clearly, SAARC is at a crossroad. We now have to take stock of what we have achieved, and decide where we would like to see ourselves in the next century. The SAARC Survey of Development and Cooperation, 1998/99, published by Dr. Panchmukhi’s Institute will make a significant contribution in analyzing the progress achieved.

Based on such an appraisal and also taking into consideration the regional and international milieu we can chalk out plans for our future generations. The Father of the Nation, Bangabandhu Sheikh Mujibur Rahman, was a firm believer in cooperation with our neighbours. His daughter, Prime Minister Sheikh Hasina, is now translating his vision into reality.

After decades of confrontation, the end of the cold war provided opportunities for economic cooperation within the framework of regional organizations. Regional economic has already achieved remarkable successes in Europe, South East Asia, and elsewhere. Why
should our region be left behind?

Ladies and Gentlemen,

SAARC has made considerable progress for furthering institutionalized arrangements for cooperation. I should not give you the impression that SAARC is perfect. There are many areas, where we can learn from experience and improve the organization. In this context the GEP report gives much food for thought. We should make an in-depth analysis of its recommendations. In their vision for the year 2000, and beyond, the GEP report envisions the creation of SAFTA by 2010, the South Asian Customs Union by 2015 and the South Asian Economic Union by 2020. These are praiseworthy targets.

The Member States have already set the goal of achieving SAFTA by 2001. We had taken this decision at the Male Summit, and reviewed it at Colombo last year. Our goal is laudable. The economies of the SAARC countries are significantly unequal in size and stages of development. Full account of this vital aspect must be taken into account.

The GEP Report elaborates on a number of special measures that should be undertaken with a view to ensuring that the least developed countries of SAARC are able to take full advantage of free trade. These measures deserve our attention. Economic cooperation is at the core of SAARC. Our peoples will be disappointed if this body fails to deliver results. At the same time, our combined welfare will be enhanced if, individually, each of our economies is put on a sound footing.

Ladies and Gentlemen,

The nuclear explosions by India and Pakistan initially cast a shadow of uncertainty on the future of SAARC. Our regional forum has overcome that crisis. Informal political consultations of SAARC provides a valuable mechanism for the countries to come together. The dialogue initiated during the Tenth Summit resulted in more confidence building. The Delhi-Lahore bus service has a meaning that goes beyond mere symbolism. Incidentally, we expect the Dhaka-Calcutta bus service to begin soon. These developments need to be further strengthened. Regional cooperation is no longer a matter of choice for South Asia. Furthermore, the process of globalization leaves us with no other choice.

Thank you all.
### Annex B

#### List of Participants
(In alphabetical order)

<table>
<thead>
<tr>
<th>Name</th>
<th>Title/Position</th>
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<tbody>
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<td>Professor Muzaffer Ahmad</td>
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<td>Trade Consultant, Ministry of Commerce, GOB</td>
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<td>Dr. Toufiq Ali</td>
<td>Additional Secretary, Ministry of Foreign Affairs, GOB</td>
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<td>Professor Abdul Bayes</td>
<td>Pro-Vice Chancellor, Jahangirnagar University</td>
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<td>Mr. Abul Hassan Chowdhury</td>
<td>Member of Parliament and Hon’ble State Minister, Ministry of Foreign Affairs, GOB</td>
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<td>Mr. Amir Khasru M. Chowdhury</td>
<td>Member of Parliament and President, Chittagong Stock Exchange</td>
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<td>Dr. Ifthikharuzzaman Chowdhury</td>
<td>Executive Director, Freedom Foundation</td>
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<td>Mr. Nurul Haq</td>
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<td>Professor Mosharaff Hossain</td>
<td>Former Member, Planning Commission</td>
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<td>Emeritus Professor, IFPRI and former Deputy Chairman, Planning Commission</td>
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