

Aktion Finanzplatz Schweiz
International Conference on Illegitimate Debts

Berne, October 3-4, 2007

Drop Pakistan Debt: There is no other way

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Debt is no longer a private affair because it now has a political dimension which concerns all people and all societies. The indebtedness of most countries of the South is becoming all the more unbearable because the repayments and interest payments demanded by creditors are beyond their means and prevent all forms of development.

It is essential to put the history of Third world Debt into the context of Bad Development of a capitalist system in crisis and of the unequal distribution of wealth and a system of domination which is reproduced within each country. The external debt crisis of the third world has been talked about for over 20 years and the rich creditor countries claims that it wants to provide a solution. Official solutions have come and gone but the debt of developing countries continued to swell; from about \$ US 70 billion in 1970, it grew to \$US 540 billion in 1980 and reached \$US 2,800billion in 2006 , having increased 40 times in 35 years.

It is now agreed that debt crisis is structural, where as it had been initially presented as a crisis of insolvency. Of course the indigenous factors, such as the decisions taken by national leaders, corruption etc. have played an important role in the development of this crisis. But it is above all exogenous factors, such as terms of trade, the trans-national companies, and increase of interest rates, among others, which are responsible for triggering it.

Basically the debt serves as pretext for bleeding third world populations dry by reducing social budgets, for exploiting their natural resources and for imposing on these economies measures, favorable to the creditors, reducing their sovereignty to practically nothing. In the 60's and 70's international loans were presented to the countries of the south as fast track to development. It was claimed that these countries had everything needed for getting out of underdevelopment: abundant manpower, inexhaustible natural resources, etc. They only need capital and new technologies to increase their production and multiply their exports. A few years of efforts and they would catch up. Well-being would spread throughout the whole world.

Massive misappropriations, unsuitable projects, prestige expenditures, arms purchases, forced purchase of goods from donor country and suppression of all forms of opposition are some the ways in which the funds borrowed were used, practically never serving the humans development. When the debt crisis arose in the early 80's, the IMF took

control of the economies of these over- indebted countries in order to guarantee the resources necessary for the repayments. New loans then repaid the old ones or met debt service and interest payments. Far from stimulating the progress, the debt little by little emerged as major obstacle to development.

Under the pretext of increasing the capacity to repay, whole economies were restructured at the wish of IMF: Health, education and housing budgets were drastically reduced, public services decimated, currencies devalued, public enterprises privatized and local markets sacrificed. Whole economies were pushed towards an export-oriented model to repay the debt. The debt bill of the third world countries is constantly increasing and the phenomenon is nothing less than goldmine for the donor countries and institutions. Since 1985 to 2005 the amounts paid by the South in repayments of the initial capital borrowed amounted to more than \$US 5,800 billion. The sum paid in debt service exceeds \$US 450 billion in 2004. Despite this the debt is not decreasing, rather it is constantly increasing. In Latin American countries this process has taken a new turn.

Debt was a tool of colonization and has become an instrument of re-colonization. The debt is not mere an economic issue rather it is a pure political issue and should be dealt accordingly.

The case of Pakistan

The official external debt has never gone down since 1999 when the present military regime of General Musharraf took over, although after 9/11, Pakistan received a record aid. The external debt has gone up to \$ 40 billion in 2007 from \$ 33 billion in 1999. In fact, Pakistan is the fourth largest borrower of the World Bank and fifth-largest recipient of US aid to foreign nations but even then the country has not been able to reduce external debt. But the borrowing record is littered with corruption and wasteful spending. Despite the fact that Pakistan is spending an estimated amount of \$ 4 billion on debt servicing every year, it is going up and up.

This is contrary to the process of debt which is taking place in some other developing countries. This shows the level of corruption under a military government and the sheer advices of Asian Development Bank and IMF to build mega projects with new loans from them.

The foreign debt is not coming down substantially as new loans are taken when the old loans are repaid. In the fiscal year 2006, foreign debt of \$3.1 billion was repaid, but new loans of \$3.05 billion were taken. The Debt Policy Statement issued by the Pakistan finance ministry says that if new loans are not taken, the present external loans will take about 30 years to be repaid at a rate not exceeding \$1.6 billion per annum — a total of \$48 billion.

The government claims that large new loans will have to be taken for building the five large dams and rebuilding the infrastructure for industrial and commercial development particularly from the World Bank and the Asian Development Bank. The building of mega dams have been opposed fiercely by the three of Pakistan's four

provinces. The regime only think of big and no alternative to big dams who are seen by many and rightly so that they will have devastating effects on the climate change and environment pollution. The big dam building is also opposed as this will deprive the tail end province from their just share of water.

The Musharraf regime had borrowed a staggering amount of over \$ 15 billion since 2003, while countries total debt liabilities had peaked to an all time high of \$ 40 billion. During 2003-04, the total external debt was \$ 33.352 billion. Had government stopped borrowing, the debt would have declined to \$ 23.646 billion after payment of principal amount by end June 2007. A 'Debt Policy Statement' issued by the finance ministry reveals that total domestic currency debt also jumped by Rs957 billion to Rs2.346 trillion in the first quarter of 2007 from Rs1.389 trillion in 1999, registering an increase of about 69 per cent. Likewise, the foreign currency debt went up by Rs508 billion to Rs2.065 trillion in the first quarter of 2007 from Rs1.557 trillion in 1999, up by 32.6 per cent in seven years.

The report says total public debt increased by 165 per cent since 1995 when it stood at Rs1.662 trillion. Its two components, domestic currency and foreign currency debt surged by 197 per cent and 136.5 per cent, respectively, since 1995.

"The coming years will see an increase in borrowing particularly in foreign currency component to finance the infrastructural development programme. The large infrastructure projects envisaged in the next decade will increase the debt burden if sufficient revenues are not generated from within the country," says the report. The country's total outstanding domestic debt reached Rs2.422 trillion by the end of November 2006, showing an increase of 36.5 per cent (Rs648 billion) since fiscal year 2002 when it stood at Rs1.774 trillion.

The total public debt was 100 per cent of GDP in 1999 and now been claimed by the military regime that it has come down to 50 per cent in the first quarter of 2007, the government claim basing itself with high proceeds of revenue collection. The revenue collections is mainly raising of the prices of all basic services, 15 percent general sales tax, fast and forced privatization and favorable attitude by the rich countries after 9/11. But despite that, Pakistan's liquid foreign exchange reserves, after jumping to \$10 billion-level in 2002-03, have more or less stayed around that level on average. The foreign exchange reserves of even Sub-Saharan countries (excluding South Africa and Nigeria) doubled to \$50 billion during the same period. Brazil and Argentina repaid all of their \$25 billion debt - by utilizing their foreign exchange reserves - to the IMF in early 2006 to rid their countries of its influence.

The domestic debt, unlike foreign debt may not seem to have a political dimension, but the fact remains that year after year, the debt servicing cost is going up. It rose to Rs301 billion in year 2006 from Rs247.7 billion the year before. The interest payments on domestic debt amounted to Rs190 billion. Most of the internal debt has gone to buy the luxury items and majority of it has ended up in the contractors, civil and military bureaucrats and corrupt politicians. The Musharraf regime also availed the highest foreign exchange inflow in history of the country with over \$ 25 billion coming through remittances of overseas Pakistanis and \$ 10 billion in assistance from the US. It shows the elitist economic policies of the regime and least concern about the rising debt.

How independent our economic policies are, could be easily gagged from the fact that the last three governors of the State Bank of Pakistan were "imported" from the IMF, World Bank and Asian Development Bank. The present prime minister of Pakistan is still an employee of Citi Bank and is on leave. He was hand picked by general Musharraf as finance minister and promoted him to become prime minister in 2004. So the international finance institute has no confidence on the bureaucracy of Pakistan and have send their own men to collect and amount and to make sure that it is been spent on repayments of the loans on regular basis. Pakistan's economy is being held hostage to foreign neo-colonial economic interests.

It has not helped to reduce the unemployment or poverty in real sense. For example, in the 1970s the average official unemployment rate in Pakistan was 2.4 per cent, exactly half of the real GDP growth recorded. Similarly, unemployment actually rose to three and a half per cent in the 1980s against a real GDP growth of 6.1 per cent. And interestingly in the 1990s the average unemployment rate further increased to 5.7 per cent even as the real GDP growth fell to 4.6 percent. Over the last six years too the GDP growth has touched a record peak but unemployment figures have soared to an all-time high of 7.6 per cent. These statistics indicate how far removed macroeconomic growth and loan taking are from poverty reduction.

In Pakistan, majority of decisions are taken at the whim or fancy of either an individual or a group of individuals who may have a vested interest in maintaining the status quo. This status quo strongly favours spending in sectors and areas, which create few, if any at all, benefits for the people at large. An analysis of the priorities in public spending shows that only 0.7 per cent and two per cent of the GDP are spent on health and education, respectively. The major share of the GDP is spent on military expenditures and debt service (3.4 per cent and four and a half per cent, respectively). Composition of our current expenditure reflects that half of it is consumed by defense expenses and interest payments, 7.9 per cent of it is spent on current subsidies, 14 per cent on general administrative expenses and the rest on development.

In fact, a major chunk of our economic gains are spent on the two Ds; defence and debt-repayment. Indeed we can safely say that in Pakistan, colonial rule has only been replaced by colonel rule. And as a functional democracy is missing, decisions are taken by a handful of persons who in the process are bound to marginalize the masses.

There is a large scale corruption involved even in the management of the debt services. A new post was created and one Ashfaq Hassan Khan was appointed as director-general of Debt Coordination Office, in MP-1 scale. Overnight, he graduated from Rs32,000 (\$533) per month to an open ended package worth Rs0.3 million (\$5000), without retirement, resignation or re-hiring. Nothing, however, changed in his office, not even the files and chairs that he used to have before. He has also been appointed as Special Secretary Finance, without any summary from the concerned ministry. The package now stands inflated to about half a million (\$8333) a month. His only achievement has been the publication of an annual debt policy statement. His colleagues also feel jealous when he travels abroad to attend quarterly board meetings of various banks and companies with government shareholding and is paid attendance fee at the rate of \$4000- 4,500 per meeting. This is in the back ground where officially minimum wage of a workers is Rupees 4600 (\$76) per month and government tall claim of per capita income stands on around \$900, a claim that is not accepted by majority in Pakistan.

The Pakistan government economic policies are dictated by the preachers of neo liberal agenda. It is on fast track of privatization, reducing taxes on multi national companies, imposing new taxes on ordinary people including a 15 per cent general sales tax imposed in year 2000 on most of the every day use items. There is an open rule of the so-called free market policies which has resulted a maximizing of monopolization of economy and a new layer of super rich. One of the main pillars of this neo liberal agenda is repayments of the debts. Even before Musharraf military regime, the four civilian governments of Pakistan Peoples Party and Muslim League has also gone on the same road of repayments. This is done in a country where most basic facilities like clean water, sanitation, health and education is a historic low in percentage terms with other countries.

Before the national budget 2007/08 was presented, it was said the subsidies would be to the extent of Rs200 billion but now these are only Rs114 billion. The state subsidies are going only to the industrialists and not to the ordinary people. Ten industries have been given concessions. These include textile spinning industry which gets them in the form of interest reduction. So the new loans are not spent on human development instead of making few people richer.

The capability of Pakistan to pay off the foreign liabilities is decreasing day after day as reserves are declining and imports are sharply rising, together with the external debt. Contrary to the economic mantra that the governments keeps chanting, the most alarming fact is that in the event of any major external shock, there is a danger that the reserves will just vanish in no time. The emergence of the phenomenon of free trade and World Trade Organization (WTO) clearly places some nations ahead of and at the expense of others. The so-called 'free market' is clearly anti-people, in nature. Free market can never be a fair market.

The World Bank (WB) and the Asian Development Bank (ADB) are among the key multilateral donors providing loans and grants. Ever since the country joined the WB in July 1950, the institution has approved more than 17.27 billion dollars in loans and credit. The current fiscal year's ongoing portfolio consists of 18 projects under implementation with a net commitment of 1.1 billion dollars. Pakistan has received about 15.39 billion dollars in total assistance from the ADB since 1996. By the end of 2005 it had disbursed 10.31 billion dollars of that assistance. But this has not changes the basic socio economic structure which remains feudal, religious fundamentalist and military dominated in all sphere of life.

The government's claim of having broken the begging bowl has also proved wrong as its share in total public and publicly-guaranteed debt has increased from 37.5 per cent to 50.2 per cent in 2006. The economic experts have already refuted the tall claims of economic growth by the power corridors and warned that the GDP growth rate could not be maintained in the current fiscal.

"Unrealistic claims of economic growth in recent days by the power corridors have made economy's future bleak as they, instead of taking appropriate measures to arrest the negative indicators, are only making paper-claims," said Dr Shahid Hasan Siddiqui, a renowned independent economist of Pakistan.

At present, the trade deficit, current account deficit, budgetary deficits, internal and external debts and the pace of throwing away national assets through privatization is the highest in the history of Pakistan, Dr Shahid noted.

There is no way out for Pakistan on the present economic priorities. Repayments of debt which are not spent on the people but have gone to pockets of ruling elite and also on bad economic policies and mismanagements have no moral ground either. "Debt is a curse" is an old saying in Pakistan. Debt which is not spent on the purpose it was taken is considered even worst. You take a small loan to buy a cow to start a small business and spend it in gambling, no one will be have any sympathies for you. But the creditor can not go the community for the repayments of this loan which is been spent by one individual on bad habit. So is the case of the state of Pakistan. It isolated from the people, it is undemocratic, it has never asked people consultation for the new loans, and all loans have only polarized the class differences.

CATDM Pakistan demands full foreign debt cancellation for Pakistan. Without this, it would be impossible to be on the path of progress for all and to get rid of the domination of religious fundamentalist forces and imperialists.

It will help launch a struggle against anti-poor economic policies of the country and help create atmosphere for building public support against IFIs through popularizing strong demand to abolish Pakistan external debt and level social and political grounds to refuse external debt.