

Pakistan Gets A Little Financial Relief . . . But Nothing More

by Ramtanu Maitra

On Sept. 22, Washington announced it was lifting the sanctions imposed against Pakistan in 1990 and 1998, preventing procurement of American arms and nuclear-related technologies. (The 1999 sanctions imposed by Washington after the October 1999 coup by the present military ruler, President Gen. Pervez Musharraf, have not been lifted yet.)

Lifting the sanctions, however, will not provide Pakistan with any immediate financial benefit, but will allow U.S. manufacturers to sell to Pakistan. What is designed to help Pakistan financially, is an economic package that is expected to be finalized early in October.

The lifting of sanctions, although discussed for months, materialized after General Musharraf decided to officially abandon the Taliban regime of Afghanistan and throw his lot in with Washington. Washington indicated it would offer some financial package soon to ease Pakistan's financial problems. Pakistani Finance Minister Shaukat Aziz was scheduled to be in Washington in early October.

It is evident that Pakistan, which helped in building up the Taliban and supported it through thick and thin, had little choice but to accept the American offer. Islamabad, however, will have to pay dearly, probably with many lives, if the offer is inadequate or not delivered quickly.

Desperate Economic Straits

To say that Pakistan's economy is in dire straits, is an understatement. It has a foreign debt of almost \$36 billion, and debt service costs of \$7.8 billion annually. Pakistan's average debt service on foreign debt, at 64.9% of total foreign-exchange earnings, is higher than that of the UN-designated Heavily Indebted Poor Countries.

Over the years, the ratio of Pakistan's real imports to Gross Domestic Product has gone down dramatically, and yet, it incurs huge trade deficits annually. GDP growth, which averaged about 6% in the 1980s, is now close to 2.5%. Poverty has gone up during the same period, from 23.2% to 40.1%. Illiteracy is close to 75%. The nation is awash with drugs, arms, and violence. There is little, really, which indicates that Pakistan can put its economy back on track.

During the last three years, Pakistan had been running from pillar to post to get its foreign debt repayments resched-



Pakistan's President Gen. Pervez Musharraf: A collapsed economy and U.S.-led sanctions have forced him to walk a very dangerous tightrope.

uled. The International Monetary Fund (IMF), which goes through Pakistan's books with a fine-tooth comb, has recommended the donors to allow rescheduling of debt payments. But that came with a number of conditionalities.

As soon as General Musharraf agreed to provide support to the United States against the Taliban, the United States announced rescheduling of \$379 million in debt. More such relief is in the pipeline. It is also expected that Pakistan, which owes the United States more than \$3 billion, will be allowed to reschedule the entire debt. Such benefits will also be flowing in from Japan, the Asian Development Bank, and the IMF, Islamabad expects.

These measures have been welcomed widely in Pakistan, and outside. But the fact remains that it is not the shortage of cash that created the financial crisis Islamabad faces today. In the 1970s and '80s, Pakistan was flush with money, but the money was not invested to alleviate poverty, build infrastructure, or educate people.

Democratic governments, and the military rulers, dipped heavily into the public treasury, lining their pockets and using the money to prolong their political and military careers. This had been the pattern, and neither Washington nor anyone else could be blamed for these follies and mischiefs. Now, the situation is different. The IMF is demanding the reduction of fiscal deficits and, in essence, a further shrinking of the economy.

Donors are demanding that their debt be repaid, and the Pakistani President is going from country to country, seeking financial help. The coming days will be testing days. Investors will continue to shy away from a turbulent Pakistan, which is expected to become the center of a maelstrom if Washington chooses to invade Afghanistan, dragging Pakistan along. It is likely the ranks of the militants will grow swiftly, and capital will leave the shores of Pakistan faster than it arrived. Pakistan will require a lot more than what Washington is offering, to get back on its feet again.