Pakistan

Introduction

Development in Pakistan is being strangled by one of the longest running vicious cycles of debt in the world. The needs of the people are subordinated to the demands of lenders, with over half the country – more than 100 million people – still living on less than $2 a day. Loan conditions and debt payments have led to regressive tax reforms, privatisation, price hikes, job losses, pay freezes and cuts and the wholesale neglect of public services – all of which hit the poor hardest. Abdul Khaliq, coordinator of CADTM-Pakistan (Committee for the Abolition of Third World Debt-Pakistan), says: *"Successive governments and regimes, instead of taking care of their people, have been continuously and shamelessly shifting the debt burden, under the dictations of the international financial institutions, on to the working classes of Pakistan."*

Origin of debt crisis

Pakistan became highly indebted in the 1970s, when the government borrowed to cope with global oil price spikes. Ever since, the people have suffered as a result of the large external debt. In response successive governments have continuously sought bailout loans from the International Monetary Fund (IMF). For 30 of the last 42 years, Pakistan has received IMF loans, one of the most sustained periods of lending to any country.[75]

The bailout loans have resulted in the debt being passed down the generations, giving the IMF enormous power over Pakistan's development, through the economic conditions placed upon the country. Lending and grants have also been a means to prop up military governments supported by the Western world in Pakistan, including the regimes of General Musharraf (1999–2008) and Zia-ul-Haq (1977–1988).

Through the 1980s and 1990s Pakistan increased sales tax at the behest of the IMF, while reducing taxes on imports. As a percentage of tax revenue, regressive sales taxes in Pakistan increased from 7% in 1980 to almost 30% by 2000. Overall taxes increased by 7% for the poorest households, while falling by 15% for the richest.[76] Yet in 2010, the IMF was once again pushing the Pakistan government to increase sales tax or replace it with VAT, also at higher rates. Shahid Hassan Siddiqui from the Research Institute of Islamic Banking said in 2010 that IMF tax conditions hurt the poor.[77]

Much of the 'aid' received by Pakistan has also been in the form of loans. Between 1998 and 2005, the World Bank, Asian Development Bank and Japanese government lent over $500 million for a National Drainage Program. The project was supposed to improve Pakistan's irrigation system. However, following complaints by local people in the Sindh region, a World Bank Inspection Panel found that the project had led to widespread environmental harm and suffering among local communities, violating six of the World Bank's safeguard policies.[78] In 2003, increased flooding, partially *caused* by the project, claimed more than 300 lives.[79] Over $100 million of interest and principal has been repaid on the loans so far, with hundreds of millions still to be paid.

Pakistan's debt burden increased again because of the disastrous floods in 2010, and the impact of the global financial crisis, such as the rise in the cost of imported oil. $8 billion of new loans from the IMF were secured, which are due to be paid between 2013 and 2015. Consequently, Pakistan's debt payments will shoot up again to over 20% of exports.

The IMF made its 2008–2010 loans conditional on sizeable cuts in public spending, including phasing out energy subsidies, an increase in General Sales

Government external debt:
- $53 billion
- 22% of GDP[74]

Private external debt:
- No figures available

Government external annual debt payments:
- $2.1 million
- 8% of revenue
- 7% of exports (rising to over 20% in 2013 and 2014)

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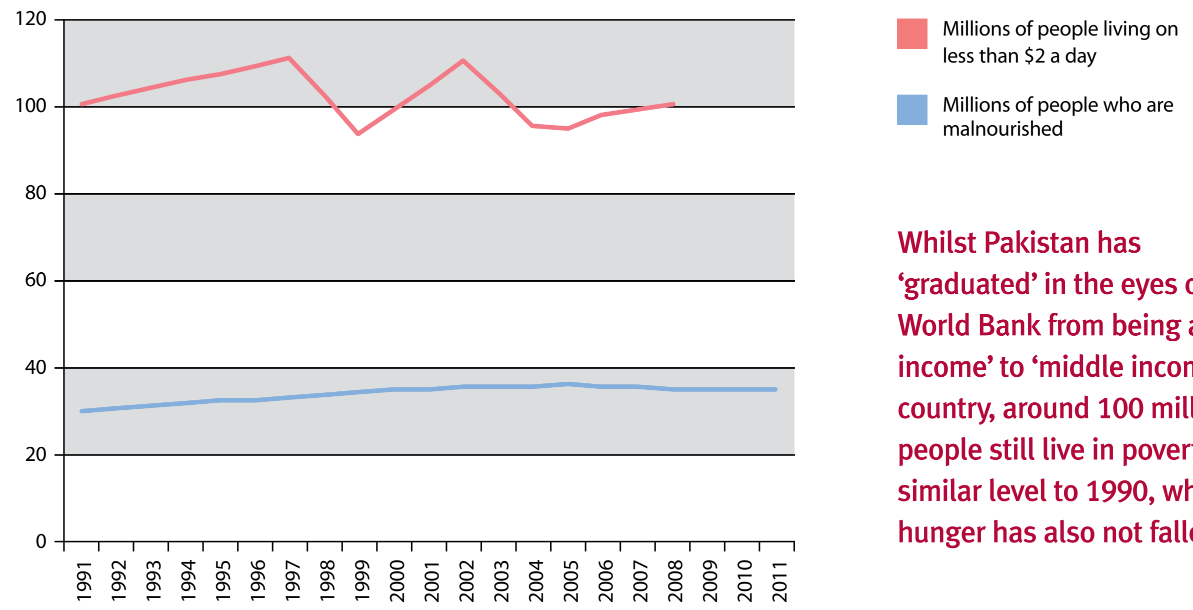

Figure C7: Hunger and poverty in Pakistan (millions of people)[82]

Whilst Pakistan has 'graduated' in the eyes of the World Bank from being a 'low income' to 'middle income' country, around 100 million people still live in poverty, a similar level to 1990, whilst hunger has also not fallen.

Tax, and the tightening of monetary policy. However, while staying on track with meeting IMF conditions, Pakistan's economy performed far worse than predicted by the Fund. The economy grew 1.7% in 2009, rather than the 5.0% the IMF predicted. Growth lagged behind predictions again in 2010, when the country was hit by devastating floods.[80]

In early 2011, the Pakistan government was on the edge of collapse when the junior coalition partner threatened to withdraw over rising energy costs. The government stopped the phasing out of fuel subsidies, and the IMF terminated the lending programme.

In September 2013, the IMF announced it had agreed loans of up-to $6.6 billion over three years, to enable Pakistan to keep making debt payments. The full conditions of the loan had not been released at the time of going to press, but include trade liberalisation, cuts in government spending, privatisation and removing regulations on businesses.[81]

Life and debt in Pakistan

Growing debt payments currently add up to more than half of what is spent on health and education combined. And because people come second to debt, Pakistan is unlikely to meet many of the MDGs, specifically those aiming to:

- Halve the proportion of people going hungry
- Ensure all children are able to complete a full course of primary schooling
- Eliminate gender disparity at all levels of education
- Reduce by two-thirds the child mortality rate
- Reduce by three-quarters the maternal mortality rate
- Halve the proportion of people without access to basic sanitation

Among those services suffering neglect is the public **health system**, which is in a dire state. Those who can pay are often forced to turn to the private sector, while those who can't rely on self-medication or unqualified local healers, putting their health at risk. For example, a lack of available vaccinations has seen hundreds of children dying during a measles outbreak in the regions of Punjab and Sindh this year, says CADTM-Pakistan.

Many poor people resort to **suicide** to escape their situation – the government banned the sale of rat poison pills because so many people were using it as a cheap way to end their lives and, in some cases, those of their entire families.

"Previously I'd never seen poverty and hunger as used to exist in former East Pakistan (now Bangladesh) and the remoter pockets of West Pakistan. Now I see it everywhere."

NAJMA SADEQUE

The level of **food insecurity** is alarming, not least in flood-hit areas, with almost half of people being without access to sufficient food. Prices have rocketed because of the global rise in the cost of fuel and staples like wheat and lentils. According to campaigning journalist Najma Sadeque, many poor people are being

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forced to eat raw food because they cannot afford cooking oil, and some survive only on bread and tea.

In common with other indebted countries, Pakistan has bent over backwards to meet lenders' **loan conditions**, with most policies disproportionately affecting those who can least afford it. In July 2013, **sales tax** on imported *and* domestic second-hand clothes, largely consumed by the poor, rose from 2% to 5%. In the same government budget, income tax on asset management firms was cut by 10%, a gradual reduction in the corporate tax rate was announced, and a 10% increase in defence spending was proposed.

"It seems that the IMF's official recognition of the importance of fair tax systems has been subordinated to the more pressing need to increase revenues in the traditional way – through consumption taxes that hurt the poor."

ANALYSIS BY ACTIONAID PAKISTAN AND UK, JUNE 2011

The under-taxation of the wealthy elite, including politically powerful rural landlords, is something that IMF conditions have not addressed. Pakistan collects less in taxes as a percentage of its economy than almost any other country of its size. While Pakistan has failed to meet many of the lenders' demands to increase its overall tax revenue, the government managed to find a way to push through reforms of its sales tax, doubling it to 16%. This year's budget (2013–2014) put it up a further 1%.

Meanwhile the Pakistan government has sacrificed hundreds of thousands of **workers' jobs** since the 1990s in the name of IMF liberalisation demands that called for the **privatisation** of industry on a massive scale. According to CADTM, many industrial units were simply asset-stripped then closed, and almost all of the proceeds were either misused or spent on debt servicing, with only about 10% going to poverty alleviation programmes.

In addition, years of mismanagement, under-investment and corruption – amid growing demand – have caused a **power crisis** that has left the country short of the energy it needs and is damaging lives and livelihoods. Unpaid bills – many of which are being defaulted by the government – lead to frequent outages of up to 18 hours a day, often endured in blistering summer heat. The crisis, which began in 2007, has worsened to the point where educational

Photo: Akhtar Soomro/REUTERS

Twelve-year-old Hamza collects wood for fuel from a dumping ground during the early morning in a Karachi slum, February 2011.

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institutes are being closed, hospital operating theatres are suspending their work and workers are being laid off, with a number of working class areas suffering a parallel water shortage.

"People are at the mercy of the ruthless weather. The government defers payments to IPPs [Independent Power Providers] but it did not defer even a single instalment to the IMF or other creditors."

ABDUL KHALIQ, CADTM

To compound its problems, Pakistan has been deluged by a series of **catastrophes**, including the devastating 2005 Kashmir earthquake, cyclone Yemyin in 2007 and the 2010 floods that displaced 20 million people and destroyed infrastructure. But through all these disasters, the debt kept being paid.

Some of Pakistan's worst natural disasters in history have coincided with a prolonged commitment to the US-led '**war on terror**', which has cost the Pakistan government between $68bn and $80bn, and killed and displaced thousands of people.

Resistance and the demands of activists

Pakistan has an established, active and growing anti-debt movement, largely led by CADTM-Pakistan. A major priority is calling for a **public audit** of Pakistan's debt.

The 2010 floods in the country re-galvanised the campaign and brought the debt debate into the mainstream. An **alliance** of social movements, trade unions and civil society groups came to together to push the government to seek debt relief to help cope with the enormous impact of the disaster, and to highlight the issue of illegitimate and odious debts that were holding back development.

Under the leadership of the Pakistan Debt Cancellation Campaign (PDCC) – and with huge participation by flood-affected communities, and support from Oxfam Novib – they organised rallies in major cities, plus local assemblies, demonstrations, seminars, conferences, petitions and media coverage. The involvement of lawyers, academics, intellectuals, social activists and the media helped to raise the profile of the campaign. A three-day hunger strike camp was held by flood-affected people in front of the World Bank building in Islamabad.

Thousands were mobilised around the issue, prompting the Senate to pass a resolution to seek **debt relief**, although it has since been evasive on the issue. Both the former government and opposition parties agreed to a bi-partisan debt examination. In 2012 Pakistan's national assembly formed a committee to begin an investigation, amid campaigners' reservations that its mandate and scope was too limited. However, the committee did not make public any report before its tenure ended in May 2013.

Campaigners are demanding that instead of borrowing more money, Pakistan needs to check corruption, **tax the rich** and cut the military budget. They argue that all resources should then be ploughed in to proper social protection systems for the poor, ending the energy crisis and creating jobs.

Meanwhile Pakistan's long-pursued policy of privatisation has been resisted by workers. In the 1990s an anti-privatisation alliance was formed by the trade unions and, thanks to workers' resistance, the first attempt to sell off Pakistan Steel Mills was suspended by the Supreme Court in 2006.

There has also been a rise in **protests over food prices and power outages**. In 2012, the house of a Pakistani politician was stormed by thousands of rioters amid public fury at the government's inability to maintain electricity supplies during sweltering summer conditions. The public had – not for the first time – lost patience with rising levels of debt that render the government unable to pay electricity providers, and protested for several days.

References – Case study seven

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