AN ONGOING DISCUSSION

Will Pakistan Choose the Belt and Road Or Debt Slavery?

by Hussein Askary

Sept. 1—One very pressing and clear example of how a country can today be destroyed by debt, and can be saved from this trap by China, is Pakistan. In Chapter 4 of his "Debtbook Diplomacy" study attacking China for the State Department (see accompanying article), Sam Parker states, under the title "U.S. Interests at Stake," the clear imperialist tendency he subconsciously harbors. Parker's "point 1" states that "China's expanding regional influence and access to South Asian and Pacific Island ports has the long-term potential to alter the regional balance of power away from *effective U.S. naval dominance*" (emphasis added). Worse is to come in point 2: "China's loans undermine the U.S.' ability to *use its own economic assistance to promote U.S. security objectives*. This assistance has provided the U.S. a powerful means to advance its nuclear security and counterterrorism interests in Pakistan" (emphasis added).

Pakistan, for reasons too complex to be sufficiently explained in this article, became a conduit for the Anglo-American geopolitical practice of pitting so-called Islamic forces against the Soviet Union and Russia in the Afghan War that extended from 1979 to 1989, and for the emergence of so-called Islamic jihadist terrorism as a consequence. Pakistan itself became a direct victim of such terrorism.

In that process, Pakistan's economic development plans were halted, and the country became more and more dependent on U.S., British and Saudi financial "assistance," later combined with IMF and World Bank loans.

Today, the Paris Club of lenders (composed almost entirely of Western countries), and multilateral lenders, spearheaded by the IMF and international commercial banks, are Pakistan's largest creditors, not China, according to official statistics provided by the State Bank of Pakistan . Pakistan's foreign debt is expected to surpass $95 billion this year, and debt service is projected to reach $31 billion by 2022-2023. In the current fiscal year, Pakistan will pay $4.2 billion to these foreign creditors. Debt servicing of China-Pakistan Economic Corridor (CPEC) loans will start this year too, but amounts to less than $80 million in repayments, according to the Pakistani daily *Dawn*.

In light of this, it is quite ironic that U.S. Secretary of State Mike Pompeo, the head of the U.S. institution that commissioned Parker's report, warned in July of this year that the U.S. will put pressure on the IMF when it considers a $12 billion bailout package requested earlier this year by the government of Pakistan. "Make no mistake. We will be watching what the IMF does," Pompeo said in an interview with CNBC TV on July 30. "There's no rationale for IMF tax dollars—and associated with that, American dollars that are part of the IMF funding—for those to go to bail out Chinese bondholders or China itself," Pompeo said.

The IMF, and consequently the Paris Club members, have been actively meddling in Pakistan's fiscal policies and its sovereignty through debt rescheduling programs and the conditionalities attached to IMF loans through the Extended Fund Facility, for example. The last such facility included a loan of $6.4 billion in 2016. The conditionalities attached to this kind of loan include, for instance, a government fiscal deficit limit of 4.2%, meaning that any substantial state-backed investments in infrastructure would be impossible. In addition, these conditionalities included the slashing of 200 billion Pakistani rupees (approximately $1.6 billion) from Pakistan's own development plans. It is evident, as in every other IMF/World Bank "bailout package," that the debt grows bigger, and the economy declines further, after these measures are taken.

Pakistan's Growing Debt

Pakistan's growing foreign debt is a direct result of its giant trade deficit, due to the IMF model. Pakistan has been running a yearly deficit of over $23 billion for the past few years, and it is increasing dramatically. Pakistan's main export items are raw materials and staple foodstuffs, and its main manufactured export is textiles. Staple food and raw materials suffer from price oscillations, while the textile sector is not competitive because of Pakistan's collapsing energy supply. And it is exactly the energy sector, together with transportation, that is the main focus of Chinese investments in the CPEC.

In the fiscal year 2017-2018, the trade deficit reached a new record, $37.64 billion. Once again, imports were heavily dominated by oil and gas, amounting to $14.43 billion.

It is obvious that Pakistan's power sector is the most critical element in resolving the country's financial and economic crisis. The total installed capacity for the electricity sector in the country is 25,000 MW (2017) with the average demand being 19,000 MW. The fuel sources are: (1) oil and gas: 14,635 MW, or 64.2% of total power generation; (2) hydropower: 6,611 MW or 29% of total generating capacity; and (3) nuclear power: 1,322 MW or 5.8% of the total generating capacity. Bear in mind that the cost of importing oil and gas is about $13-14 billion annually.

The CPEC's energy production component, the main focus of China-Pakistan cooperation, can ensure the generation of enough electricity to eliminate the deficit in electricity supplies and prepare the economy for a further surge in industrial activity. The breakdown of the investments that are completed, under construction, or in negotiation is as follows: coal plants: 8,580 MW; hydropower: 2,700 MW; other thermal plants (natural gas): 825 MW; solar power plants: 900 MW; wind farms: 350 MW. The expected total new electricity generating capacity is 13,355 MW.

The total cost of all these power generation projects (including mining of coal and electricity transmission lines) is estimated to be $23-30 billion, which is approximately the cost of two years' imports of oil and gas, and less than half the annual trade deficit.

Which Road Will Pakistan Take?

In his election victory speech of July 26, 2018, Pakistani Prime Minister-elect Imran Khan focused on the economic crisis engulfing the country and pledged to continue cooperation with China on the CPEC. "Our economic crisis is such that we want to have good relations with all our neighbors.... China gives us a huge opportunity through CPEC, to use it to drive investment into Pakistan. We want to learn from China how they brought 700 million people out of poverty." Addressing the U.S. policy, Khan said: "With the U.S., we want to have a mutually beneficial relationship.... Up until now, that has been one-way. The U.S. thinks it gives us aid to fight their war." As for the chronic, British-orchestrated conflict between India and Pakistan, especially the dispute over Kashmir, Khan said: "I think it will be very good for all of us if we have good relations with India. We need to have trade ties, and the more we will trade, both countries will benefit.... Pakistan's and India's leadership should sit at a table and try to fix this problem. It's not going anywhere."

Interestingly, both Pakistan and India became full members in the Shanghai Cooperation Organization during the June 2018 summit in Qingdao, China, raising hopes that within this new context of the new paradigm, tensions between Pakistan and India, stoked for decades by British influence, can at last be resolved. This will be a necessary condition for finally solving the permanent war situation in Afghanistan.

For Pakistan to overcome its debt crisis, it first needs to resolve its trade deficit. To do that, it needs to raise the productivity of its economy. Without ample supply of electricity, transport and efficient logistics, this task will be impossible. The Western loans to Pakistan are merely filling holes in the budget without freeing any resources for resolving the core problems.

Political and social unrest, as a consequence of this situation, will make it impossible for any government to hold the country together and achieve stability and growth. The very security of society and the government itself will be at risk, if this situation is not resolved quickly. The CPEC is right now the only concrete, constructive, and available remedy for this apparently insurmountable dilemma. Without increasing the productivity of the Pakistani economy as a whole, there will be no way out of the crisis. The CPEC provides a great opportunity for Pakistan's development, if Pakistan's leadership will take advantage of it.

Pakistan, which does have an industrial base, a relatively well-educated and young labor force, and international business connections through the Pakistani diaspora all around the world, can easily overcome its trade deficit and foreign debt burden in the foreseeable future.