

Can Pakistan survive the economic sanctions?

There is so much anxiety and panic about whether Pakistan will be able to survive the impact of economic sanctions that it is time to put the issue in its proper perspective. If similar economic sanctions are applied to Pakistan, as have already been imposed on India, they are not likely to hurt very much. The economic impact will be marginal. Some pain will be there but it will be entirely manageable. There are several reasons for that.

First, economic sanctions affect new projects, not disbursements from existing aid and loans. Over two-thirds of the external assistance in Pakistan during the next fiscal year will be disbursed from projects already signed. New projects take 5-6 years to negotiate and disburse: normally, less than 10 per cent of the new project money disburses in the first year. Even including quick-disbursing non-project loans, no more than one-third of the new loan commitments disburse. As such, stopping of new bilateral or multilateral loans will not have much impact during 1998-99.

Only if aid pipeline is cut off, development projects languish on the ground: there are incomplete schools, roads, and power stations and many people lose employment opportunities. But the international community refused to cut off aid pipeline to India, confining its sanctions only to negotiation of new projects and new funds. That was a mere slap on the wrist, it did not bite at all, and presumably that is what will happen to Pakistan as well. There is no way the industrial world can cut off aid and loan pipeline to Pakistan when they have not done it to India which started the present nuclear race.

Second, there is a great deal of discussion whether IMF will interrupt its ESAF programme for Pakistan and whether this will bring Pakistan closer to the brink of financial bankruptcy. It is pointed out with some glee by Pakistan's critics that Pakistan commands foreign exchange reserves of only about \$ 1 billion dollar and is leaning heavily on IMF support, while India has over \$ 25 billion in reserves and no IMF programme, so that Pakistan is far more vulnerable to international pressure. This is a misreading of the situation. The IMF programme is an ongoing programme, signed as an international contract last year; it is certainly not a new programme yet to be negotiated so that it should not be covered by the new sanctions. The contribution of the IMF programme depends on Pakistan successfully meeting the IMF conditionality that it has agreed upon. It is in the interest of Pakistan to over-fulfill IMF conditions in the current environment so as not to give IMF any excuse for suspending ESAF disbursements. The IMF programme is likely to be suspended if Pakistan fails to meet IMF conditionality – irrespective of whether economic sanctions had been

imposed or not. A spokesman for the IMF has already clarified that US sanctions will have "no link" with IMF ESAF which will continue according to schedule.

Third, Pakistan's low foreign exchange reserves are a danger only in case of a sudden collapse of international confidence and a rush to the exits for foreign funds. The only worthwhile external funds in this connection are foreign currency deposits of about \$ 10 billion mainly by Pakistan's own expatriate community. The government has already moved, skillfully and with a dramatic sense of timing, to freeze all foreign currency deposits and to make them convertible only in Pakistani rupees at a somewhat higher rate of Rs.46 to a US dollar. The Pakistani expatriate community is also likely to respond with great patriotism at a time when their country is internationally beleaguered. At least the immediate threat of large scale exodus of foreign currency accounts and a possible financial bankruptcy has been headed off for the time being.

Fourth, Pakistan may have some difficulty in repaying some of its short-term debts. But Pakistan is not without some options. If the country does not get any more debts, what is the incentive or the pressure to repay previous debts? Pakistan can easily consider a unilateral moratorium on repayment of existing debts. I will not advocate a debt default, nor is it necessary. Pakistan can opt to repay its foreign debts into a special currency account in the State Bank in the form of Pakistani rupees. Our obligations will be met but rupees will be frozen and repaid only once economic sanctions have been lifted and a comfortable foreign exchange position restored. Several Latin American countries took this option in the 1980s. We have already used this option for foreign currency accounts of our own expatriates. Why not apply the same provision to foreign debt? The point to remember is this: foreign creditors have more of a stake in this issue than even we have. We have over \$ 30 billion of foreign debts, public and private. The famous saying is that if you owe only \$ 30 to the bank, it is you who must worry; but if you owe \$ 30 billion, it is your creditors who should lose their sleep. It is not in the interest of our creditors to push Pakistan to a point where it has to choose the option of a unilateral debt moratorium.

Finally, the question of US economic sanctions. The US has applied such sanctions to Pakistan since 1990. In fact, India will be cut off from \$ 140 million of US soft aid they receive each year; Pakistan receives nothing so it will be cut off from nothing. No major US private investment has come to Pakistan, (except in IPPs, which is a different story), the total amount is less than \$ 400 million, so there is not much that can leave. In contrast, India has over \$ 10 billion of foreign private investment, supported by generous US Export-Import Bank guarantees: they have a lot more to lose. US has not cut off trade opportunities or textile quotas for India, despite the fact that it was the first to create the nuclear imbalance in the region. How can it cut off Pakistan's trade – and why, since Pakistan acted with great restraint for three weeks and chose the option of

nuclear tests only as a last resort when no credible security or economic package emerged from the international community ?

My net conclusion is that loose talk about Pakistan's impending financial bankruptcy in the wake of economic sanctions (even assuming that they are strict, collective and actually enforced – all major question marks) is a reflection of the over-heated imagination of the foreign press which has not yet done any serious home work. The net impact is going to be quite small.

It is time that the US and other industrial countries give up such a counter-productive strategy of economic sanctions. They have registered their annoyance; now they should move to a more sensible strategy. It is in their own interest to ensure that the South Asia region is not destabilized further politically or economically, that a peaceful dialogue resumes between India and Pakistan, and that both nations turn once again to an economic race, instead of a nuclear race. I would sincerely suggest to them a more thoughtful three-point strategy to turn away from the destabilizing chosen so far.

<p style="text-align: center;">A More Sensible Agenda for the Industrial Nations</p> <ul style="list-style-type: none">• Accept Pakistan and India as full members of the nuclear club and negotiate quickly new safeguards to protect the region and the world from a nuclear catastrophe.• President Clinton to visit the South Asian region early to jump-start a more promising political dialogue between Pakistan and India.• Focus on developing South Asia into the next economic frontier and a vigorous partner of industrial nations, by replacing the nuclear race with a human development race, and by withdrawing the present meaningless economic sanctions.

First, it is in to make the region of nuclear options left now are; Pakistan and India the nuclear club, and responsibilities to secure their and CTBT agreements on the basis of nuclear equality, not nuclear apartheid; and to conclude several specific agreements between Pakistan and India to ensure that there is no further nuclear weaponization and that nuclear bombs are *never* used in actual practice, they act only as a potential deterrent. The US should recognize that no amount of sanctions or threats are going to denuclearise India and Pakistan now. While what happened may have been regrettable – particularly the unilateral and arrogant fashion in which India tried to upset the nuclear and strategic balance in the region – now we must move on to the next stage.

petulant, short-term, strategy they have

everyone's interest safe from the threat holocaust. The only to accept both as full members of with all the rights of nuclear members; acceptance of NPT

Second, resumption of a political dialogue between Pakistan and India today is even more urgent than in the past, given the highly risky nuclear dimension. Both Prime Ministers of Pakistan and India have indicated a desire to get back to the negotiating table. Here is a window of opportunity for President Clinton. Why not pick up the phone and urge both Vajpayee and Nawaz Sharif to get back to the negotiating table to settle all outstanding disputes? Why not even advance his proposed trip to South Asia and join both Prime Ministers for a

fresh, more promising dialogue (while sending Secretary of State here immediately for a preparatory mission)? Why not invest at least a fraction of the political capital he has already invested in the Middle East, Bosnia and Northern Ireland?

Third, Pakistan and India have the potential to emerge as the next economic frontier in the 21st century, if they invest liberally in basic education and modern technology, open up their economies, turn to an economic race from a nuclear one, and start supplying low and medium tech consumer goods to the expanding middle class of the world. The economic frontier in Asia has been slowly moving from Japan, to East Asian industrializing tigers, to China – and next is the turn of South Asia if it handles its development strategy imaginatively and boldly and if the western nations see their long-term benefit in becoming a vigorous partner in this potential economic expansion in South Asia, rather than continue the present counter-productive economic sanctions which they must drop as quickly as possible.

So far as Pakistan is concerned, its economic fortunes will always be decided at home, not abroad. When tax evasion, bank loans defaults, corruption and economic losses cost us nearly 10 per cent of the GNP each year, and when *net* external assistance is hardly one per cent of GNP (after debt repayments), it is obviously domestic actions which are most decisive. For external loans, only a "money illusion" is left with us by now. We are only recycling our debts, not receiving any significant net resource transfers. We have been unfortunately sending out about 10 times more money in corruption funds outside the country each year compared to the *net* foreign loans we are getting. Maybe the current crisis will lead to a much tougher policy on tax evasion, loan defaults and corruption, as Prime Minister Nawaz Sharif has already hinted. The declaration of emergency will also help as the courts will not be able to unnecessarily prolong the cases of powerful tax evaders, bank loan defaulters and the corrupt elite. Decisive, swift action is now possible. Can Pakistan turn an economic crisis into a new opportunity? That at least is the new challenge.

The writer is President of the Human Development Centre and former Finance Minister.