Foreign Debt and its Implications for Pakistan's National Security

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Abstract *National security implications of the rising government debt in Pakistan increase concerns about military powers such as the USA and industrial giants such as Japan. This paper examines the unprecedented rise and abundant use of debt by governments since 2008. Apart from economic sustainability risks of the debt, the paper also traces history of Pakistan's search for national security since 1947. Pakistan achieved nuclear capability in the face of opposition from the USA. There are fears that in the presence of huge external debts and low capacity to service them, Pakistan may not be able to take independent decisions regarding national security. The paper offers recommendations to overcome the threats.*

Introduction

Debt driven economies are by and large a global phenomenon, a characteristic of contemporary capitalistic economics. In fact, there may be few countries in the world, which are self-reliant and do not require loans to manage their economies or bolster their developmental programs. Hence, most of the economists argue that loans per se may not be an alarming issue. In fact, some countries in the world were redeemed by loans, after complete devastation during World War II. Japan and Germany, the two of top-ranking developed countries of the world, recovered mainly due to famous Marshal Plan. In 1960s, mega water storage and electricity projects in Pakistan, like Mangla and Tarbela dams, were completed with the help

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of World Bank. Main issue, therefore, seems to be the management and utilization of such loans in a proper way.

Soaring domestic and foreign debts have always been a moot point in Pakistan, however, the figures recently released by the State Bank of Pakistan have caused increased concerns about the economic health of the country. According to State Bank's report, the federal government's total debt stocks have reached to Rs. 21,861 trillion, depicting an increase of Rs.1.09 trillion in six months from June to November 2017. The external debt has soared to $89 billion. National economists from the country have started expressing fears that Pakistan may enter into danger zone where its servicing obligations far exceed its capacity and may lead to national security problem.

With regard to dangers of Pakistan Government's debt policies, voices have been increasingly expressed in opinion columns as well as scholarly presentations at conferences and articles in books and journals.

One expert on government's debt problem wrote in 2015 a chapter with the title "Insidious Debt and Elusive Freedom: Narrative Issues with Public Borrowing." Another writer captioned his article published on December 16, 2016, as: "Is Pakistan Heading towards a Serious Debt Problem." In the same month, in a different newspaper there was a heading: "Blind Borrowing – Is Pakistan Fast Slipping into a Debt Trap?" An article in February 2017, carried the fearful title "Foreign Debt seems more Dangerous than Terrorism in Pakistan." Yet another worrisome title, "Debt trap haunts Pakistan's Future", found its place in a widely circulated daily.

A large number of such writers show their concerns with reference to the ill health of the economy and negative consequences of the same for social conditions of the citizens. Some concerned writers have started focusing on the debt's repercussions on national security.

The paper in hand attempts to analyze the dangers to Pakistan's security posed by the country's rising debt. The danger is particularly occasioned by Pakistan's possession of nuclear/atomic capability for deterrence purposes against threats to national security. The possession of such capability has been achieved in the face of opposition from leading military/economic powers in the world, e.g., USA. The following research questions were framed to undertake the study:

a. What is the unique nature of security problems faced by Pakistan?
b. What solutions were sought and with what results?
c. How accumulation of debt presented itself as a security problem by the late 1990s?
d. What efforts were made to make debt sustainable?
e. How is the rising quantum of domestic and external debt becoming unsustainable?
f. What are implications of the rising debt for national security?

g. What measures can be taken to make debt sustainable?

The paper is based on official documents, books relating to Pakistan's security problems and the country's responses thereof, scholarly secondary material on debt and its repercussions on national security, particularly, a number of articles by Dr. Ashfaque H. Khan. Leading newspapers have been utilized for relevant news and opinions/discussions. Some knowledgeable persons on the debt questions have been consulted.

Nature of Pakistan's National Security Problems

Pakistan's security problems may be said to be inherited in the sense that the country was made up of the outer, north-western, and north-eastern, parts of the British empire in the Indo-Pak subcontinent. As such, it took over the bulk of the British regime's defense problems. The security problems may be said to be genetic as they came with the creation of the country. The creation was achieved through partition of the subcontinent which the Indian leaders accepted as a temporary measure, nourishing the hope and wish that the new country would not survive and would soon rejoin India. The Muslims of Pakistan felt real threat to their national security. G.W. Chaudhury has, thus, summarized Pakistan's post-1947 situation:

> *…Pakistan has inherited the traditional frontiers of this subcontinent. She is strategically located both in South as well as in [the] Middle East. Apart from the traditional frontiers of the subcontinent she is confronted with the task of safeguarding nearly three thousand miles of "inward frontier" with her bigger neighbor. It is this inward frontier which has caused real worries and anxieties to the foreign policy-makers in Pakistan.*

The Indian attitude towards Pakistan was highly worrisome. In the words of Ian Stephens, "A cardinal underlying purpose of Indian policy was to keep her smaller neighbor [Pakistan] weak and isolated for eventual re-absorption." One could not imagine a greater threat to infant Pakistan's security than India's policy of re-absorption. According to the British political historian, even after several decades of the creation of Pakistan, the 'average Hindu heart' believed that Pakistan did not have a "real right to exist. She must not devise a foreign policy of her own; her destiny was to be an Indian satellite."

Search for Viable Solution to National Security Problem

Placed in the insecure situation and disappointed by weak responses from the Commonwealth and Muslim countries regarding threats to security in the initial years of the country's life, Pakistani leadership decided to enter into security pacts with Turkey and Iran and, thereby, the United States of America. Pakistan received economic and military aid, but the country was severely criticized in 1959 by some American senators sympathetic to India. They did it during the course of hearing on National Security legislation and discussions in the Senate Foreign Relations Committee in 1959. General Ayub Khan, the then President of Pakistan, had to retort: "Our American friends will find us dependable and trustworthy; but if they think they can lead us to confused thinking against the hard facts of life, then we just cannot oblige…"

The initial military aid for security in the 1950s was hedged in by several prohibitions dictated to Pakistan, and assurances to India regarding any use by Pakistan of such aid against that country. In the 1965 war between India and Pakistan, not only did USA refuse to come to the rescue of the smaller ally, it stopped all armament shipments to both India and Pakistan. That hurt Pakistan more than India, since the latter had its own armament industry and the flows of supplies from the Soviet Union. Further, relations between the USA and Pakistan, regarding Pakistan's security perceptions, particularly after dismemberment of Pakistan in 1971 and emergence of Bangladesh, have a history of love and hate. The USA behaved as a superpower with global interests and ambitions and Pakistan as a small state determined to seek credible means for national security. Major differences developed when, after India's nuclear tests in 1974, Pakistan began to seek comparable means for security. And Pakistan came to receive threats from America of cutting military and/or economic aid. Such threats would come to be materialized whenever Pakistan was considered of no use in advancing American designs. The threats were held back when Pakistan was seen to be of service to American interests. For example, in April 1979 the American President, Carter, imposed unilateral sanctions both economic and military against Pakistan on the presumption that Pakistan was secretly building a facility for enriching uranium and thus violating the Symington amendment.

In the wake of Soviet Russia's invasion of Afghanistan, the USA in its own interest, announced a six-year (1981-1987) package for economic and military assistance. But Pressler Amendment enacted during the period i.e. in 1985, which made provision of military technology or equipment to Pakistan conditional to the issuance of a certificate by the US president, certifying that Pakistan did not "possess" a nuclear device. The President was to further certify that the assistance provided by US would "reduce significantly the risk that Pakistan will possess a nuclear explosive device." The certificate continued to be issued. However, soon after the Soviets withdrew from Afghanistan in 1989, the Bush Senior Administration discontinued to certify in 1990. Resultantly, the Amendment came into effect and all government military sales to Pakistan were ended. Even the sale of 28 fighter jet F-16s, for which partial payment was already made, was frozen.

Debt as Major Factor in Exacerbation of Security Problem

Debt as an acute national problem dawned upon Pakistan's leadership very late when the debt matters demonstrated their connection with measures intimately and ultimately concerned with national security matters. Our reference is to sanctions imposed on Pakistan after the 1998 nuclear tests. For Pakistan, tests were the most vital step it could take in the face of security risks emerging from India's tests during that year in the broad daylight. Tests were a matter of life and death, and they were undertaken. By doing so, Pakistan incurred the anger of the USA, leading to Pakistan's financial difficulties, owing to accumulation of unsustainable debt. At that time, the biggest weakness of Pakistan was found to be its huge debts, as indicated in the Table-1 below.

Table 1. Accumulation of Debt -1988-99 (PKR Billion)

Year	Domestic Debt	External Debt	Public Debt	Increase
FY 88	290	233	523	2423
FY 90	381	330	711	
FY 93	617	512	1,135	
FY 96	920	784	1,704	
FY 99	1,389	1,557	2,946	

Source: Pakistan Economic Survey of Relevant Years

During the period of post-Zia unstable democratic governments, public debt increased from around a half trillion rupees to almost three trillion by 1999. There was a pressing need to secure loan from bilateral/multilateral resources to prevent any default and/or ensure payment of foreign trade/exchange commitments.
Just one month before May 1998 nuclear tests, i.e., April 98, Pakistan's foreign reserves were 1.4 billion dollars that could suffice about 3 months imports, and an inflow of about $2 billion was needed to avoid any further loss in foreign exchange reserves. Arrangements for the same had been made with IMF and World Bank. But subsequent to Pakistan's nuclear tests, an alliance was formed by the USA and other IMF shareholders that blocked payment of IMF credit and adjustment loan to be made to Pakistan.

Impact of Sanctions

Stoppage of the IMF package also frustrated Pakistan's expectation of support from the Arab countries. A rescue package worth $1.5 billion was to be arranged by the Islamic Development Bank (IDB), comprising funds from Arab financial institutions and private banks but the package was continuously delayed till the end of 1998, as the IDB linked disbursement of these funds with the condition requiring Pakistan to set straight its relations with the USA and the IMF.

The sanctions affected the aggregate GDP growth, capital flows and the exchange rate in Pakistan. Fresh private inflows almost stopped, and exchange reserves fell down to a dangerously low level as by early November, 1998, these were just $458 million. The Pakistani currency depreciated by 28% in just two and a half months. Furthermore, the Pakistani government had to revise the predicted GDP growth rate for the financial year 1998-1999 from six percent to 3.1 percent.

Peterson Institute of International Economics worked out economic impact of the sanctions on Pakistan's economy. According to their calculations, Pakistan suffered a loss of $ 200 million in terms of reduction in exchange reserves and rise in debt due to delay in IMF loan for six months. Further, loss in terms of welfare was calculated to be $ 456 million. Loss in GNP was put at 1 percent and per capita income loss at $4.06. Thus, the decision of the US-led coalition to withdraw IMF financing severely affected Pakistani economy and had indirect effects on other capital flows to Pakistan. However, the major lesson for Pakistan was that the country should reduce its dependence on external debts to a level that might not hurt its independent decision regarding its national security. Furthermore, it is important to remember that not only the G-7 member countries, a large number of non-G-7 members, also joined this coalition and opposed any fresh non-humanitarian loan to Pakistan by any international financial institution, i.e IMF, World Bank, or Asian Development Bank.

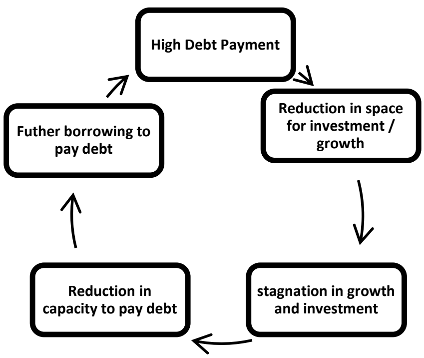
Softening of Sanctions - Cooperation with USA

The sanctions were softened, eventually, as a result of a number of events connected with the interests of USA as world power. After 1998 nuclear tests, intensive diplomacy took place to minimize possible further threats to international atomic regime arising from the behavior of two contending South Asian countries. Also, some US officials showed concern regarding Pakistan's possible default on international debt. With some indications of future responsible behavior coming in as a result of diplomatic endeavors, the US Congress passed Brownback amendment on October 21, 1998, which authorized the US President for waiving certain economic sanctions against India and Pakistan. The President, among other economic waivers, authorized US officials to support Pakistan in getting loans from the IMF and World Bank.

In 1999, some 'democracy sanctions' were imposed on Pakistan because of military takeover in the country in October of that year. Though, the IMF Stand-by Arrangement [SBA] reestablished Pakistan's credibility, Pakistan's decision for joining the war against terrorism in the wake of 9/11 in 2001, paved the way for restructuring of bilateral debt by Paris Club creditors. The new restructuring offered generous terms; it did not only provide relief in terms of debt flows and the new arrangement was applicable to Pakistan's complete bilateral debt stock of $ 12.5 billion owned by Paris Club creditors. The restructuring gave debt reduction without having a Heavily Indebted Poor Country (HIPC) status. There was a decrease of 1.9 billion dollars in Pakistan's external liabilities during FY2002. Moreover, all principal and interest payments due on the post cut-off date during November 2001 to June 2002 were deferred which provided an immediate cash relief. The 1998 sanctions, thus, demonstrated to Pakistan's policymakers the threat that debts posed to any attempt for achieving a credible level of national security. For Pakistan, credible meant achieving nuclear weapons capability. This was opposed by powers that decided cases of external loan advances. The reducing of debt burden became the top agenda of the post-1999 government which did formulate a medium to long term strategy for the purpose.

Debt Reduction Endeavors - Theoretical and Practical Considerations

The Debt Reduction and Management Committee (DRMC) was established in 2000 to formulate medium and long-term plans about debt reduction in Pakistan. It recognized that the country was firmly entrapped in the strong clutches of debt. A vicious cycle of large debt payments kept on going ultimately causing decline in growth and the investments, followed by the low growth ratio which confine the capacities to cater debt payments and burdens, resultantly compel to borrow even more for debt payment, and the circle repeats.



Debt Trap

The Committee emphasized that an ineffective approach to deal with the problems caused by debts would be alarming for the economy and political environment of the country in longer. Theoretically, worsening effects were simply conceivable, where the escalating debt would cause the following.

a. Further slowdown in growth.
b. Large scale printing of money resulting in a growing rate of inflation.

c. Consequent depreciation of the rupee.

At the external level, the loan default and technical loan default brings isolation at economic level and necessitate dependence over controls of monetary costs. It will have a poor impact upon the inflows and outflows of technology and trade. Pakistan could come out of this vicious cycle, if the country tried hard. The debt problem had arisen due to policy failures on a large scale, lack of fiscal discipline, ineffective Parliamentary oversight on borrowing from internal and external sources, besides near absence of accountability, over a long period. Any satisfactory resolution of the problem was to take both timely and sustained policy actions. Moreover, the reduction of the debts to sustainable levels could not serve as the sole economic objective. The revival of the economic growth was urgently required that had declined up to 4% on annual basis. In fact, major portion of debts was used for meeting non-developmental budgetary expenditures/deficits. The DRMC made a detailed report keeping in view the theory and practice regarding international debt problems. It comprehensively defined debt as well as safe limits of debt. Important legislation followed in the wake of the report.

Legislation on Debt Limitation

An important milestone in debt management was the passage, by the Parliament, from "Fiscal Responsibility and Debt Limitation (FRDL) Act 2005." The Act required that in each fiscal year, starting from July 1st, 2013 and finishing on June 30th, 2013, the whole public debt was to be decreased by no less than 2.5% of the estimated GDP. It further required that the total public debt was to be reduced so that by June 2013, it did not surpass 60% of the expected Gross domestic product for that very year. Afterwards, the entire public debt was to be maintained below 60% of GDP for any particular year.

Years of Improvement in Debt Situation (2001- 2007)

The military government established in 1999 faced many challenges, including weighty foreign and internal debts; soaring fiscal shortage and negligible capacity for generating profit; which increases the ratio of unemployment and associated poverty level; and a vulnerable balance of payment which has a relatively poor performance in exports. The authorities brought in structural reforms and improved governance in economic domain which economic governance which set the basis for the escalating growth during the period from 2002 to 2007. The rate of economic development which was 3.1% in 2001, averaged 7%. Poverty was reduced by 5 - 10 percentage points. With 11.8 million new jobs, during 2000-2008, the unemployment rate came down from 8.4 % to 6.5 %. Foreign exchange reserves improved to cater for six months' imports. Fiscal deficit mostly remained below 4 % of the GDP. The investment rate grew to 23 % of the GDP and inflows of around $14 billion of foreign private capital, helped financed many sectors of the economy. The exchange rate remained fairly stable throughout the period. The external debt and liabilities (EDL) were $37.9 billion at end-June 2000, which grew to sustainable level of $45 billion in 2008. Total public debt which was about 80 percent of GDP in 1999, lowered to 60% by 2008. During the period, Pakistan was one of the four fastest growing economies in the Asian region with per capita income rising from under $500 to over $1000 and growth rate averaging 7%. It was partially due to stringent policy measures and largely because of re-scheduling/ debt swaps by Paris Club and other donors of debt payments. However, even military regime could not effectively use this time space to rid the country of debt menace. Consequently, once the re-scheduling period was over, the governments were again confronted with huge payments.

Deteriorating Debt Conditions 2008-2017

Deterioration started with the coming of the PPP government in 2008. It contracted loans of $ 25 billion from bilateral / multilateral sources and IMF. The PML-N regime came in 2013 and by 2017 it has contracted $35 billion loan from the same sources. It is important to note that the two regimes have contracted almost $56 billion loans in just ten years. Deteriorating trends in Public debt are indicated in the table below.

Table 2. Trends in Public Debt 1999 to 2017

Year	Public Debt(Billion Rs)	As % of GDP	As % of Revenue
1999	3018	78.9	589
2007	4803	54.5	370
2014	16389	63.9	451
2017 Dec	21861	67.2	459

Source: Updated/ Reproduced from working paper Number 03: 2016, Rising Debt: A serious Threat to the National Security by Dr Ashfaque H. Khan

By the end of 2017, the Federal Government's total debt stocks reached to Rs. 21,861 trillion. The external debt soared to Rs.6.094 trillion. Moreover, these figures do not include IMF loans to Central Bank for balance of payment support and other foreign exchange liabilities. As elaborated by independent economists and discussed in public opinion columns, Pakistan's total stock of external debt and liabilities (EDL) has risen from $40.2 billion in 2007 to $96 billion in 2018, as illustrated in the table below.

Table 3. Trends in External Debt & Liabilities (1999-2017)

Financial Year	External Debt & Liabilities($ billion)
1999	36.6
2007	40.2
2013	60.9
2018	96

Source: Updated / Reproduced from working paper Number 03: 2016, Rising Debt: A Serious Threat to the National Security by Dr Ashfaque H. Khan

There has been an extraordinary surge in EDL as Pakistan has added $56 billion in just ten years. The speed and size of external debt accumulated in the last ten years have created concerns about the eroding health of the economy. Independent economists have started expressing fears that Pakistan may enter into danger zone where its servicing obligations far exceed its capacity.

Future Outlook

Looking a few years ahead, e.g. to 2019-20, the picture of External Debt and Liabilities looks quite bleak. The following table gives some worrisome projections made by IMF.

Table 4. Future Projections of EDL (2017/18 to 2019/20)

Years	EDL ($ Billions)
2017-18	96
2018-19	103
2019-20	114

Source: IMF (2018) Pakistan: First Post-Program Monitoring Discussion, Washington, DC, p. 24. Estimated by Dr Khan.

Similarly, the IMF report has depicted an acute problem of external financing requirements that Pakistan would face in the coming years. The following table gives the projected external financial requirements.

Table 5. Projected External Financing Requirements ($ Billion)

Years	External Financing Needs
2017-18	24.5
2018-19	27.0
2019-20	34.0

Source: IMF (2018), Pakistan: First Post-Program Monitoring Discussion, Washington, DC, p. 24.

Table-5 indicates that by FY 2019-20, Pakistan's external financing needs will reach to $ 34 billion which will be difficult to finance, as likely financial inflows will be much smaller, almost 35% of the amount required. Thus, by FY 2019-20, EDL will cross safe limits. The projected inflows are indicated in the table below.

Table 6. Likely Financial Inflows ($Billion)

Year	Traditional Donors	Chinese Financing	Foreign Investment	Total
2017-18	3.5	4.0	2.0	9.5
2018-19	3.8	4.5	2.5	10.8
2019-20	4.0	2.6	3.0	9.6

Source: Updated/ Reproduced from Working Paper No.3: 2016, "Rising Debt: A serious Threat to the National Security" by Dr Ashfaque H. Khan
As regards external debt servicing, it will consume a big chunk of the country's exports projected to be 36.7% by 2019-20, as indicated in the table below.

Table 7. External Debt Servicing (2015/16 to 2019/20)

Year	External Debt Servicing	Export (Billion $)	Debt Servicing as (%) Export
2017-18	8.1	24.7	32.8
2018-19	9.1	25.7	35.4
2019-20	9.9	27.0	36.7

Source: Updated/ Reproduced from Working Paper No.3: 2016, "Rising Debt: A serious Threat to the National Security" by Dr Ashfaque H. Khan

A dangerous aspect of the rising debt is that the government has started putting strategic infrastructure on mortgage to obtain loans from local and international institutions and investors. The infrastructure already mortgaged includes M1 Motorway (connecting Peshawar – Islamabad), sections of M2 (connecting Islamabad- Lahore) and M3 (connecting Faisalabad- Pindi Bhattian). Quid e Azam International Airport was used as security for Sukuk bonds raised in 2013. Some leaked documents indicate using Pakistan Television assets and Radio Pakistan buildings as collateral for loans.

Reasons of Dangerous Debt Trends

Widespread Corruption. Among lapses in governance is the rifeness of corruption in government departments in general and finance-related departments in particular. A government study in 2015 documented several aspects of corruption involving great loss of revenue. The study was not made public, but a number of facts and conclusions have come out. According to an important political leader, goods worth nine billion dollars are smuggled into Pakistan.

Under-invoicing and custom duty and sales tax evasion add hundreds of billions to revenue loss for the country. National Accountability Bureau officially put daily government revenue loss owing to corruption at hundreds of billion dollars.

1. Undermining Institutional Integrity. The major factor leading to dent on economic progression and investment climate has usually been the governance deficit, occasioned mainly by a willfully designed institutional derailment. The sitting governments quite often molded economic institutions in their favour - be it SECP, CCP, SBP, NEPRA or OGRA, most of them are headed by compliant individuals and independence of such institutions stands compromised in the process. As an example, one may point to the case of RLNG contract with Qatar, made against the advice of OGRA, on 'take or pay' basis, implying that gas has to be imported or Pakistan pays anyway. If the gas is not purchased, Pakistan has to pay to Qatar anyway; and even if the terminals are not used, Pakistan pays the charges irrespectively. Also, if power plants are not working, capacity payment will still be made. In essence, the country is hooked to pay RLNG energy chain for next two decades or so, irrespective of how much gas is being used. This may result in the formation of RLNG based circular debt in years to come.

2. Amending Definition of Debt / Defying Proper Procedures. Under Federal Responsibility for Debt Limitation Act 2005, the original definition of debt was: "total public debt means a sum of total outstanding borrowings." During the passage of Finance Act of 2017, it was changed to "total public debt means the debt of the government serviced out of the Consolidated Fund and debts owed to the International Monetary Fund." This did not include the public debt arrangements made by Public Sector Enterprises (PSEs) and publicly-assured debt, which practically implies deception to the people about the reality. The government modified the definition of Public debt via the Finance Act in 2017 which somehow breached the Supreme Court ruling that proscribe any legislative move without the approval of federal cabinet. With such manipulations the public debt was understated by over Rs. 3 trillion. The Finance Minister at the time used his definition of external debt and calculated that the burden of debt had, in fact, declined over the last three years, when compared with the past five years of the previous regime.

3. Data Manipulation. Data manipulation has been a consistent major shortcoming with respect to decision-making in the Ministry of Finance during the past four years. This emphasis on data manipulation has been to show a performance that is better than ground realities; be it in calculating key macro-economic indicators or be it in terms of the budget itself notably by overstating revenue collections and understating expenditures, specifically current expenditure. This trend has disabled the Ministry from taking informed decisions in a timely manner. There has been a lack of consultations with other stakeholders, particularly the provincial finance ministers. The Federal Finance Ministry has consistently shown a disinclination to take provinces along with its policy decisions and it is amply reflected in the failure to negotiate a non-controversial National Finance Commission Award. The unmitigating support extended to Ishaq Dar by the then Prime Minister allowed him to ignore all concerns with respect to his data manipulation in the post-2013 period.

4. '**Self–Interested' Legislation Encouraging Corruption**. In the opinion of two knowledgeable and perceptive writers, "there exists an unholy alliance between corrupt tax officials and unscrupulous businessmen that is depriving the nation of taxes worth billions of rupees." Even legislators have been encouraging the harmful practices through a law, namely, the Protection of Economic Reforms Act 1992. The law allowed individuals to open Foreign Currency Accounts, abolishing the restriction of special permission required to remit money out of the country for investments. Under this Act, all citizens of Pakistan and all other persons were allowed to carry out all Forex related activities in any format including purchasing, selling, advertising and transferring the foreign exchange within the country or abroad and it was no more necessary to declare their foreign currency possessions at any phase and neither were they to be inquired about the sources of the same. Such accounts were given immunity against any inquiry from all taxation authorities and were exempted from any sort of taxation. The banks were required to maintain complete secrecy in respect of transactions in these accounts and barred from imposing any restrictions on deposits in and withdrawals from the foreign currency accounts. The passage of Act was a casual affair. There was no worthwhile discussion in the two houses of legislature.

Dangers of Huge Debts to National Security

Dangers through Weakening of Economy

As projected by IMF, Pakistan external debt will be $114 billion by 2019-20, with the implication that it will be over 422 % of export earnings. As a result, external debt servicing will likely be around $11 billion or 37% of export earnings. The financing gap for 2019-20 will likely reach $23 billion. If such borrowing is continued, consequences for economic as well as national security will be grave. The macro-economic consequences might include:

(1) Decline in investment from both private and public sectors.
(2) Reduced economic growth - 3.3 to 3.8% per annum.
(3) Rise in unemployment and poverty.
(4) Stagnation in industrial and export growths.

(5) No foreign investment, though Chinese Investors may bring investment at a slower pace.
(6) Tax collection will likely to remain dismal and senseless taxes may be imposed for generating resources in a desperate situation.

In the opinion of experts, with such a progress at slow pace in economic scenario, the corruption factor may even boost further and may promote anarchic situation with the escalation in social disorder, civilian unrest, and an ultimate collapse in governance sector. The course of issues in such a manner would ultimately bring forth serious challenges to national security

Rising Debt Itself a Serious Threat to National Security

It is now recognized that debts, particularly foreign debts, badly impinge on the sovereignty of any nation. It is also well known that major international donors are strong instruments in the hands of US and its Allies to force developing and under developed countries to comply with their dictates and follow their international agenda/world order. Recently, Pakistan’s former member of Senate, Enver Baig, has aired his concern and pointed out that the speed with which Pakistan is borrowing will take the country towards a debt trap and that the burden of debt would attain the level where it would be beyond the capacity of the country to repay. In such a situation, the international forces and players may come to rescue the country but on the condition of compromising on our nuclear capabilities. Several other security related ramifications may include pressure for singing Non Proliferation Treaty (NPT), Fissile Material Cut–off Treaty (FMCT), Comprehensive Test-Ban Treaty (CTBT), compromising on foreign policy, adoption of a submissive policy towards India, etc.

Bret Stephen wrote in the *Wall Street* Journal on December 16, 2008 under the title: “Let’s Buy Pakistan’s Nukes”. In his article, Stephen gave a reference to the visit of former President Asif Ali Zardari to the United States, where he asked for “$100 billion to stave off economic collapse.” Stephen proposed that the Pakistani authorities should be allowed to carry out certifiably, an elimination of its whole nuclear capabilities, nuclear stocks of explosives and the defense industrial base for its maintenance, and in return the US-led western countries would grant Economic Aid worth 100 billion dollars which would be supervised by an autonomous body and the package would be paid out over the period of 10 years. The concerns of Senator Baig cannot be dismissed summarily, given that such an extreme view exists in the West about the nuclear assets of Pakistan. Debt projection made by IMF suggests that the external debt and liabilities would rise to $114 billion and the financing gap would reach close to $23 billion by 2019-20. This is where Pakistan would face a real crunch and may not be able to service its external debt obligations as well as finance current account deficits.

Dangers to National Security Owing to Inimical Environment

Situation for Pakistan appears to be unfavorable, owing to its possession of atomic capabilities and necessitates a lot of circumspection on the part of Pakistan's leadership regarding debt matters. There is lot of literature and many scholarly studies regarding default by sovereign countries and possible costs thereof. One such study is in the form of an IMF working paper: "Sovereign Default". Based on several previous scholarly studies, the Working Paper comes up with somewhat mixed conclusions.

a. Although default costs are significant, they are short lived.
b. Reputation of sovereign borrowers owing to a default, as measured by credit ratings, is tainted but only for a short time.
c. There was evidence that international trade and trade credit were negatively affected by episodes of default, but that did not affect volume of trade credit.

The Working Paper points out two important dangers:

a. Debt default seems to cause banking crises that can shorten life expectancy of governments; in this case the whole government may fall.
b. In large economy, there may occur sharp increase in government turnover following debt crises. In this case, change in personnel may become inevitable.

An academic article "The Economics and Law of Sovereign Debt and Default" lists four costs in case of default:

a. Capital market exclusion.
b. Increase in Cost of borrowing.
c. Sanctions.
d. Domestic costs.

The article, then, details the mechanisms evolving towards restricting sovereign immunity. The U.S. government encouraged the view, whereby the external sovereign actors were declined of any protection for business-related activities held out in United States or having any direct concern inside the country. The very restraining outlook was shaped up in the Foreign Sovereign Immunities Act (FSIA), which permits private enterprises to take legal actions against external sovereign government in US courts, if the complaint relates to commercial activity. The United Kingdom adopted similar legislation in 1978 and many other jurisdictions have followed the suit. Under US law, the debt investments (international bonds) distributed by the foreign sovereign and its ensuing default, are roughly regarded as activities of commercial nature. Irrespective of the intentions behind the issue or the basis for the payments interruption. As a result, under US law (and that of several other major jurisdictions), sovereign immunity no longer plays an important role in shielding sovereign debtors from creditor suits.

With disappearance of sovereign immunity, any country considered undesirable can be made to be sued in the United States for the latter's own designs. At the top of it all is the influence of USA on multilateral institutions. A study conducted to determine the degree to which high politics affects IMF lending patterns has come up with interesting findings. It finds, inter alia, that the end of the Cold War period has been associated with the increasing politicization of the IMF by the US. There is an evidence that countries moving closer to US have been able to cash in on their political allegiance and get facilities from US. The study views the operations of great powers, particularly the USA, with regard to international institutions as a tool to achieve specific, identifiable political goals. The study concludes that the ability of the US to employ such tools underscores the practical limits of multilateralism.

High politics also uses tools framed under the auspices of the United Nations. One such tool is the UN Security Council Resolution 1267 relating to control over terrorism financing. States are encouraged to take measures like assets freeze, travel bans and arms embargo against organizations declared by UNSC to be involved in terrorist activities. Given the history of the region and ever-present chances of strained relations with powers that matter, Financial Action Task Force can place Pakistan on grey-list, thereby threatening Pakistan's economic life and/or subjecting it to arm-twisting on the matter of security assets.

Recommendations for Managing / Reducing Unsustainable Debt

National economists have been seriously studying the vital aspect of national security and formulating recommendations for steering the country out of the debt trap. Basing on a detailed analysis of various studies, a few recommendations are enlisted below for implementation at national level.

a. Ministry of Finance and Finance Committees both of National Assembly and the Senate with Deb Policy Coordination Office as staff support should organize a series of conferences to educate stakeholders on debt-security nexus and develop national consensus to formulate non-partisan / inviolate recommendations for debt management in the short term and debt reduction/retirement in the long term.

b. A greater transparency is required in all financial matters. Budgetary debates should not be the 'fillers', but a serious business, where all budgetary allocations should be debated thread-bare, particularly the foreign contracts and transactions. Discretionary budgets at the disposal of rulers should be brought to minimal.

c. Parliamentary Committees should be made more effective, with the induction of may be more policy experts as technocrats, who should provide the legislators with sound policy input.
d. Strengthen the capacity of the Planning Commission so that projects are prepared, approved, executed, monitored and completed in time. Politically motivated and low return projects be discouraged.
e. Based on the analysis by independent economists, salient features of an indigenous borrowing strategy should include:
   (1) Financing of current account deficit, but such financing should be from grants, FDI, portfolio investment and privatization proceeds which will minimize debt servicing requirement.
   (2) paying amortization.
   (3) Financing projects with higher return.
   (4) Building foreign exchange reserves, but the borrowing should be from the cheapest sources.
f. Pakistan needs healthy workforce vocationally/professionally trained and employable within country and abroad which necessitates more investment in physical infrastructure. Basic institutions exist; they need reorganization and state of art apparatus and curriculum.
g. Bring in wide-ranging reforms in the tax administration and overall governance.
h. Country's debt carrying capacity be enhanced and the declining trend in exports needs to be arrested.
i. The exporters be facilitated, and their competitiveness be restored by reduced cost of doing business, timely refunding of rebate, removal of bottlenecks in their manufacture of exportable commodities and adopting policies that facilitate to borrow from commercial banks.
j. Formulate policies that create conditions to attract foreign investment. Find out factors that are forcing foreign investors to leave the country and thus causing rapid rise in the outflow of investment.
k. For addressing moral issues, following is offered:-
   (1) Inclusion in civil service training programs of case studies where ill-considered decisions were made with devastating social/economic effects.
   (2) Prominent corruption cases suitably developed as training module for training in responsible/ conscientious behavior.

Conclusion

The huge stock-pile of debts is certainly posing a serious challenge to the security of Pakistan. We can neither afford to remain in denial mode nor show any complacency in accepting the reality/challenge, emanating from debts, particularly foreign debts. Every coming day is exacerbating the situation, but unfortunately, we do not witness any earnestness on the part of financial managers/policy makers to take immediate remedial measures. There is a need to evolve national consensus across parties about debt strategy for the long and short term. Unless it is done, debts would continue to remain a serious threat to national sovereignty and security.

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