**No money and not smart**

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The rapid changes taking place around the world are not superficial. These are changes that are altering how the world works. We heard the ‘we need to get our house in order’ often in Islamabad. What this actually means to generals, judges, politicians, bureaucrats and other rent-seeking capitalists of Pakistan is less clear.

Pakistani intelligentsia, including the media and vast swathes of academia are just as bad – maybe worse. Our job is to map icebergs years in advance to the mothership risking crashing into them. Instead, we blurt out cacophonous warnings long after impact. Perhaps an ecosystem broken at the top cannot escape fragility down below?

In the World Bank’s International Debt Report 2023 are the clearest signs yet of the profound challenge low- and middle-income countries now face as a result of sustained high interest rates since 2021. The total stock of external debt held by low- and middle-income countries in 2010 was $4.3 trillion. In 2022 this amount had essentially doubled to $8.9 trillion. The overall trend gives the impression of a ceaseless fiscal bonanza in which low- and middle-income country elites can continue to borrow money from abroad because that’s how everyone is living.

Yet, a closer look at what has happened after the Covid-19 pandemic illustrates the obvious and urgent challenge for countries like this (Pakistan may be a poster child for this kind of country). In 2022, the net flows of both private non-guaranteed bond issuances and public (or publicly guaranteed) bond issuances were negative. This means more bonds were paid back than were disbursed. If you are a country that got used to issuing bonds as a means of meeting your spending habits, you should be deeply worried about the immediate future. But if you take a good look at how Pakistan has sought to manage the fallout of record high interest rates around the world, there seems to be no worry about the future at all.

“And they tell you that you're lucky, but you're so confused/ 'Cause you don't feel pretty, you just feel used/ And all the young things line up to take your place/ Another name goes up in lights/ You wonder if you'll make it out alive” [Taylor Swift, 2012]

Over the last three years, when low- and middle-income countries took on debt from private creditors (like the issuance of bonds or borrowing from commercial banks), the average interest rate on the borrowing was under 5.0 per cent – and hovering around 4.0 per cent in 2022. During this time (just to set some context), the average interest rate on which India borrowed from private creditors (bonds or commercial bank borrowing), was about 3.0 per cent in 2020, 2.0 per cent in 2021 and back to 3.0 per cent in 2022. The rates that Pakistan agreed to borrow money at during the same period? It borrowed money at around 3.0 per cent in 2020, around 4.5 per cent in 2021 and at a whopping 7-8 per cent or more in 2022.

Many in Pakistan insist that these kinds of numbers are alarmist and would immediately point out that private sources of credit only make up a fifth of all Pakistani public and publicly guaranteed external debt. Sure. Let’s then look at official creditors (including both bilateral and multilateral lenders).

Average interest rates for low- and middle-income countries borrowing from official sources in 2022 were about 6.0 per cent and the average maturity period on these new loans was a smidge above 20 years. India enjoyed longer maturity periods of about 25 years and lower interest rates, at about 4.0 per cent. Pakistan negotiated loans from official sources that had shorter maturities, at about 15 years and much higher interest rates, at about 8.0 per cent.

What this tells us should not be news for anyone with a pulse in Pakistan. The country’s management of its external debt has produced the surreal, sustained, repeat nightmare of the economy hanging at the edge of default for the last two years. The problem isn’t linear, and it isn’t short term. Pakistan is committed to a range of very large expenses outside of its debt obligations in the near and short term – and during this exact same time, Pakistan has signed itself up to short-term loans with high interest payments.

Financially, fiscally, and economically, this is like choosing to put oneself in between a rock and a hard place. But just how blindly is the country committing itself to being stuck here for an indeterminable period? For this we need an accounting of the kinds of very large expenses outside of its debt obligations in the near and short term that Pakistan’s elites have committed it to.

“We were good, we were gold/ Kinda dream that can't be sold/ We were right 'til we weren't/ Built a home and watched it burn” [Miles Cyrus, 2023]

Of course, the Pakistani intelligentsia never tires of whining about defence expenditure, but this is neither an area in which there will be any decreases in spending, nor should there be (if Gaza is not helping Pakistani elites re-learn the status of people with weak states and no military defenses, nothing will).

Pensions liabilities are a rapidly growing quantum of expenditures, and these ballooning expenses are matched only by the mind numbingly stupid proliferation both of the total number of permanent government jobs available in the Pakistani republic and by the consistent (and unhinged) salary increases that political and apolitical actors keep awarding to those already in the employ of the public sector. So, the solutions that Pakistanis keep proposing (and keep delaying) are largely around solving the public-sector employment bonanza – by privatizing entities like PIA.

The problem is that the pace of changes to how the world works is going to make the most significant liabilities Pakistan faces in the coming years make PIA and the defence expenditure look like chump change. To begin with, there is the debt servicing burden of the poorly negotiated loans and bonds that Pakistan owes the rest of the world – especially China. In the IMF’s own words: “Over half of the budget is allocated to servicing this debt, an amount equivalent to 105 per cent of total tax revenue. This leaves limited resources for spending on public welfare and other developmental priorities after tax collections are channeled into debt obligations.”

The even more alarming liabilities are in the realm of climate change. The superfloods of 2022 seem like a distant memory in part because no one in Pakistan wants to talk about how badly that event damaged livelihoods for those already living on the Pakistani periphery – poor women and children didn’t matter to the Pakistan elite before the floods and they don’t matter today.

Even absent any climate events, Pakistan has committed itself to something called the ‘Nationally Determined Contributions’ or NDCs. Among these contributions, Pakistan has promised to reduce emissions by 50 per cent in 2030 (of what they were in 2021). With five years remaining in this deadline, is there a serious person on this planet that wants to claim this to be a realistic target with a straight face?

Even more perplexing are the downstream commitments of the NDCs. Pakistan has committed itself to 30 per cent of all vehicles being electric vehicles by 2030. Pakistan has also committed to shifting the burden of its power and electricity generation to renewables so dramatically that by 2030, around 60 per cent of all power will be generated by renewable sources.

These are important commitments and when examined in isolation, they are probably less ambitious than they should be. The only problem is that to achieve these commitments, Pakistan would need to spend billions of dollars each year on infrastructure, on climate adaptation of the existing core structures of economic activity and concurrently on resilience. A lot of those billions would be required in cold hard US dollar denominated cash – because so much of the technology for climate transition will need to be imported. Clearly, very little of the climate agenda Pakistan has set for itself is achievable.

Since the world has changed and is changing so rapidly, what Pakistan’s genius elites don’t realize is that the climate frontier is going to become an instrument of punishment not just from nature, but from the high emissions, high carbon economies upon whom the Pakistani elite depend on for capital, for sustenance, and worst of all, for ideas about freedom, national autonomy and economic growth.

Already, the European Union has instituted the Carbon Border Adjustment Mechanism (CABM) as a toll that will be charged on goods that are exported to the EU. At first, these kinds of mechanisms will only affect individual exporters, but soon the cumulative effect of such offsets will shape economies. Those that adapt and adopt will thrive. Those that keep trying to survive, may. But only barely.

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