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Pakistan

**Pakistan must refuse foreign
debt repayments, divert
amount for relief &
rehabilitation of flood-hit
communities**

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Labour Relief Campaign is a network of 8 social and political organizations of Pakistan that include National Trade Union Federation, Women Workers Help Line, Progressive Youth Front, Labour Party Pakistan, Pakistan For Palestine, CADTM Pakistan, Labour Education Foundation and Pakistan Kissan Rabita Committee.} It held a Press Conference at the Lahore Press Club on Friday, August 13, 2010 addressed by Abdul Khaliq and Farooq Tariq calling for Pakistan to refuse foreign debt repayments and use the money to help flood victims.

Pakistan must refuse to pay foreign debt and divert the amount on relief and rehabilitation of flood-hit communities. Instead of begging for much-needed aid for relief and rehabilitation, Pakistan must stand up and announce unilateral suspension of repayment of foreign debts, owed to International Finance Institutions, donor countries and clubs. Currently Pakistan is paying about US \$ 3 billion on debt servicing every year. As Pakistan's present foreign debt of \$ 54 billion is increasing, the debt servicing will be up by the same ratio. This act alone can bring most of the much-needed support for the immediate relief of the flood victims.

Pakistan is facing the worst disaster of its history. About 20 million of its population is badly affected by the recent huge devastation caused by angry floods. Major infrastructure is totally destroyed in major parts of the country. Besides continuous human casualties, the economic loss is in billion dollars. The country has suffered a loss of about Rs250 billion only in the agricultural and livestock sectors and the flood recovery costs may run into billions of dollars. Pakistan is in real and worst human and economic crisis. Though international donors are announcing commitments for relief and rehabilitation, but these are peanuts vis-à-vis the degree of catastrophe.

Under the prevailing critical circumstances, we have to think about coping with this severe debt domination. Various laws and international protocols favor if Pakistan refuse to pay its debts right now, especially under the prevailing circumstances, Pakistan is passing through. To refuse payment of debts is not a new thing; many poor countries had exercised this just and lawful right in the past.

There are spaces in international law that can be invoked as legal justification to refuse the external debt. One of these justifications is called "State of Necessity". This rule is characterized by a situation that jeopardizes the economic or its political survival- such as the situations which create the factor of impossibility of fulfilling the very basic needs of the populations (health, education, food, water, housing etc). The "State of Necessity" justifies the repudiating of debt, since it implies the establishing priorities among different obligations of the state.

Therefore, a natural calamity-like the one hitting Pakistan creates the very factor of "State of Necessity". The UN Human Rights Commission has adopted numerous resolutions on the issue of debt and structural adjustment. One such resolution was adopted in 1999, asserts that "The exercise of the basic rights of the people of the debtor countries to food, housing, clothing, employment, education, health services and a healthy environment cannot be subordinated to the implementation of the structural adjustment policies, growth programs and economic reforms"

State of Pakistan is no more able to fulfill fundamental human needs of its 20 million flood-hit population. People are facing worst hardships, have no access to food, clothing, shelter and medicines. Therefore, Pakistan is simply unable to repay or service its debt responsibilities. IFIs and the creditors should not expect Pakistan to continue debt repayments, leaving its people hungry, shelterless, close its schools, its hospitals, its courts and abandon the public services, creating chaos and anarchy in the communities.

The first and foremost thing in such circumstances is the fulfillment of all fundamental human needs of the populations, hit by natural calamities and disasters. Pakistan had already missed one such opportunity in 2005 when a devastating quake hit Kashmir, leaving millions of people in misery. This time it is a more lethal calamity, and we should no more be silent. We have a number of precedents in history when debtor countries refuse debt payments on account of "State of Necessity". Latin American countries including Argentina, Burkina Faso, Peru, Mexico, Paraguay, and Ecuador took such positions in the past. Very recently IMF had to cancel all its debt (US \$ 268 million) owed by Haiti, after a devastating earthquake hit Haiti in 2009.

The cancellation is given via the newly UN established Post-Catastrophe Debt Relief Trust Fund, which was set up for this purpose and which can now be accessed by other indebted, low income countries hit by disasters. Another example is Argentina. The country went into serious crisis after the 2001 economic crisis. Though Argentine leaders had always implemented unpopular policies dictated by IMF, it was the people of Argentina who came on the roads in 2001 to protest the debt domination. This popular action succeeded in altering the history. As a result the country's president announced the biggest unilateral suspension of foreign debt in history, a total of more than \$ 80 billion, owed to private creditors, countries and Paris Club. Thus Argentina demonstrated that a country could stop debt repayments for a lengthy period of time.

Burkina Faso is another country, which stood against IFIs and refused payment of debts. In 1987, its President Thomas Sankara announced unilateral suspension of foreign debts. What he said. "The debt cannot be repaid, firstly because if we do not pay, the money lenders will certainly not die, on the other hand if we pay, we will certainly die. Those who have led us to debt trap have gambled as though in a casino. When they were winning there was no debate. But now when they have lost through gambling, they demand that we repay them. No! According to the rules of the game we cannot pay and refuse to pay all foreign debts."

Pakistan's current external debt liabilities stand at \$ 54 billion. It spends \$ 3 billion on average every year under debt-servicing. With the rising of foreign debt liabilities the ratio of debt servicing is also increasing. Pakistan's total debt-to-GDP ratio has crossed 61 percent this fiscal year, breaching the 60 percent limit set under the Fiscal Responsibility and Debt Limitation Act. According to WB if Debt-to-GDP ratio exceeds the limit of 80%, the default is sure. The major portion of Pakistan's national budget is consumed by two Ds; Debt-servicing and Defense. We have to review allocations against these two Ds. Under the circumstances, there is no denying the fact that Pakistan's single source of economy vulnerability is debt crisis. We do not have any other option to come out of this economic but to refuse repayment of debt.

We are totally opposed to the cuts in development budget which has been indicated by the prime minister several times during the last three days. We are also worried about the press reports that the government wants to levy a flood tax on the people of time and want to increase the percentage of general sales tax. This is totally unacceptable. The government must reduce its non developmental budget, reduce the military expenditures and refuse to pay the foreign debts to help the flood victims.

We also demand from IMF, World Bank and other IFIs to unilaterally repudiate the debts of Pakistan. This is time that these institutions change their usual profit earning practices.

Our immediate demands

This is high time for the State of Pakistan to announce unilateral suspension of all external debts and divert that amount for relief and rehabilitation of 20 million flood-hit people. The government should approach the newly created Post-Catastrophe Debt Relief trust Fund to get its foreign debt liabilities cancelled. The Government can also invoke

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the international protocol of “State of Necessity”, introduced by UN Human Rights Commission in 1999, to refuse payment of debts. As government is planning to review economic priorities and budget allocations, it must take steps to reduce military budget, cut non-development expenditures and other unnecessary heads. The amount, thus saved should be shifted to social sector.