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Office of the President in each of the three major regions (Luzon, Visayas, and Mindanao); 5) ask Congress to restore the Presidential power to reorganize the entire national government; 6) ask Comelec to computerize its entire operations for the elections of 2001; 7) create a Presidential Commission on Constitutional Reforms that will identify other necessary government reforms for which we must amend our Constitution; 8) will work with Congress to scrap the pork barrel; 9) order the immediate privatization of the largest government corporations; 10) reduce market interest rates in order to stimulate new investment from domestic and foreign sources; 11) keep inflation rate below 5%; 12) restore the market's confidence in our ability to manage the budget deficit."

A point-by-point review of these salient features points to an expected failure by the new administration. Basic "free market" policies are continuing to undermine not only the Philippines financial and economic system, but the global system itself. The budget deficit precludes any success for improved social safety nets, since there will be little or no money for it. Many are already alarmed that the amendments to the Constitution being identified at this early stage refer to lifting the principle of "protection of national patrimony," thereby opening the Philippine economy to foreign raiders. The withdrawal of the "pork barrel" will immediately withdraw resources from the grassroots, and along with the "privatization" of state assets, it is actually compelled by the budget deficits.

The reduction of interest rates will likely fail when faced with currency instability and speculation, while the 5% inflation target of point 11 has already been defeated by the 10.8% surge in inflation for the first half of 1998. Finally, the budget deficit is going to be filled only by the infusion of $2 billion new loans and a host of new taxes that will only increase the burden on the Filipino. The other points we did not touch on are motherhood statements that need not be tackled.

One fundamental issue, which other ASEAN states are tackling, but on which we find nothing in the Estrada program, is the economic foreign policy initiative. At the recent Bangkok "Can Thailand Be Saved?" conference, Chulalongkorn University economist Somkiat Osathanugrah took the starting point on Thailand's problem as the "contagion model," and saw the need for Thailand to pursue a new foreign policy thrust, including great infrastructure projects to build out of the current depression. Such a thrust is aimed at new arrangements in the global financial and economic system that would help resolve internal ASEAN economic problems, what has been called by some as "new architecture," and what the LaRouche movement calls the New Bretton Woods. There is no such economic and foreign policy vision in Estrada's program. Without that, we see little likelihood of change in Philippine governance to more beneficial directions. However, latest indications from the Presidential office, Malacañang, are that all options remain open.

Pakistan struggles to avoid debt default

by Ramtanu Maitra

Recent statements by Pakistan's Finance Minister Sartaj Aziz indicate that the country is on the verge of a financial collapse. With a meager $600 million in its foreign exchange reserves, fears of a debt repayment default are no longer imaginary. While the Nawaz Sharif government scrounges desperately to keep the nation financially afloat, rumors are flying thick and fast that it is the U.S. sanctions, imposed following the late-May nuclear tests by Pakistan, that has caused the crisis. The facts, however, are different.

Pakistan was in dire financial straits long before it tested its nuclear devices in the Chagai Hills of Baluchistan. The actual origin of the present financial crisis can be traced back to the policies adopted in 1988, when Pakistan agreed to the two-year structural adjustment program of the International Monetary Fund (IMF). The agreement included cutting down deficit financing by the government—a policy enforced by the IMF which unerringly leads to reduced spending in the physical infrastructure and social sectors—and paring expenditure for development. This is the price the IMF asked for ensuring that international bankers got paid during Pakistan's earlier debt repayment crisis.

In fact, over recent years, Pakistan has signed 16 loan arrangements with the IMF, though only five have been successfully completed. The other 11 were abandoned by the governments of the day as soon as Pakistan's financial situation got a tad better, because the administrators found that the IMF conditionalities were politically and socially too harsh to live with. In truth, Pakistan's deep and long-term dependence on the IMF has made its economy thoroughly debt-ridden. And, at the same time, stripped of growth potential, the country has become highly vulnerable to all fiscal and balance of payments crises.

Who killed Pakistan's economy?

In August 1990, Pakistan was facing a serious financial crunch. By Oct. 15, its foreign exchange reserves had fallen to $100 million, which represented only two days' imports, while $240 million of short-term market loans were up for payment. The IMF was holding back $244 million, the last tranche of a structural adjustment loan, demanding an increase in oil and gas prices and a hike in Pakistan's electricity tariff, among other things, to reduce the country's fiscal defi-

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cit. Once Pakistan capitulated to the IMF demands, the blood money was released.

A steady reduction in development expenditure for almost a decade, under the "guidance" of the IMF, in a country which is inhabited by many poor families, did what one would expect. With poor infrastructure and even weaker social services, Pakistan continued to depend heavily on agricultural commodity exports, which everyone knows is fraught with the risk of sharp fluctuations, and foreign borrowing. As the debt rose at a much faster rate than the growth of revenue—a phenomenon not uncommon in countries where development has been forcefully suppressed—Pakistan headed for the debt trap under the supervision of the IMF.

In 1997, the then-newly elected Nawaz Sharif government ran headlong into confrontation with the IMF. Pakistan now has upwards of $40 billion in external debt, owed primarily to the IMF. The current financial crisis has its immediate origins in the latest IMF structural adjustment program—a series of six loans subjected to conditions set by the IMF—initiated by the preceding Benazir Bhutto government. The agreement has successfully prevented Islamabad from making any substantial effort to develop its physical economy.

Sharif torpedoed

The Nawaz Sharif government, following its electoral victory in 1997, gained immmense popularity thanks to the promises it made to lower taxes, develop a more equitable tax base, and revive industrial growth and exports, which had declined under the previous government. Before the new government could begin to honor its pledges, the Crédit Lyonnais Security Asia (CLSA), one of many mouthpieces of the IMF, issued a report predicting that Pakistan was on a "collision course" with the IMF because it would not be able to keep up with the payments on its large foreign debt. CLSA said that it felt "strongly that the current market euphoria will give way to disappointments if not panic as either the IMF pulls the plug on Pakistan or Pakistan opts for a default strategy."

By the time the CLSA report was issued, the IMF had already begun to exert pressure on the new government to reduce the country's budget deficit. This prompted a massive squeeze on bank credit, which is the lifeline of Pakistan's nascent private industries. At the same time, the State Bank of Pakistan, the country's central bank, as part of the IMF program, mopped up large sums of money from the market, killing all hopes of an industrial revival.

By August 1997, the financial situation had become extremely precarious, and Pakistan Finance Minister Sartaj Aziz was expressing hope that the talks with the IMF would result in a new, medium-term loan to support his country's structural reforms. The $1.6 billion structural adjustment package was signed, and fresh loans helped Pakistan keep its commitment to pay back the foreign bankers.

According to the 1997-98 economic survey prepared by the government of Pakistan, the further damage that the IMF policy has done to the country's weakening economy is evident. Pakistan's annual debt repayment rose further, to an average of $5.5 billion, and foreign exchange reserves during the 1997-98 fiscal year were whittled down to $800 million. The country's economy grew in the same period by a nominal 1.3%, and it was no secret that Pakistan desperately needed the third disbursement of $226 million of the $1.6 billion structural adjustment loan it had earlier received from the IMF, to avoid a debt default. The 1998-99 annual budget of Pakistan was fashioned totally to please the IMF and to further weaken the economy. The only role that the May 28 nuclear tests had in all this, was to provide the bankers and Washington additional leverage to extract from Pakistan additional concessions on financial and strategic issues.

The IMF has now pressured the Nawaz Sharif government to cut its fiscal deficits drastically. This has led to reduced social spending, elimination of food subsidies, and curbing of key infrastructural development—all economic fundamentals which strengthen the weak and the poor, and lay the basis for future economic growth. Unless these fundamentals are made available to the people in general, Pakistan's revenue base and aggregate revenue cannot and will not expand, and the currency, which has lost almost 50% of its value compared to the dollar in unofficial transactions in just a few months, will further devalue. In Pakistan, the majority of the population recognizes the problem, but unless Pakistan's political leadership makes special efforts to get rid of the IMF and its pro-banker policies, the country may soon experience a debilitating internal implosion.

A callous elite

If one were to conclude that the IMF is the only ruthless character in this drama, one would be mistaken. Pakistan's callous elite, or rather the privileged class, have all along endorsed the IMF policies, because such policies have helped them to amass more wealth and power in a country where more than two-thirds of the population have been kept illiterate. The self-interest of politicians, bureaucrats, the landed gentry, and most military people—the core of Pakistan's privileged class—have led to policies which are economically unsound and not in the national interest. And, when reforms were imposed on this debtor nation, and the IMF encouraged capital flight, and a foreign exchange crisis predictably resulted, the richer Pakistanis benefitted.

Even today, when the country faces a financial breakdown, a large section of the elite are plotting how to use the crisis to bring dowwn the government and seize power. They are blaming the Nawaz Sharif government for its "high-handed approach," financial profligacy, and corruption, but nary a word is heard againt the IMF policies over the decade. Attempts made by the Sharif government to mobilize the elite to bring back the capital they took out of the country, have also fallen on deaf ears.