Rising financial colonialism

DMAIDr Manzoor Ali Isran

Pakistan has been hit with a serious financial crisis. The underlying causes may range from poor decision-making, decreased exports, low level of savings and investment, low wages, increasing unemployment to low tax collections.

Pakistan does not have a tax-paying culture and the Federal Board of Revenue (FBR) is struggling to bring more people into the tax net. According to reports, the FBR has been facing a massive revenue shortfall of Rs220.4 billion in the first five months (July-Nov) period of the current fiscal year alone.

Faced with this gloomy financial situation, Pakistan does not have any other option except to seek Foreign Direct Investment (FDI) from overseas, and loans from friendly countries and international financial institutions such as the International Monetary Fund (IMF), World Bank, and Asian Development Bank in order to fill the gap between saving and investment. Pakistan's external and internal loan is increasing to such an extent that Pakistan has to borrow just to pay the interest. Foreign debt stands at $106.3 billion. Pakistan might be the only country which is a recipient of an IMF loan and loan and FDI from China; this has put the country's fragile economy under the heavy burden of rising loans.

Financial colonization of developing countries started in the 1980s when FDI replaced aid and IMF loans were conditioned with monetary and fiscal reforms. Since then, it has spawned more poverty and inequalities than healed the ailing economies of developing countries.

The very purpose of financialization was to control the economies of developing countries, after the realization that the core capitalist nations are no longer reliant on military force and direct political control of the Global South in the face of rising economic nationalism in third-world countries. In this regard, the G-7 countries pushed for capital account liberalization through a Multilateral Agreement on Investment (MAI). It sought to establish a new body of universal investment laws that would grant corporations unconditional rights to engage in financial operations around the world, without any regard to national laws and citizens' rights.

The draft gave corporations a right to sue governments if national health, labour or environment legislation threatened their interests. When its draft became public in 1997, it drew widespread criticism from civil society groups and around 20,000 NGOs gathered in Seattle and disrupted the meeting of the WTO. After the failure of the MAI, the G-7 countries pushed financial liberalization through structural adjustment programmes under the IMF.

Most writers describe financial liberalization as a new form of 'financial colonialism' aimed at controlling the land, labour and resources of developing countries. So far, Pakistan has singed 13 agreements with the IMF and received a hefty amount of FDI and loans from China, yet its economy is lurching from crisis to crisis with no amelioration is in the sight.

Proponents, however, argue that – despite the overtones of exploitation and financial control – FDI is not only a powerful engine of growth but helps capital-poor countries to build up physical capital, create employment opportunities, develop productive capacity, enhance the skills of local labour through transfer of technology and managerial know-how, and help integrate the domestic economy with the global economy.

In this regard, the arguments of Susan Strange, British political economist, are very compelling. She coined the 'Frog Leap Theory" in response to the dependency theory propounded by neo-Marxist economists, from Samir Amin to Immanuel Wallenstein, suggesting 'delinking' of southern counties with the capitalist north as a panacea to their economic ills. Strange argued that, since the industrialized countries have created the global structures of capital, knowledge, production and security, it would be better for them stay within those structures and develop themselves by taking frog-like leaps to come out of the quagmire of underdevelopment through the proper utilization of the financial, technological resources of the Global North.

While following this approach, China under President Deng Xiaoping, Architect of Modern China, introduced far-reaching market-economy reforms and opened its economy to the outside world to overcome financial and technological deficiencies. Heavy investment followed from American and Western multinationals in the form of capital, technology and human resources. Deng was criticized for this decision by hardcore Communist Party members on the ground that it could endanger communism and destabilize China. Deng responded to this criticism with his famous saying "it does not matter is the cat is black or white so long as it catches mice". As a result, China has emerged as a strong powerhouse of manufacturing and its exports have increased exponentially. It is the second largest economy in the world and is being tipped to overtake the US by 2025.

Today China appears to be the highest investor in FDI and offers huge loans without knowing the capacity of the recipient country – that is: whether it will pay back the loans or not. China has invested more than $1 trillion in the Belt and Road Initiative (BRI), connecting 60 countries.

China and Pakistan enjoy a special relationship which is taking new dimensions and new directions after more than $62 billion as loan/investment under CPEC. If we look at the structure and design of CPEC, it offers promises and perils to the Pakistan economy; promises in the shape of opportunities to boost its dying economy and perils in the form of threat to the local business as they lack the competitive power to compete against Chinese industries in the open market.

The US has described the Chinese investment and loans as a debt-trap strategy designed to enslave debt-seeking countries financially and then take over their assets in case of non-payment of debts. The Sri Lankan port of Hambantota is cited an example of new form of Chinese style financial colonialism. The port has been taken over by Ali Baba, an online Chinese giant, when the Sri Lankan government failed to pay back its loans. The same fears have already been shown by Prime Minister Mahathir Mohammad of Malaysia.

However, despite all the speculations and fears, it is hoped that CPEC will produce a win-win situation for both China and Pakistan and lead to transformation in the economic outlook of Pakistan. It is hoped that the judicious execution of CPEC would lift the country from the perils of poverty, unemployment, illiteracy, and death and disease, especially in the underdeveloped province of Balochistan. To realize this, Pakistan has to improve its social governance to distribute the gains of CPEC equally amongst all provinces and empower local communities, in addition to making better policies and building institutions and rule of law in order to be a beneficiary of rising global financialization and stand on our own feet like other independent nations.

No doubt, global capital is available in the form of FDI, portfolio investment, hedge funds, venture capital and bonds etc, but international flows of capital depend on political, institutional, fiscal and monetary stability, size of the capital market, corporate practices and governance and regulatory framework, which at the moment are not there in Pakistan. This is something that requires the immediate attention of government functionaries and policymakers to formulate better policies as this rising wave of financial colonialism offers both threats and opportunities.

The writer works as professor in the department of management sciences at SZABIST, Karachi.

Email: isran@szabist.edu.pk