

## Impact of International Politics on Pakistan`s Energy Crisis

Yasir Dawood<sup>1</sup>; Dr. Aamir Saeed<sup>2</sup>; Mr. Ghalib Ata<sup>3</sup>; Dr. Muhammad Tahir Nawaz<sup>4</sup>

1. Lecturer, University of Lahore, Lahore, Pakistan.
2. Asst. Prof. Institute of Administrative Sc. University of the Punjab, Lahore, Pakistan.
3. Lecturer, Institute of Administrative Sc. University of the Punjab, Lahore, Pakistan.
4. Associate Professor, Engineering Management Department, CASE (Center for Advance Studies in Engineering) Islamabad, Pakistan

\*dawood.yasir@gmail.com; aamir.ias@pu.edu.pk; ghalibata.ias@pu.edu.pk;  
tahirnawaz78692@yahoo.com

### Abstract

The main objective of this study is to identify the involvement of international powers in making energy related policies in third world countries, particularly in Pakistan. The policies adopted by the government of Pakistan, to cope with the power crisis that has arisen during the recent years, are not local policies but rather the policies imposed by international powers through institutions like The World Bank or International Monetary Fund. The reasons and the procedures through which governments are forced to adopt such policies and their results are highlighted in this study.

**Key words:** Energy crisis in Pakistan; IMF, WB, New Public Management

### Introduction

In the modern technological era energy is considered to be the backbone of any country. Modern industry and conventional agriculture alike, everything is dependent on electricity. From turning on of a light in the living room to taking off of a rocket in space, nothing is possible without electricity. It is, therefore, an obvious conclusion that the country which is independent in power generation and produces cheap electricity will excel in this era of globalization whereas those who lack in these points will struggle to keep pace with the current challenges. An ideal country will be the one which has natural resources to make this idea of energy independence a reality.

Pakistan is blessed with abundant natural resources of various kinds. And yet the country is fighting with the biggest energy crisis of all times. The preposition that a country blessed with huge potential of hydro generation which is cheap and efficient, naturally favored sites suited for Hydro generation of up to 55,000 MW, and still facing power outages of up to 20 hours a day is not understandable. With a 55000 MW hydro-electricity potential and the peak demand being less than 25,000 MW, a surplus of 30,000 MW could be exported to earn valuable foreign exchange but this is not the case. Instead there is a shortage of several thousand megawatts of energy every year. This situation has broken the backbone of country`s economy and 180 Million people, living in the dark, consider themselves living in the Stone Age. But why these natural resources are not used at their full potential and why wrong decisions or policies have been adopted will be discussed later in this paper.

South Asia is complex, unpredictable and politically unstable region and it still remains mysterious to the world. Historically, invaders from other regions used South Asia as a convenient passage. The main players in South Asia are India and Pakistan. Pakistan, because of its strategic location has always been under great influence of International Powers like USA and USSR. Pakistan performed a vital role in different global issues like cold war, Afghan war and the War against Terror. Pakistan has always been a key player in defending interests of Western powers and therefore received generous aid from the US (Ali, 2009) as shown in graph below.

American aid over the years to Pakistan is shown in the following figure.

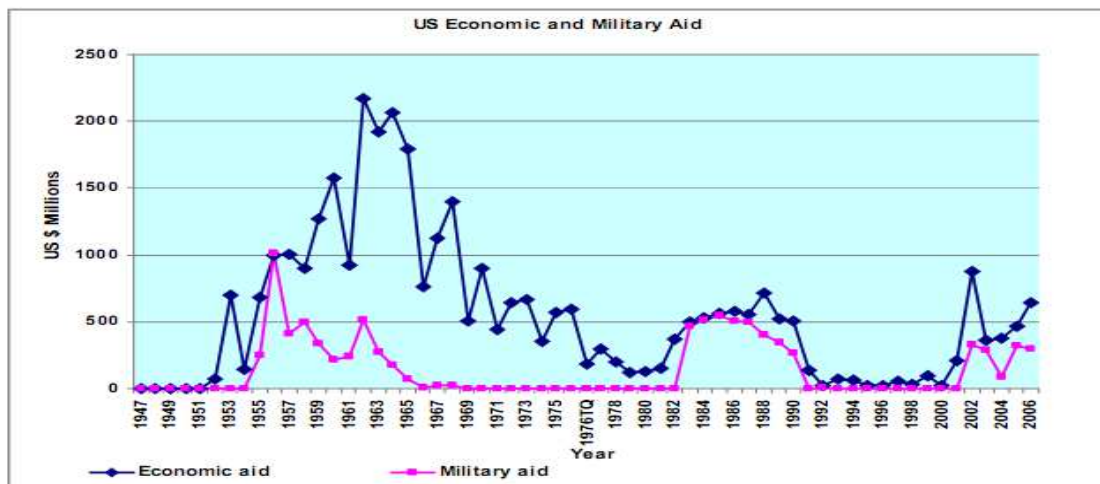


Figure 13 (Ali, 2009)

Other institutions which have provided Pakistan with financial aid are the World Bank and the International monetary Fund (IMF). Both the Institutions are strongly dominated by US policies. Both institutions are responsible to integrate third world into the capitalist system (Ismi, 2004). These institutions force third world countries for economic reforms like privatization and trade liberalization (Kovach & Lansman, 2006).

Pakistan has been a strong ally of United States since Independence. In the light of above discussion, the concern that arises here is: to what extent is the International influence responsible for the current state of the severe Pakistani Power Crisis?

### Energy Situation in Pakistan before Privatization

Since 1960 the gap between peak demand and supply of electricity is shown in graph below. The gap was small during the early years as two big dams Tarbela and Mangla were built. Although during the 90's thermal generation was increased when IPPs were commissioned but the gap kept on increasing because of high cost of thermal generation.

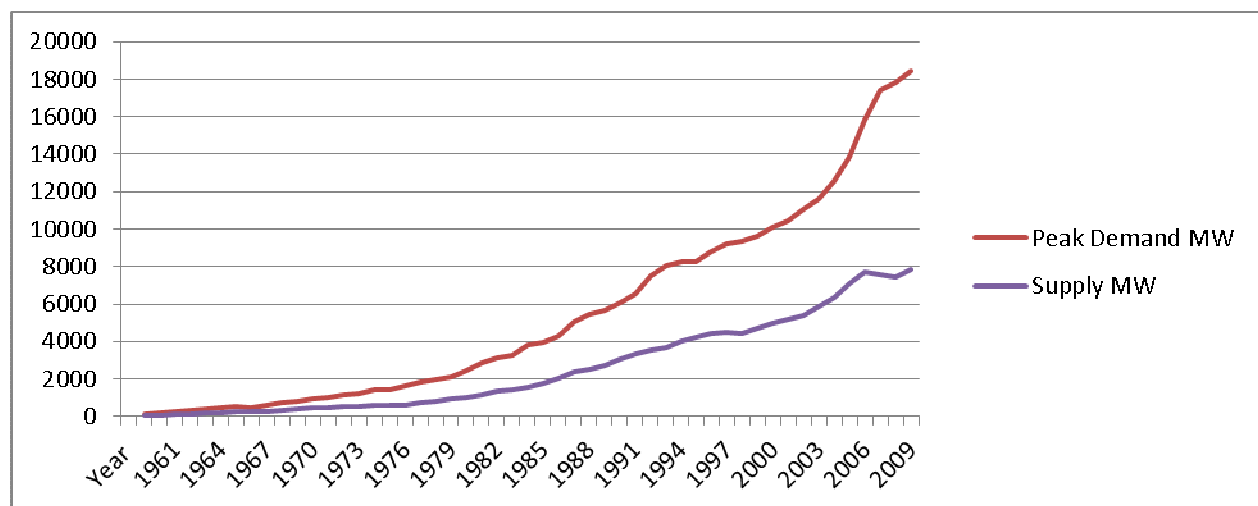


Figure 2 – Electricity Peak Demand vs. Supply (NTDC, 2010)

The performance of WAPDA and KESC (two leading public sector utilities at that time) remained satisfactory till the mid-1980s. In early 1990s there was a shortage of electricity.

In 1994 a power policy was formulated by Government of Pakistan and encouraged independent power producers to invest in generation part of power sector. The main source of generation used by private power plants was thermal. Thermal based private power plants started their operations in Pakistan as a result of

incentives and tariff that were attractive as well as generous which were offered by the government and in 1994 Private Power and Infrastructure board (PPIB) was established, as "One Window Facilitator" to encourage private sector contribution in the power sector of Pakistan. PPIB assisted investors in launching private power projects and associated infrastructure, carry out Implementation Agreements (IA) with project sponsors and issues independent guarantees on behalf of Government of Pakistan. In 2003 hydro power was also opened to the private sector (Malik, 2012). This resulted in increased electricity generation of Pakistan. Thermal capacity of Pakistan increased significantly after private sector involvement as shown in figure below.

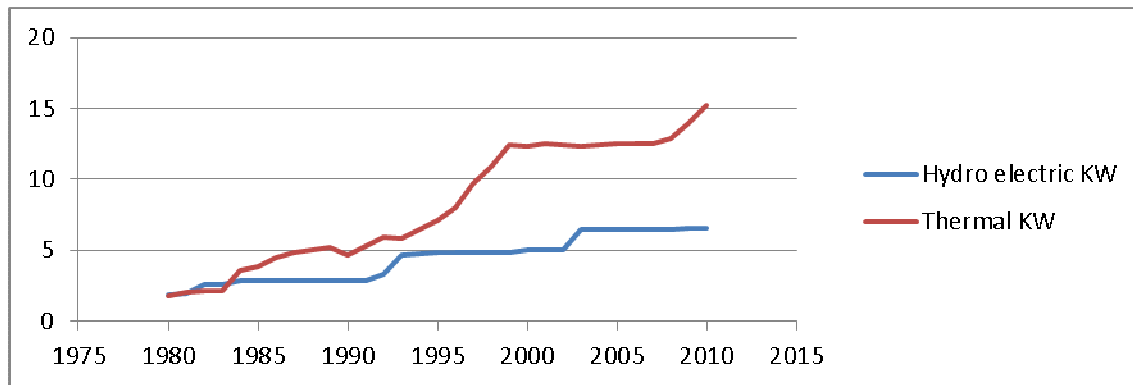


Figure 4 – Hydro Generation vs. Thermal Generation in Pakistan

**Source:**

<http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=2&pid=2&aid=12&cid=PK,&syid=1980&eyid=2011&unit=BKWH>

**New Public Management Movement**

In the backdrop of severe criticism on public sector inefficiency, a shift in the policies of the governments was impacted first in US and later in West named as New Public Management movement (NPM). The main principles of NPM movement were:

- Need for Budget restraint
- Reducing bureaucracy
- Accent on results
- Service to the public
- Decentralization and devolution
- Contracting out
- Performance pay
- Accountability (Nef, Dwivedi & Khator, 2007)

The election of Margret Thatcher in Britain and Ronald Reagan in the United States gave powerful support to the New Public Management Movement with the use of private sector involvement and operating principles mentioned above. A report by UNDP in 1993 showed that 20 percent of the wealthiest received 82.7 percent of the world's income. During 1991 to 1997 the gap between rich and poor was increasing at a rate of 20.2 percent per year. In 1991, the same elite had control over 80 percent of the world trade, 95 percent of loans, 80 percent of domestic savings and 80.5 percent in investments across the globe. Energy consumed by them was 70 percent, metals by 75 percent, timber by 85 percent and food supplies by 60 percent (Nef, Dwivedi & Khator, 2007).

Global economic powers made use of various regimes like General Agreement on Tariffs and Trade (GATT), the World Trade organization, IMF, the World Bank, the regional banks, organizations for economic cooperation and development (OECD), the group of 7 and trading blocs: the EC, ASEAN, NAFTA and MERCOSUR. This global structure influences institutions of a nation, namely, ministries of finance, treasury boards and internal banks. These devices are used by the world economic elites in order to manage their interests and maximize their profits. "Decisions...that reflect the interests of the West are presented to the World as...the desire of the world community. The very phrase, the world community, has become the euphemistic collective noun (replacing the

free world) to give global legitimacy to actions reflecting the interests of United States and other Western powers...through the IMF and other international economic institutions, the West promotes its economic interests and imposes on other nations the economic policies it thinks appropriate” (Nef, Dwivedi & Khator, 2007, p. 39).

During 80`s and 90`s structural adjustment programs were initiated by IMF and The World Bank. Loans were given to countries for these programs and constituted policies asking borrowers to open their economies for foreign business and trade and boost foreign exchange earnings by promoting exports. Structural adjustments programs have been implemented by many developing nations, which in turn resulted in making “third world countries laboratories for these huge experiments” (Swanepoel & Beer, 2000, p.49). The main areas of implementations of these programs were privatization, trade liberalization, currency devaluation, domestic market liberalization, retrenchment and deregulation (Swanepoel& Beer, 2000).

### **International Influences on Pakistan**

After the downfall of USSR in late 80`s, capitalism became the sole system of the world under which its agenda of privatization flourished unabatedly. To achieve these objectives, changes in the country`s laws to support privatization of natural resources and public infrastructures were initiated and then they also made sure that the multinationals get the maximum share in this sale of natural resources. For this matter they convinced the governments of the targeted countries like Pakistan to take huge loans in name of industrial progress from World Bank or IMF. First big loan project was introduced in 1989 and after that they (International Powers) made sure that no public welfare infrastructure is made (Like Dams) by the government. This led to the power crisis and made way for the IPPs and Rental powers.

### **IMF and World Bank**

Two most powerful organizations in the world related to trade and finance are World Bank and IMF (International Monetary Fund). Both institutions are involved in forcing third world countries to open their economies for Western penetration and also to increase exports of primary goods to rich nations. These steps that are imposed by World Bank and IMF for finance development in third world countries had adverse effects on their economies, increased levels of poverty unemployment, malnutrition and illiteracy; whereas the profits for multinational corporations have multiplied (Ismi, 2004).

Between 2002 and 2006, number of privatization conditions imposed by World Bank and IMF had risen. For most countries the conditions imposed by World Bank and IMF, relate to privatization (Kovach & Lansman, 2006). For example, 18 out of 53 conditions were related to privatization when second Development Support credit was granted to Bangladesh in 2005. In Bangladesh 50% of the population lives under the poverty line, and it faces conditions imposed by IMF and the World Bank to privatize its banks, telecommunication and electricity sectors and additional reforms to facilitate private sector involvement in gas and petrol sectors (Kovach & Lansman, 2006).

The same story forcing government of Chile to seek loans from World Bank was repeated in 1972. This was the first step towards destabilization plan of US. The bank was used by President Nixon and his National Security Adviser, Henry Kissinger, to “make Chilean economy scream” (Ismi, 2004, p.8). The succeeding economic crises led to the bloody coup of 1973. Substantial aid was given to the dictatorship of General Augusto Pinochet who was involved in killing of President Allende and nearly 130,000 Chileans during his 17 years of control. Three years of Allende presidency was given 27.7 million dollars, which is 13 times less then what was given during 1973 to 1976 (350.5 million dollars) by the World Bank to Chile. Unites State is the only country that has a permanent place among the executive directors of the Banks. Furthermore, the President of the World Bank is appointed by the US (Ismi, 2004).

### **Power Sector under World Bank and IMF**

From 1990 until 1996, the World Bank had a ‘no-lend’ policy for the power sector unless accompanied by significant reforms (Woodhouse, 2005). These reforms were to include private power producing or generating companies. The induction of IPPs in many countries has shown quite adverse results. In order to cope with the situation of problems of costs, and other issues related to IPP`s, privatizing electricity utility according to some (in particular the World Bank) is provided as solution (Bayliss & Hall, 2000).

“Pakistan has had a long association with the IMF; it joined the IMF on July 11, 1950. The first time when the Government of Pakistan asked for a loan was 1958. As the IMF`s funding amount and pattern changed after the

1970's, right after a couple of shocks of oil price and debt crises of 1980's, it was 1988 when Pakistan accepted policy packages suggested by the IMF" (Hakro & Ahmed, 2006, p. 36). So these reforms in power and other government sectors were initiated under the funding programs of the IMF.

### **Independent power producers**

IPPs are occasionally presented as innovative sources of business for investment in electricity generation. For instance, while signing the agreements for independent power plants, Executive Vice President of World Bank's International Finance Corporation (IFC) said that the involvement of private sector in electricity plants would "enable the Government of Kenya to conserve limited public resources for other priorities, such as education and healthcare" (Bayliss & Hall, 2000, p. 3) .

This statement is rather deluding because IPP investors will not take part in building or buying a power plant, unless assurance is given that they will be repaid with a profit margin, and to achieve this usually a power purchase agreement (PPA) is placed. The electricity utility in a country guarantees under PPA to purchase all the power generated by power plant. Power costs and the quantity to be sold are precise. The government is forced to buy fix amount of power produced by IPPs under the agreement even at higher rates. The government therefore spends more on the power sector thereby reducing scarce public resources which could have been used for other sectors like education and healthcare. Even if changes in demand occur or electricity is supplied through substitute sources, it remains obligatory for the governments to purchase power without changing the amount. The costs are already determined in foreign exchange, which ensures lavish profits for the investors; yet decision makers are least concerned about how this will affect domestic prices or at what cost the electric utilities will charge to its customers. If PPA is signed it is quite difficult to change the terms (Bayliss & Hall, 2000).

### **Scenario of Electricity in Pakistan after NPM**

In Pakistan the main source of electricity generation is thermal which uses oil or gas as fuel. This type of generation is quite expensive and as Pakistan is not an oil rich country; the oil has to be imported from Middle Eastern countries. Per unit cost of electricity generated from thermal plant is much greater than the cost of electricity generated from hydro generation. The cost of electricity per unit is PKR 1.06 through hydro generation and PKR 14.74 through thermal power generation by Rental Power Plants whereas IPPs are producing thermal power at a rate of PKR 9.07 per unit (WAPDA, 2012).

Thermal plants are inefficient and have extensive operation and maintenance costs (ICCI, 2012). Furnace oil used by thermal plants has become quite expensive source of generating electricity during the recent past (ICCI, 2012). The furnace oil has to be imported and consumes foreign reserves (ICCI, 2012). The major fuels used in thermal generation are oil and gas which account for about 81% of the total electricity being produced in Pakistan. This costs about 9.4 billion dollars just on fuel which is about 53% of the country's total exports and biggest cost on import bill (Saleem, 2013). Thermal power plants have become a serious issue for the economy of Pakistan as the power is generated using imported fuels, utilizing huge amounts of foreign exchange (IUCN, 2009).

The oil consumption in Pakistan has increased significantly over the last three decades as shown in figures below. The rise in oil consumption has increased oil import bills of Pakistan. As thermal generation increased, prices of electricity were not adjusted according to change in international oil prices as a result circular debt broke out in 2006 (Malik, 2012), and in 2012 the circular debt was PKR 373.236 billion (Ghumman, 2012) .

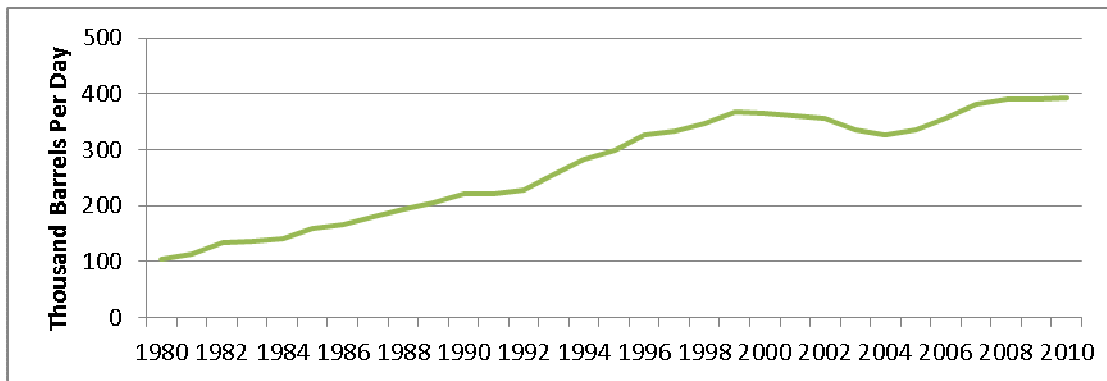


Figure 5 – Increase in Oil Consumption in Pakistan

**Retrieved from:**

<http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=5&aid=2&cid=PK,&syid=1980&eyid=2012&unit=TBD>

The electricity generation in the country is reliant on furnace oil imports; therefore any variation in the international oil market directly affects power generation costs. Similarly, any break in oil supplies may result in power supply disturbance. During recent years, the prices of crude oil have been fluctuating from US \$40 to US \$140 per barrel (Baig, 2011).

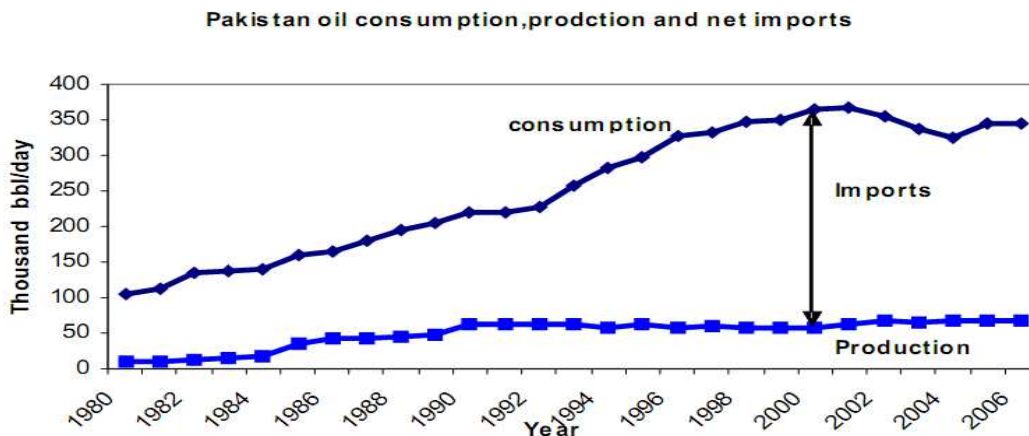


Figure 8 (Ahmad & JHA, 2008)

The increase in oil bills over the years in Pakistan is shown in graph below

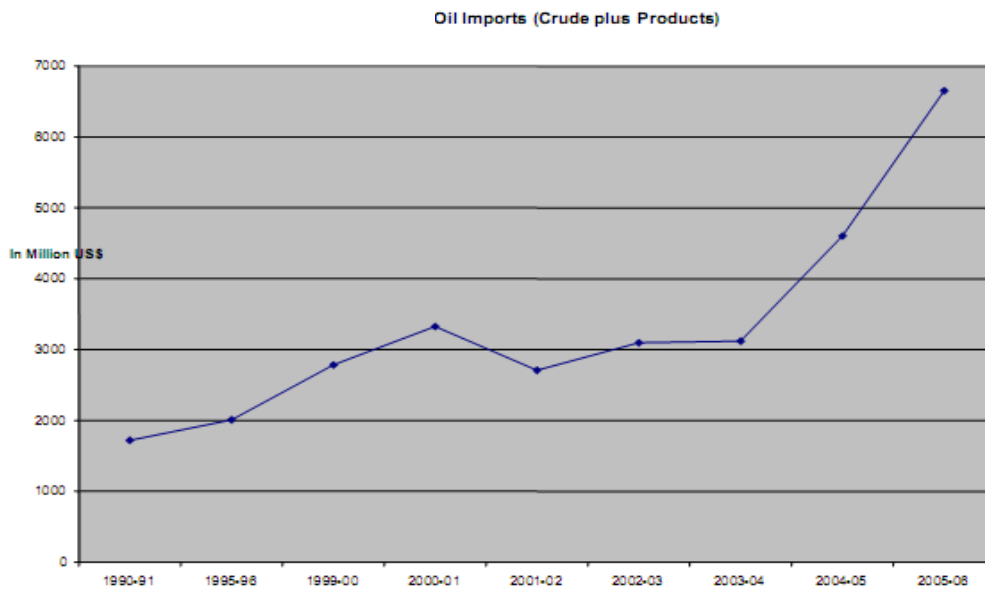


Figure 9 – Increase in oil bills of Pakistan over the years (Ahmad & JHA, 2008)

Natural gas is used as alternate fuel by some of the power plants, but shortage of gas has also been observed during past few years (ICCI, 2012). There has been a sharp increase in the demand of natural gas because of shifting of public and private transport from petrol to compressed natural gas (CNG). Hundreds of CNG stations are working in all parts of the country, increasing gap between demand and supply. There has been no addition of new gas reservoirs and so load shedding in gas has occurred in various sector of the country (Baig, 2011). The following graph shows increase in consumption of gas in Pakistan over the years.

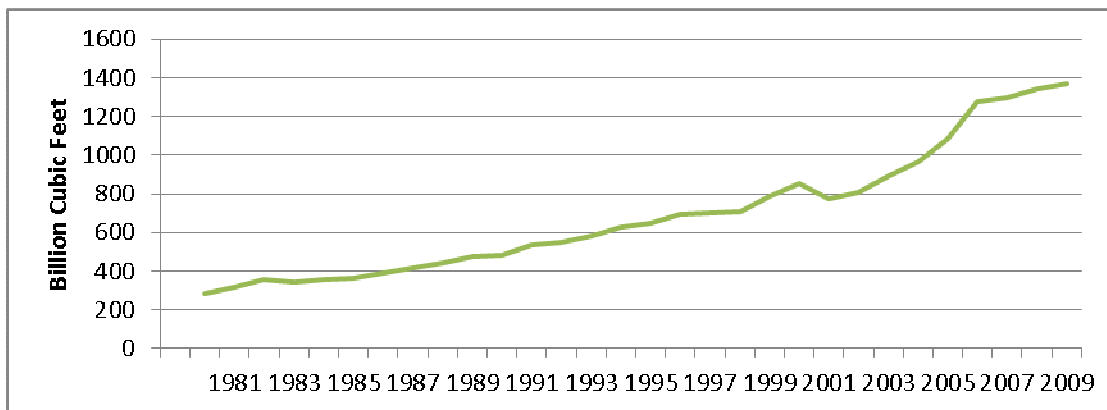


Figure 6 – Increase in Gas Consumption in Pakistan

**Retrieved from:**

<http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=3&pid=26&aid=2&cid=PK,&syid=1980&eyid=2012&unit=BCF>

The gas consumption by sectors is shown in graph below. It is expected that after 15 years the gas demand will remain same at 13.27BCFD while supplies are expected to reach level of 2.17BCFD as a result of depletion of existing gas fields which will result in huge shortfall of about 11BCFD by 2025.



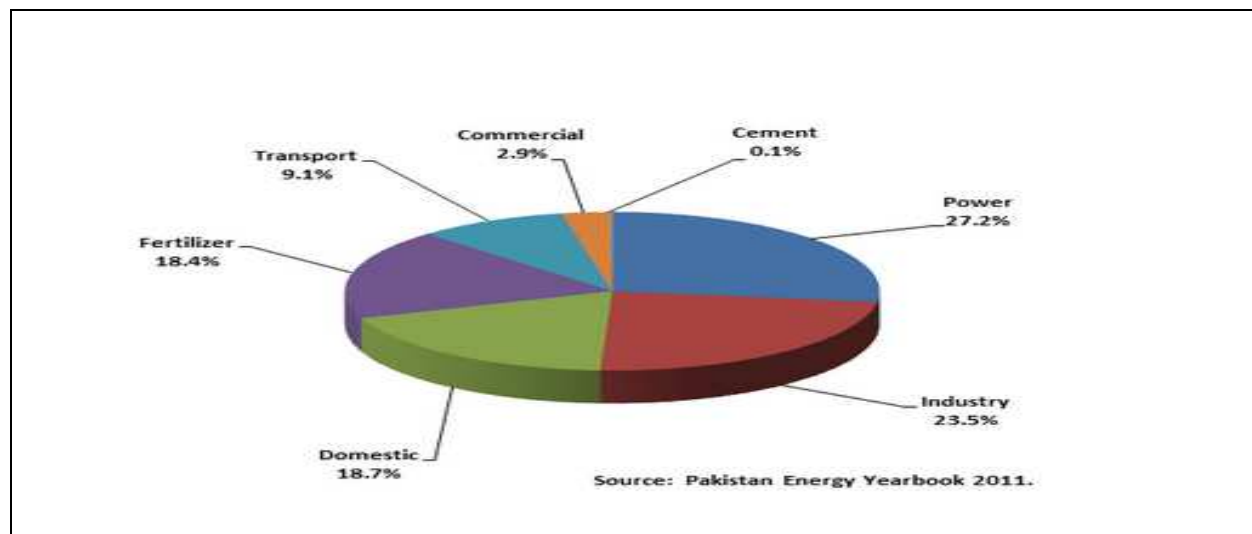


Figure 7 – Sector wise usage of gas in Pakistan

Retrieved from: <http://www.isgs.pk/growth-in-pakistan-energy-supply-mix-25>

Another concern is related to the cost of electricity services. It was claimed that because of privatization and the competition in the power sector, the electricity bills would be reduced. However, on analyzing the power sector privatization, it can easily be concluded that this has not in fact taken place.

Privatization has the prospect to decrease the costs of service condition; the price to the customer may increase (Baingana, 2005). The consumer pays a much higher cost per unit of electricity consumed in Pakistan (IUCN). This is because of 71.5% thermal-based electricity is put on the national grid. As mentioned earlier the cost of electricity per unit from thermal sources is quite expensive then hydro generation.

## Conclusion

In nutshell, it can be concluded that the Government of Pakistan, somehow, under the international influence didn't make rational decisions of referring to naturally available hydro power resources which were abundant for the country's need and instead, from the last three decades shifted to private energy producers which produced electricity from oil and gas. This was expensive and led us to circular debt and in turn to power shut downs and death of economic growth. Privatization policies adopted by Pakistan to cope with electricity shortage were implemented under the influence of the World Bank and IMF. Furthermore, privatization is a policy that is imposed by pressure in third world countries under economic development by these institutions. Pakistan has always been strongly influenced by the world powers, and mostly by America. This is the main reason why the policies adopted by government were not in the interest of the country and instead were influenced by external factors. Privatization of public resources has led to accelerated deterioration of the economic condition of the country, along with the deprivation of its increasingly poor population of a very basic need like electricity.



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