Will IMF 'Quacks' Finish Off Pakistan?

by Ramtanu Maitra

Nov. 5—Barring a miracle, it is almost a certainty that Pakistan will have to accept the International Monetary Fund's standby arrangement, with stringent conditionalities, currently being offered, to avoid defaulting on foreign loan repayment. Pakistan has been pushed into a corner to accept an IMF program that will reportedly provide Islamabad with $9.6 billion over three years, including immediate assistance of $4 to $5 billion. It is expected that the IMF agreement will come through by Nov. 15.

It is interesting to note that Pakistani President Asif Ali Zardari was keen not to go to the IMF with the begging bowl. He sought help instead from a group formed in September, named Friends of Pakistan. However, these "friends," the U.S.A., Britain, France, and Germany, along with China, the United Arab Emirates, Canada, Turkey, Australia, and Italy, plus the United Nations and the European Union, provided nothing. Reports indicate that once Pakistan accepts the "quack remedies," as IMF prescriptions are rightly called—cut down government expenditures (including subsidies), increase the taxation base, and devalue the currency—the so-called Friends of Pakistan will hand out some money to ease the pain. But, despite Pakistan's repeated requests, these friends were unwilling to part with even a dime.

What To Expect

What will the state of Pakistan, already barely holding together as a nation, be, after the IMF quackery is applied? Chances are the patient might not survive.

According to a Pakistani news correspondent, Mazhar Tafil, who claims to have seen the document discussed at Dubai between the Pakistani government and the IMF, it says that if Pakistan were to accept the IMF funds, it would have to reduce its defense budget by 30% between 2009 and 2013, and reduce the number of government and semi-government posts entailing pensions, from 350,000 to 120,000.

"The IMF will propose a taxation structure under a package of reforms in the Federal Board of Revenue and an Rs50 billion [about $600 million] increase in the current target of revenue under the head of general sales tax," the document says.

"Imposition of the agriculture tax will be made mandatory at the rate of seven per cent on wheat production and 3.5 per cent on other crops," it maintains. The Federal Board of Revenue (FBR) would submit a quarterly report to the Islamabad office of the IMF for the monitoring and analysis of revenue collection as direct and indirect taxes. The IMF would propose changes wherever it wanted.

The document says the IMF representative would be part of the FBR administrative structure and offices of the fund would be set up in all the provincial headquarters to monitor the sales tax collection at the provincial level.

The proposals also say that six IMF directors and two World Bank directors would monitor preparation of the federal budget in the finance ministry. They would make budget proposals and the government would be obliged to comply.

"The Pakistan government will have to provide details of loans it got from all other lenders, including China, 48 hours before signing the funding agreement with the IMF and 25 per cent of the government assets pledged as securities for such loans will be the property of the IMF," the document says.

According to another Pakistani analyst, Raza Rumi, the results of the IMF program will be nothing short of a social holocaust. Reducing the budget deficit to 4.3% of GDP from current levels of 8-9% means that public spending vital for social programs will be seriously reduced. "Whilst the Western governments are nationalizing banks and bailing out the economies, we will be advised to reduce and eliminate food subsidies, [and] scrap development expenditures translating into puny allocations for public goods such as health, education and infrastructure," Rumi pointed out.

Another commentator, Pakistani economic analyst Farrukh Saleem, was succinct when he said recently that the IMF's poverty reduction is all about killing the poor. America, already in a depression, is buying textiles no more. Pakistan's textile sector employs 38% of the country's labor force, and its share in total exports stands at 62%. With no electricity and no gas, Pakistan's textile mills are shutting down like never before. The banks have lent billions to the textile industry, so the banks are soon going to be in trouble. The IMF prom-

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Pakistani President Zardari has not been keen to go the IMF with a begging bowl.

ises to pour even more salt on our open wounds, Saleem said.

A Long and Difficult Relationship

Pakistan has had a long and difficult relationship with the IMF. Since 1988, the IMF, directly and indirectly, was involved with macro- and micro-managing Pakistan's economy. On the one hand, it provided direct bilateral support to help the country cope with its balance of payment deficits. On the other hand, the Fund had indirect influence on lending by other donor agencies. The IMF also influenced policies of lending countries to a great extent.

But throughout this period, the IMF was continually "dissatisfied" with Pakistan's economic performance, and usually refused to lend the full amounts which it had promised. Moreover, the IMF's relations with Islamabad were strained in 1997 by the alleged large-scale corruption by the late-Prime Minister Benazir Bhutto's Pakistan People's Party (PPP) and its resistance to structural reforms initiated by the IMF and World Bank. When the new government of Nawaz Sharif took office in 1997, relations were somewhat revived, but then soured when Sharif refused to impose the 3% sales tax on selected retail trade, a demand high on the IMF's list of conditionalities. In fact, Sharif's government failed to meet IMF conditionalities throughout its tenure (1997-99). Negative international reaction to Pakistan's 1998 nuclear weapons tests only aggravated an already difficult financial situation.

Following the Oct. 12, 1999 military coup, which brought Gen. Pervez Musharraf to power, the government, at the very outset, appealed to the IMF for restoration of economic assistance and showed its willingness to meet the associated conditionalities. The Fund responded by recommending a ten-month Stand By Agreement (SBA) for Pakistan and the resumption of the medium-term (Extended Structural Adjustment Facility/Extended Fund Facility (ESAF/EFF) program.

But when Pakistan came off an IMF program in December 2004, the government insisted that it would never borrow from the agency again.

What Ails Pakistan's Economy?

So, why is Pakistan forced to approach the IMF now? One of the most serious problems that Pakistan faces is its depleted foreign-currency reserves. According to a Pakistani economist, by mid-October, the foreign-currency reserves of the central bank (exclusive of foreign-currency accounts of $3.2 billion held by other Pakistani banks) were down to $3.71 billion—an amount equivalent to five weeks of imports (that would take it to the end of the third week of November)—from the all-time high of $14.24 billion a little less than a year ago.

The Pakistani currency, the rupee, has lost 25% against the U.S. dollar since the beginning of the year. Fresh foreign capital inflows have dried up or slowed down. According to the Prime Minister's finance advisor, Shaukat Tareen, $6-10 billion has been taken out of the country in the last six months. Inflation is running at a 30-year high of 25%.

The government estimates that it needs $3.5-4.5 billion in the next 30 days to cover its balance-of-payments obligations and rebuild foreign-currency reserves. "We're in a situation where money has to come from somewhere—even if it has to be the IMF—to end turmoil in the markets and restore confidence in the economy," the former chief economist Pervez Tahir argues.

Another leading Pakistani economist, Shahid Javed Burki, pointed out recently in a column in *The Dawn*, that from Pakistan's perspective, its economic crisis couldn't have come at a more awkward time, since Islamabad's need for the infusion of foreign capital continues to increase, while the developed countries are all absorbed in trying to deal with the meltdowns in their own financial sectors.

Saudi-British Nexus

There are perhaps two reasons, why Pakistan's "friends" decided it has to go to the IMF. First, Pakistan had long been in difficulties with the United States over its unwillingness to go the whole nine yards to meet the Bush Administration's demands over the Afghan War. It is not that Pakistan has not helped the U.S. and NATO during these seven years of bloody war in Afghanistan, but it did not do "enough" to satisfy the White House, or Capitol Hill, or the Pentagon. In other words, the unleashing of the IMF on Pakistan should be read as punishment handed out for noncompliance of demands made by the U.S. and the NATO.

(What is not discussed, is what the state of the Afghan War would be today, and where the reluctant warriors of NATO would be, if Pakistan hadn't helped the foreign occupiers as much as it did and, in the process, gotten pummeled by the jihadis. Nor is there any indication that the bloody war on Pakistani soil will end in the foreseeable future.)

The second reason is that Islamabad is steadily slipping out of Washington's sphere of influence and the United States is hated by most Pakistanis. In this environment, Saudi-British influence is growing. This duo is involved in helping the Pakistani militants, who are helping the Afghan Taliban, who are fighting the U.S. and NATO, and the Pakistani Taliban, who are fighting the Pakistani Army.

Following the global economic collapse, Britain is in the forefront of trying to maintain the existing financial architecture by strengthening the IMF. British Prime Minister Gordon Brown was in Saudi Arabia to seek funds for the IMF. Putting Pakistan under the strengthened IMF will enhance both London's and Riyadh's control, which they lack now, over Islamabad.

Britain is keen to have a stronger influence over Pakistan for geopolitical reasons. In recent years, through its intelligence wing, MI6, and its endless promotion of opium in Afghanistan, Britain has succeeded in creating a permanent state of chaos along the Pakistan-Afghanistan borders. The British objective behind the creation of chaos is multifold. The old colonial rascals are trying to weaken the United States in Pakistan; working to prevent the Chinese from having access to the Persian Gulf through Pakistan's western borders, and thus develop a network of trade and development linking Pakistan and China to Central Asia; and moving to position itself next to the Central Asian nations where three major powers—Russia, China, and India—meet.

On the other hand, the Saudis have an altogether different agenda, centered around spreading the extreme orthodox form of state Islam, Wahhabism in Pakistan, and beyond in Central Asia, all the way to the southern flanks of Russia.

Resuscitate the 'Quack'

There is yet a third reason for Pakistan's "friends" sending it to the IMF: the international effort, led by Britain, to reestablish the IMF as the global monitor (dictator) of the collapsed financial system. In order to strengthen the IMF, which has little monetary strength, and had only Turkey as its client prior to netting Pakistan, Hungary, Georgia, and Ukraine in recent days, Gordon Brown went to Saudi Arabia just before Pakistani President Asif Ali Zardari went to Riyadh on Nov. 4. There, Brown demanded that the oil-rich Gulf States and China contribute funds for the IMF to lend to countries at risk of financial collapse.

In Riyadh, Zardari met with virtually no success. Pakistani media cited diplomatic sources saying the Saudis are not enthusiastic about easing the economic crisis confronting the country. Diplomats have attributed the coolness of the Saudi response to its unease over Pakistan's quest for an oil facility from Iran, a realignment of Saudi goals in the region, and political changes in Pakistan.

Brown claimed success in his attempt to persuade Saudi Arabia to help stricken economies by pumping more into the IMF, but this is by no means confirmed. However, it is almost a certainty that at the G-20 summit on global finance, scheduled to be hosted in Washington Nov. 15 by a reluctant U.S. President George W. Bush, the British, along with the Saudis, and perhaps some others, will push for putting some teeth into the IMF's conditionalities.

What is most disgusting about this situation is the American behavior. At a time when the U.S. Treasury was handing out sacks full of billions of dollars to bail out the corrupt investment bankers et al., it ignored Pakistan's dire need for a loan of $10 billion. Instead, the United States, which has used Pakistani soil for almost eight years now, to supply 70% of the logistics for its Afghanistan War, allowed the British and the Saudis to push Pakistan into the arms of the "quack." This may well complete the process of destruction that Washington's "war against al-Qaeda" has done so much to bring about.