IMF holds knife to Pakistan's jugular

by Ramtanu Maitra

Pakistan's English-language daily *The Dawn* leaked a report in early October, warning authorities to immediately implement the International Monetary Fund's Structural Adjustment Facility (SAF), lest the additional financial resources Pakistan is seeking be difficult to come by, and the IMF cut off the $248 million balance of assistance under the 1988 agreement.

The report by the IMF's henchmen demands a vicious austerity program:

- Pakistan must forthwith increase the imported oil and locally explored natural gas prices by 41%, in order to rake in $450 million as additional revenues. This, says the Fund, will reduce the current budget deficit to the acceptable level of 5.5% of the GNP. Simultaneous price rises in electricity, public transportation, and railways are also demanded.
- The government must give full consideration to additional resource mobilization—unspecified. One possibility for the authorities, not mentioned in public by IMF officials, is to exploit the full export potential of Pakistan's ever-growing stock of heroin and hashish.
- Pakistan must immediately impose general sales taxes, except on basic food and export items, and implement "reformed" income tax measures beginning July 1991. The IMF wants the government to auction off public debt and establish markets in government securities.
- The government must implement a "flexible" pricing policy for the country's 600,000 tons of rice stock, so that it can be dumped or exported before the new crop is harvested in November or early December, to earn additional income and reduce agricultural loans.
- Finally, Pakistan must station a permanent Fund representative in the country.

Besides the fact that the economy has been managed by the IMF for the last two years—and the IMF's austerity policy with regard to developmental expenditures is in full force—the latest threat could not have come at a worse time. With Pakistan's general elections Oct. 24, the IMF warning is a reminder that the new government will have to comply with its murderous policies, or else.

Tighter and tighter squeeze

The IMF has been warning Pakistan of a possible aid cutoff since last October, when it reached an agreement in principle with the Bhutto government to let the implementation of reform be extended from three to four years, because trade had so deteriorated that Pakistan had lost a half-billion dollars of expected income during the first year of reform. The third tranche of nearly $300 million, due in July 1989, was delayed for four months, while the Fund forced Pakistan to dump its cotton stock at a reduced price.

The fourth and final tranche, which is now threatened with cutoff, was due in June 1990. The Bhutto government had repeatedly requested the Fund to release the last tranche at an earlier date, in view of its good record in implementing the IMF-prescribed reforms. When the IMF refused to comply, Prime Minister Benazir Bhutto's high-profile, foreign-trained economic adviser V.A. Jaffrey told the Finance Ministry to undertake a fresh study for carrying out structural reforms. Under the guise of disciplined economic management, Jaffrey angled for cutting subsidies, notwithstanding the fact that a large section of the poor, the political backbone of Bhutto's Pakistan People's Party, was up in arms because of her failure to implement the promised poverty alleviation program to the full, due to the IMF's fiscal austerity requirements.

Having acquired a $20 billion foreign debt, depending on oil imports, and fostering an economy which depends upon cotton products for more than 70% of its exports, Pakistan, like other South Asian nations, has been hit right between the eyes by the Thatcher-Bush Gulf crisis. Pakistan will have to come up with an additional $2 billion to buy expensive Gulf oil, and face an annual foreign exchange shortfall of about $500 million in lost remittances from repatriated workers in the Gulf.

All these factors have led to a dramatic shortfall in Pakistan's foreign exchange reserves. The cabinet recently decided to roll over the short-term commercial credit of $250 million of one-year maturity due in 1990-91. Meanwhile, Finance Minister Sartaj Aziz, went abroad seeking cash deposits from Saudi Arabia, United Arab Emirates, Qatar, and Iran, to be kept in the State Bank of Pakistan in order to strengthen the foreign exchange reserves.

Beware the World Bank bureaucrats

The 1988 IMF Structural Adjustment Facility agreement, signed in October 1988 by Mahbubul Haq, then caretaker finance minister, a Harvard-trained economist and former World Bank director for Policy Planning, is now threatening the nation's sovereignty. With Washington pulling its aid strings and demanding payments for the deployment of troops in the Gulf, Pakistan is caught between a rock and a hard place.

As it takes the helm, Pakistan's new government should steer clear of such foreign-trained bureaucrats and economists as V.A. Jaffery, Iqbal Akhund, Feroz Qaiser (all three had forced Bhutto to make disastrous economic decisions), Mahbubul Haq, and Sartaj Aziz.