IMF Pushes Pakistan Toward Chaos

by Ramtanu Maitra

In late February, as the Turkish currency plunged under external attack, the value of Pakistan's rupee moved downward at an alarming speed. For the first time, the rupee was traded above 60 to the U.S. dollar in the official interbank rate. In the open market, the dollar fetched 63 rupees; the rupee has lost 16% of its value since Dec. 1.

The rapid depreciation was triggered by a tight monetary policy imposed on Pakistan by the International Monetary Fund (IMF) over the last six months. The policy has dried up domestic investment in the core sectors, and as a result, Pakistan's large-scale manufacturing sector has remained stagnant, registering zero growth during the same period.

Rampant illiteracy, poor infrastructure, and massive unemployment have made Pakistan a hotbed for breeding militant Islam. In a situation where a resolute and immediate internal developmental expenditure could prevent Pakistan from falling into anarchy, the IMF, the enforcer of last resort, has told the State Bank of Pakistan to further squeeze bank liquidity and cut off budgetary expenditures. The State Bank of Pakistan has made it known that such a policy will further shrink the revenue base, which would only exacerbate the tight-money situation. But the IMF's muscle, backed by Pakistan's Finance Minister, Shaukat Aziz (who is a Citibank official on leave), and his gang of bureaucrats trained by the IMF-World Bank, will have its way.

The Crisis Comes into Focus

Pakistan's economic and financial problems have a long history, not all of the IMF's doing. Although the IMF had been overseeing Pakistan's economy for years, and prescribing the lethal dose as curative medicine all these years, Pakistan's elites have played the most traitorous role. Rampant looting of the treasury by one group of politicians or the other, such as Prime Ministers Benazir Bhutto and Nawaz Sharif, and willful complacency by bureaucrats eager to serve the corrupt politicians and line their pockets, left the country in deep economic and financial turmoil. Add to that, Pakistan's defense expenditures and its aid to the extremists in Afghanistan and Kashmir, and one gets a fair picture why this country's economy can be pushed to disintegrate.

Once a distant picture (much as Afghanistan's disintegrated social fabric remains blurred and insignificant to outsiders today), Pakistan's economic shortcomings were brought into sharp focus in 1999 when it rescheduled its debt repayment with the Paris Club, which provides soft loans to the tune of $1.7 billion annually to Pakistan. Islamabad has since rescheduled the debt repayment again, and will not be paying back the Paris Club till September of this year.

It is the Paris Club which has unleashed the IMF on Pakistan recently, and has asked the international financial institution to look into every accounting book to make sure that Pakistan "saves" money to repay its debt. The IMF scrutinized Pakistan's financial accounting for almost a year, threatening and arm-twisting along the way, and at the end of last year, agreed to issue a Standby Arrangement (SBA) loan of $596 million. The first tranche of $196 million was released, but the IMF has refused to release the second tranche of $135 million without going through the books again.

Pakistan's currency and economy are now being destroyed by its debt. Pakistan has acquired a foreign debt to the tune of $35.5 billion (this goes on increasing fast in rupee terms, as the local currency travels southward). Debt service on external debt stock is $8.2 billion annually. Pakistan's present foreign reserves are only $1.1 billion, and this includes $500 million of *private* foreign currency deposits. Pakistan's central bank purchased $750 million during the first six months of the fiscal year (July-December) through offshore moneychangers, at a premium of 2-2.5 rupees above the interbank rate, to maintain the $1 billion-plus level of reserves.

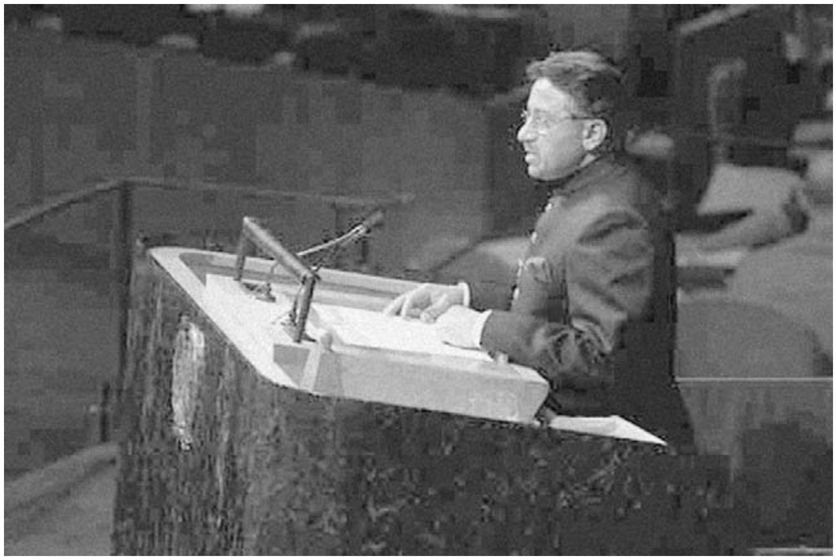
But the IMF has demanded that Pakistan's foreign reserves should not be allowed to go down below $1.74 billion. In order to maintain this level, and because Pakistan no longer has the capability to generate foreign exchange surpluses through economic activities, the central bank has no other choice but to buy more dollars. This will inevitably lead to further erosion of the Pakistani rupee in the near future.

The IMF promised a "recovery" in foreign investment in Pakistan. But, according to official statistics, the country received net foreign direct investment of $142 million during July-December 2000, compared to $306 million during the same period of 1999; portfolio investment was a *negative* $67.4 million in July-December 2000, compared to an outflow of $29.4 million last year. So, the IMF policy led to the shrinkage in direct investment by almost 55% and increase in portfolio outflow by more than 100%!

The IMF now again demands that Pakistan stabilize its external account, so that debt can be paid. In order to achieve that, it suggests that Pakistan adopt a tight monetary policy, reduce fiscal deficits, cut down on budgetary outlays, etc. This is the same old economy policy of cannibalization which has rendered many a nation bankrupt.

What Is at Stake?

Beside the 140 million Pakistanis, most of whom are extremely poor, a few other important matters are at stake. This may even include the sovereign nation status of Pakistan. For instance, well-trained and well-armed militants, who espouse the cause of Islam in order to seek political power, now surround Pakistan. Terrorists have been trained in Afghanistan, with the help of narco-money, and they were unleashed first in Kashmir, and later in Tajikistan, Uzbekistan, and Kyrgyzstan. The Pakistani elite, which also includes a section of Pakistan's military, helped the Western powers to build up this force. But now, the tables are turning, and turning rapidly. Pakistan is becoming the seat of extremism. It is yet another classic case of Dr. Frankenstein and the monster.



Pakistan's military leader, Gen. Pervez Musharraf, is an opponent of the fundamentalists, and would prefer peace in Kashmir. But the IMF is pushing the country toward the control of the extremists.

Pakistan's Chief Executive, Gen. Pervez Musharraf, on his ascendancy to power through a bloodless coup that ousted the duly-elected government of Nawaz Sharif in October 1999, was widely welcomed by the people of Pakistan. General Musharraf was "chosen" by the powers-that-be for three basic reasons. First, he is a military man, and Pakistan's military, as an institution, is perhaps the only cohesive force that exists in the country. Second, he is a Mohajir, which means one who migrated from the Indian part of the subcontinent with the formation of Pakistan in 1947. This means that General Musharraf is not part of a clique that has created the mess, and is definitely opposed to the fundamentalists. Third, General Musharraf told his countrymen that his priority would be to get rid of the corrupt political practices and put the country's economy on the right track. He indeed got rid of Nawaz Sharif, who is now languishing in Saudi Arabia, while Benazir Bhutto is waiting for someone to bring her back to Pakistan from the self-imposed political wilderness in Britain. At the same time though, General Musharraf has embraced greater corruption—the IMF! By its acts of omission and commission, the IMF has cut off both the General's feet. Pakistan's strongman is now completely under its control.

What To Expect

What to expect in the coming days depends heavily on what General Musharraf, and others who understand what the IMF policy will lead to, are willing to do to buck the tide. General Musharraf, in his address at the Feb. 24-25 conference of Developing Eight countries (the D8 is comprised of Pakistan, Egypt, Nigeria, Malaysia, Turkey, Bangladesh, Iran, and Indonesia) in Cairo, called for debt relief—in fact, for all the developing nations. The IMF's position is that Pakistan will get no debt relief, but its debt will get rescheduled and interest payments will grow.

So, it is likely that the crisis will grow. The overall growth registered by the Pakistani economy last year, despite industrial collapse, was 4.5%. All of this growth came from its large agricultural sector, which grew by 6% because of a very favorable climate, with bumper cotton, wheat, and rice crops. This helped to increase exports, reduce the trade deficit, and conserve the tiny foreign exchange reserves. Pakistan may not be so lucky this year. The long dry spell has begun to take its toll. Pakistan's central bank on Feb. 26 warned that an acute shortage of water has badly hit the agriculture sector already. Cotton production is estimated to be down 20%. Water-intensive paddy crop and sugarcane will not meet expectations, and all other agricultural products are expected to be affected adversely.

With the IMF on its shoulders asking it to cut down on its budgetary outlays, reduce its fiscal deficits, and mobilize its internal and external economy to generate foreign exchanges which can be then used for repayment of debt, General Musharraf has few options to fall back upon.

To add to the economic woes, General Musharraf cannot but notice the gathering of other dark clouds over Pakistan. In its west, hundreds of thousands of Afghans, hungry and pauperized by a brutal drought, a severe Winter, a never-ending civil war, and the United Nations-imposed economic sanctions, are trying to move into Pakistan en masse. It is a desperate crowd that can be organized by any zealot to pick up arms against all that is perceived by them as evil.

In its east, Kashmir remains a potential war zone, although neither India nor Pakistan wants to go to another war over it. But with a weak Pakistan, reeling under pressure of illiteracy, joblessness, zero industrial growth, and a growing army of militant zealots, resolving the Kahsmir issue may turn out to be close to impossible.

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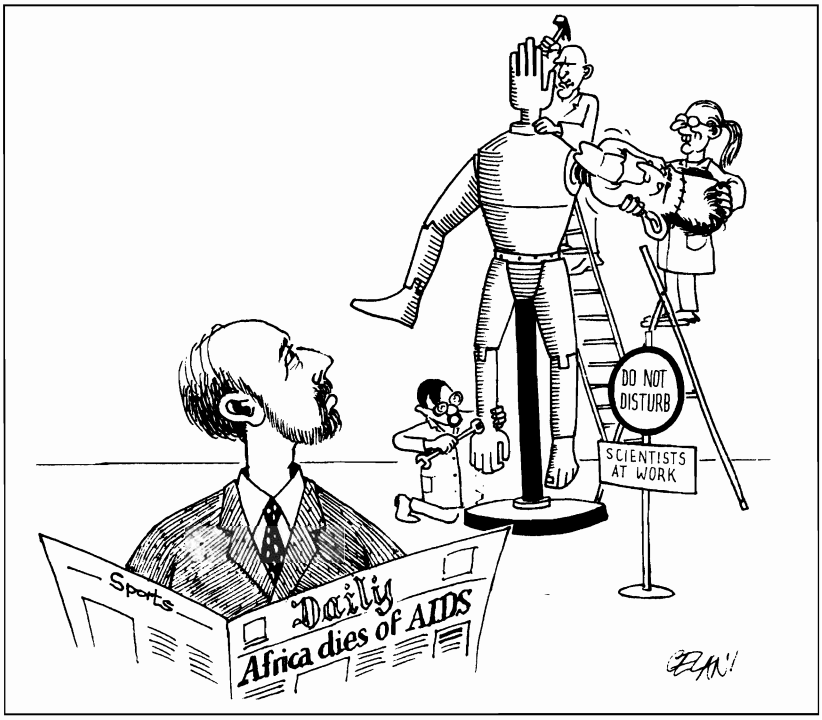

The Group of Eight heads of state, meeting in Okinawa in July 2000, proclaimed as its major accomplishment, the establishment of a task force aimed at giving the Third World access to the "Information Revolution." In a parody of Marie Antoinette, they said of the world's poor: "Let them eat laptops!"

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Table of Contents

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