HOW THE INTERNATIONAL MONETARY FUND IS SQUEEZING PAKISTAN

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This dossier was produced in collaboration with the Research and Publications Centre (Lahore, Pakistan) and written by Taimur Rahman, associate professor of political science at the Lahore University of Management Sciences (LUMS), spokesperson of the band Laal, and general secretary of the Mazdoor Kissan Party and of the Left Democratic Front.

The photographs featured in this dossier are by Ali Abbas ('Nad E Ali'), a visual artist based in Lahore, Pakistan, whose work explores themes of alienation, belonging, and the in-between spaces that exist in all cultures. The photographs are from the series 'Hauntology of Lahore' (2017–present), borrowing the term from philosopher Jacques Derrida, which has been ongoing since 2017. In Abbas's the words of Abbas, 'within the very landscape of Lahore, amidst its bustling streets, ancient structures, and vibrant communities lies a reservoir of untapped futures and unrealised potential'. This dossier sheds a light on that reservoir of untapped futures and unrealised potential in an economic, political, and cultural sense, not only of Pakistan, but of the oppressed people of the Third World more broadly.

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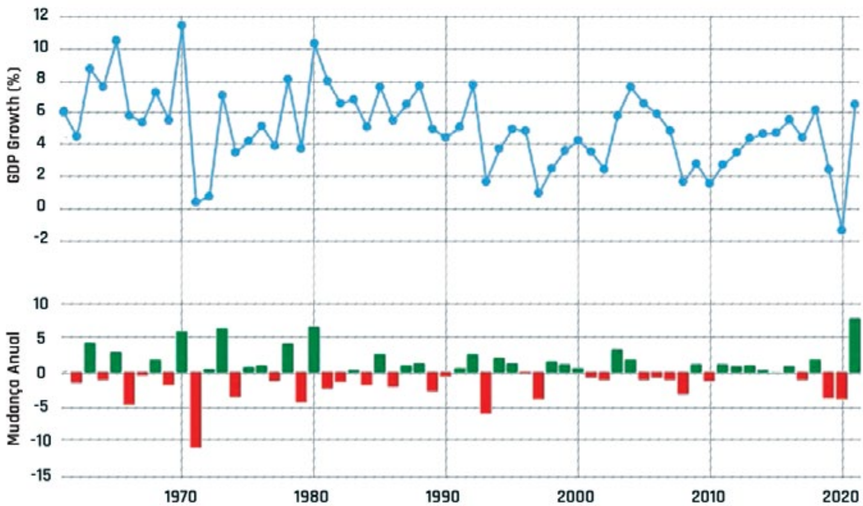
Pakistan has made international headlines repeatedly over the last year, unfortunately for almost all the wrong reasons. While the country has been associated with extremism and terrorism for over two decades, more recently Pakistan has become known for natural disasters and political upheavals. Catastrophic floods have displaced tens of millions of people while a controversial vote of no confidence in March 2022 forced Prime Minister Imran Khan and his party, Pakistan Tehreek-e-Insaf (PTI or 'Pakistan Movement for Justice'), out of office.[1]

Among the issues that deserve serious attention is the massive and unprecedented contraction of the country's economy. The International Monetary Fund (IMF) has projected that Pakistan's economy will grow by a mere 0.5% in 2023 and that the public will experience inflation rates upwards of 27%.[2] The government's own data indicates that the Pakistani economy has only grown by about 0.29% in 2023.[3] Given that Pakistan's population is increasing at a rate of 1.8%, outpacing national economic expansion, the gross domestic product (GDP) per capita will shrink.[4] In simple terms, the average Pakistani is going to be significantly poorer in the coming years.

According to the World Bank, between 8.4 and 9.1 million people in Pakistan likely slipped below the poverty line in 2022 owing to the combined effects of inflation and the destruction of crops by the floods that inundated a third of Pakistan's agricultural land.[5] Damages and economic losses from the floods have been estimated to exceed $30 billion, with a minimum of $16 billion needed for reconstruction.[6]

Pakistan's GDP Growth Rate, 1961–2023



Source: Macrotrends.[7]

Prior to the floods, the COVID-19 pandemic had already caused disruptions and contractions in almost every sector of the economy. GDP growth rates fell from 6.15% in 2018 to -1.27% in 2020. The decline was driven by a sharp contraction in the services sector, particularly in wholesale and retail trade, as well as the transportation and communications sectors. The pandemic increased unemployment and poverty, as many businesses were forced to close or reduce their operations due to lockdowns and social distancing measures.[8] Crucially, the pandemic exacerbated Pakistan's fiscal and external imbalances as tax revenues declined, spending on health and social protections increased, and exports and foreign remittances decreased. Owing to supply chain disruptions, hoarding, and panic buying, food prices rose and double-digit rates of inflation became the norm in 2021.

Although Pakistan recorded an impressive post-COVID-19 recovery, it was extremely short-lived. In 2023, the economy has struggled against adverse terms of trade. As the Pakistani rupee declines in relation to the US dollar, Pakistan's import bill rises, causing massive cost-push inflation (i.e., when prices rise because of increasing production costs such as wages and raw materials). Rising import bills result in higher costs for electricity, transportation, and even raw materials, which means that local industries become less competitive in the international market. As such, the value of the country's imports exceeds the value of its exports, leading to a growing current account deficit. The whole cycle repeats like the time loop in the film *Groundhog Day* (1993), but without a happy ending.

The current Pakistan Democratic Movement coalition government, which came to power in April 2022 after a vote of no confidence passed by a hair's breadth, is experiencing enormous economic and political difficulties. The government has delayed provincial elections in defiance of rulings by Pakistan's Supreme Court that such decisions were unconstitutional. Meanwhile, breadlines are growing longer, and desperately poor people have been crushed in stampedes at flour distribution centres.[9]

In sum, things are a mess. Why is this all happening?

Some allege that Russia's Vladimir Putin and China's Xi Jinping are to blame for Pakistan's troubles.[10] Although it strains credulity, according to this train of thought, the war in Ukraine and Chinese loans are responsible for the country's debt problems. As US State Department Counsellor Derek Chollet put it during a February 2023 visit to Islamabad, 'We have been very clear about our concerns not just here in Pakistan, but elsewhere all around the world about Chinese debt, or debt owed to China'.[11]

This line of thinking is flawed in three key aspects. First, the balance of Pakistan's trade deficit, which causes the government to ask for loans, long predates the war in Ukraine. Second, while China holds about 30% of Pakistan's foreign debt, most of this debt is in the form of project loans connected to the China-Pakistan Economic Corridor (CPEC), part of the Belt and Road Initiative. In other words, this debt goes directly to improving the country's infrastructure and prospects for economic development.[12] Most importantly, China has not dictated any specific economic model or policy to Pakistan. This is a sharp contrast to Pakistan's long history of following IMF recommendations: in the 76 years since its independence, Pakistan has entered into 23 agreements with the IMF – that is, on average, an agreement every three years. Moreover, the present austerity measures that have cause electricity, fuel, and gas prices to skyrocket were recommended by the IMF.[13]

In 1995, Pakistan joined the World Trade Organisation (WTO), and the country's average import tariffs decreased from 45% to 8.6%.[14] For the last 20 years, foreign imports have been flooding the local market, and the new consumption economy that emerged from 2003 onwards has witnessed a severely declining balance of trade.[15] Pakistan's balance of payments problems have long been managed by the country's main 'export' – its geostrategic value to Washington. When the United States invaded Afghanistan in 2001, it needed Pakistan's support, and so it removed its economic sanctions against the country and provided it with economic, security, and military aid. In the same period, owing to Pakistan's strategic importance in the 'War on Terror', the Paris Club rescheduled $12.5 billion out of the total of $13.5 billion of the debt that Pakistan owed to it.[16] In addition, it also granted the country trade concessions.* It was almost as if Pakistan had received a clean slate and could start all over again. But this was not to last.

From 2004 onwards, Pakistan's imports began to outstrip its exports.[17] To some extent, this was mitigated by workers' remittances from abroad. However, between 2015 and 2018, Pakistan's current account deficits skyrocketed from $2.8 billion to $18 billion.[18] This predated the Ukraine war – the pretext used to divert attention away from facts and instead contribute to the New Cold War against China and Russia – and had little to do with CPEC. Rather, this deficit was driven by the fact that Pakistan is no longer competitive in the international market and has continued to import goods and services at a rate that it simply cannot afford.

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* These were the Symington Amendment (adopted in 1976 and implemented in 1978), the Pressler Amendment (1990), and the Glenn Amendment (adopted in 1977 but applied to Pakistan in 1998). Approximately $1.2 billion in US foreign assistance was promised to Pakistan for 2002–2003. See Bessma Momani, 'The IMF, the US War on Terrorism, and Pakistan', *Asian Affair* 31, no. 1 (2004), https://uwaterloo.ca/scholar/sites/ca.scholar/files/bmomani/files/the_imf_us_war_on_terrorism_and_pakistan_a_lesson_in_economic_statecraft.pdf, 45.

Pakistan struggles to compete in the international market not because labour costs are too high, but because, despite receiving export promotion benefits, textile exporters have been unable to enhance labour productivity over the last four decades.* There has been no serious effort either in the public or private sector to improve the country's technological infrastructure. As a result, over time, countries such as Bangladesh, China, and Vietnam have surpassed Pakistan in textile productivity and exports.

At the same time, the voracious appetite for imported luxury goods has become so high that Pakistan's trade deficit now stands at $42 billion, about $30 billion of which is paid for by workers remittances.[19] The country's economy is transforming from one that primarily exported cotton and cotton-related products during the Green Revolution in the 1960s and 1970s to a country that is increasingly exporting mainly its workforce and labour power.

* Since the 1950s, the government of Pakistan has promoted exports through tax rebates and import licensing schemes. See for instance, Federal Board of Revenue, 'Export Facilitation Scheme', Revenue Division, Government of Pakistan, 13 August 2020, https://www.fbr.gov.pk/export-facilitaion-schemes/51149/132200. On export promotion benefits, see Syed Zahid Abbass Naqvi, Aneeqa Nawaz, Ayesha Naeem, and Shahzad Ahmad, 'Bearing of Export Subsidies on Pakistan's Exports', *International Journal of Business Management and Economic Research* 10, no. 3 (2019): 1587–1592, https://www.ijbmer.com/docs/volumes/vol10issue3/ijbmer2019100301.pdf.

An Import-Dependent Economy

When the global neoliberal wave hit Pakistan in the 1990s, the country's publicly owned power sector was unable to keep pace with rising demand. The government could not privatise this massive natural monopoly, so, instead, they created the 1994 Independent Power Producers Policy (IPP), which invited foreign investors to create power plants. The issuing of contracts to IPPs was a key component of Pakistan's power sector reform programme in the mid-1990s, aimed at attracting private investment in electricity generation and reducing the country's dependence on public sector power companies. Today, nearly half of Pakistan's power is produced by these privately owned power producers called IPPs.

Under this arrangement, the government offers contracts to IPPs that have effectively guaranteed them profits in US dollars. Since the rates of fuel inputs and electricity outputs are predetermined by the contract in dollars, when the price of the dollar goes up, it barely affects the profit margin of IPPs, but it increases the costs to the government. IPPs have negotiated capacity charges so that, once energy plants are ready to produce power, the government must pay the private firms a certain amount of money, even if the government does not buy power from them. In other words, the government is saddled with the market risk and IPPs are assured an adequate return.

The agreement with these investors also allowed IPPs complete freedom to choose how they would produce electricity. They have opted to do so using furnace oil, liquid natural gas, and imported coal, leading the country to pivot from producing electricity through dams to burning fossil fuels. Not only is this terrible for the environment, but the per unit cost of production of electricity from these fuels is nearly eight times more than the electricity produced from water.[20] Since Pakistan does not produce any significant quantity of oil, this has also resulted in an increasing bill for oil imports. As a result of this dynamic, roughly one-quarter of Pakistan's imports are oil and gas.[21]

Furthermore, privatised power distribution companies mainly rely on government subsidies to continue functioning.[22] This energy policy is one of the central reasons behind Pakistan's cyclical debt crisis. When the government is unable to pay the IPPs, the country suddenly plunges into darkness. These frequent power cuts have destroyed several industries, especially the growing power loom sector in Faisalabad.

Due to these structural issues, when the price of oil rises or when the dollar shoots up in relation to the Pakistani rupee, oil imports become more expensive.[23] Consequently, transportation and electricity costs rise, exporters become less and less competitive, and the government goes into a deficit since it picks up the bill for IPPs as the demand for electricity diminishes. In fact, the state institutions that suffer the largest losses are the distribution companies that buy electricity from the IPPs and supply it to their respective regions.

In theory, rising dollar prices should make Pakistan, a country with a weaker currency, more competitive in the export market. Imports should become more expensive, and exports should become cheaper.

However, this does not hold true in an import-dependent economy. Since the production of export commodities is linked to imports, rising dollar prices do not make for any easy restoration of the balance of trade. Pakistan's industries cannot export locally produced goods or services without first importing necessary inputs or materials. If a country is heavily dependent on imports to produce its exports, the cost of production goes up when the cost of imports increases and the value of its domestic currency falls relative to the currencies of its trading partners. This can lead to higher production costs and ultimately reduce the competitiveness of the country's exports.

Why Can't Pakistan Boost Its Exports?

It is not easy to increase exports in the short term. A lack of private and public investment in Pakistan's manufacturing sector has resulted in outdated technology and infrastructure, making it difficult for local manufacturers to compete with foreign companies. IMF-imposed conditions have further dried up the investment that Pakistan sorely needs to upgrade its infrastructure and accelerate industrialisation.

Another major obstacle to increasing exports is that the high price of fuel in turn increases the cost of transportation and other logistics that are necessary for doing business. These obstacles have prevented local manufacturers from operating profitably, leading to the closure of many factories and a decline in industrial output. Further cementing this reality are the conditions set by short-term IMF loans.

In order to increase exports, it is necessary to train larger numbers of workers, update technologies, and increase investment in the manufacturing of export commodities. It seems impossible for Pakistan to achieve all of these goals under a government that is tightening the country's belt with an austerity agenda imposed by the IMF, which requires the government to liberalise international trade and refrain from using state controls to suppress the price of the dollar. This, in part, is why Pakistan's officials, including Finance Minister Ishaq Dar, are constantly trying to lower the price of the dollar.

IMF-Imposed Privatisation of the Public Sector

The IMF has been pushing Pakistan to privatise state-owned enterprises (SOEs) since at least 1991. Despite privatising 172 SOEs between 1991 and 2015, yielding $6.5 billion, the country was unable to solve either its persistent budget deficit or the issue of long-term growth.[24] At present, there are 85 remaining SOEs, which operate in seven sectors: power; oil and gas; infrastructure, transport, and communication; manufacturing, mining, and engineering; finance; industrial estate development and management; and wholesale, retail, and marketing.[25] Two-thirds, that is, 51, of these SOEs are turning a profit. Roughly 80-90% of public sector losses stem from only nine enterprises: Pakistan Railways, Pakistan International Airlines, Pakistan Steel Mills Corporation, Zarai Taraqiati Bank Limited, and five electricity distribution companies.[26] In other words, the costly power sector is the main reason for

Pakistan's massive budget deficit, and its losses are directly related to the decision to privatise energy production.[27]

The 1994 Private Power Policy was meant to quickly address load-shedding. It had the complete support of the World Bank and was lauded by then-US Secretary of Energy Hazel R. O'Leary as the 'the best energy policy in the whole world'.[28] With such ringing support from capitalist institutions, the Pakistani government quickly and keenly adopted the policy. However, although the 1994 policy attracted $5 billion in new investment in the energy sector and expanded the country's capacity to generate power by 4,500 megawatts, it had disastrous long-term consequences for energy and, as a result, for the entire economy.[29]

First, the rising cost of electricity resulted in decreasing rates of return across all industries. Second, the dollar-indexed return on equity guaranteed to IPPs shifted the entire burden of investment risk onto the Pakistani state. Rising fuel charges stemming from oil price or dollar fluctuations and capacity charges* had to be borne by the Pakistani taxpayer. Third, as the Senate of Pakistan's *Report of the Subcommittee of the Standing Committee on Power* (2020) shows, on several occasions IPPs made use of creative accounting to violate National Electric Power Regulatory Authority (NEPRA) rules and reap monopolist profits far in excess of the 15% return on equity

* Capacity charges are payments made by the government to private power producers to cover returns on investments including costs of land purchase, design, installation, taxes, insurance, administration, debt servicing, and return on equity. These charges are fixed against factors such as fluctuations in the exchange rate and interest rates.

allowed by NEPRA-regulations, placing a higher burden on public finance.[30] Fourth, higher electricity prices have made the country's once-lucrative textile export sector less competitive on the international market. Recently, the All-Pakistan Textile Mills Association argued that high electricity bills threaten to completely shut down textile exports fabricated in Punjab. Fifth, the government's inability to make capacity payments to IPPs on time means that the country experiences frequent and debilitating power outages. Businesses across Pakistan have set up alternative private sources of power to keep their plants running. Finally, IPP contracts have worsened Pakistan's balance of trade deficit, forcing the country to return to the IMF for badly needed short-term loans. Ultimately, the privatisation of power has significantly exacerbated Pakistan's budget and trade deficits.

Any government that comes to power in Pakistan has to immediately scramble to put out fires related to the current account deficits and falling foreign exchange reserves. As these reserves fall, the fear of default drives leaders to seek external financing. However, without IMF approval, other international financial institutions (IFIs) are unwilling to extend credit to the country. As a result, this fear of default has driven elected representatives into the arms of the IMF to beg for loans.

Months after former Prime Minister Shehbaz Sharif began his term in April 2022, the government negotiated a $3-billion Stand-by Arrangement (SBA) with the IMF. The administration paraded this deal as if it had conquered the ancient Persian empire. This is the twenty-third IMF programme that a Pakistani government has 'negotiated' with the IMF, which has already stated that Pakistan needs further programmes to achieve stability.[31] The release of this money was contingent upon the government taking the following measures: (1) removing all subsidies related to electricity, gas, and fuel; (2) raising the interest rate; (3) allowing the market to determine the exchange rate; and (4) restructuring SOEs. Pakistan had no choice but to comply with these conditions, with the inevitable result of more crippling inflation.

Pakistan's National Budget Overruled

In June 2023, Finance Minister Ishaq Dar presented the government's annual budget to Pakistan's National Assembly. Though it was widely expected that the budget would be based on extreme austerity, with elections looming in October, the Pakistan Democratic Movement (PDM) decided not to raise taxes or lower state spending. Instead, it raised the salaries and pensions of government employees by up to 35%.[32] The new budget was premised on the tenuous assumption that Pakistan would be able to raise $22 billion from other countries and IFIs.[33] This would have increased Pakistan's external debt obligations to nearly $150 billion, about half of the country's annual GDP.

However, with the National Assembly's approval of the budget, the IMF was unwilling to agree to the SBA. To secure the IMF deal, the finance minister unilaterally changed the budget by reducing government spending by Rs. 85 billion ($298 million) and added Rs. 215 billion ($735 million) in new taxes.[34] None of these measures were approved by the National Assembly, nor was there public debate over the new budget. Only after being assured that there would be a new budget did the IMF agree to the SBA. Finance Minister Dar's circumvention of the Pakistani people's elected representatives, essentially at the behest of the IMF, was the most flagrant violation of the country's economic sovereignty in its 76 years since independence.

Countries such as Pakistan have completely lost all control over their economies. Further evidence of this is the fact that the State Bank of Pakistan is legally autonomous from the government and is often headed by former IMF economists. In order to secure an IMF agreement, the government is expected to accept IMF policies with respect to international trade, interest rates, taxes, government expenditures, and even the prices of necessary goods such as electricity, petrol, diesel, and gas. Hence, monetary policy, fiscal policy, or overall economic policy is no longer under Pakistani control. If the Pakistani government wanted to stimulate the economy by increasing public sector spending through an expansionary monetary policy (as Modern Monetary Theory suggests), it simply would not be able to. The governor of the State Bank of Pakistan has the power to refuse government directives to expand the money supply.


ZONG

'Live Within Your Means'

The IMF dictum for all Third World countries is to 'live within your means'. This sounds like sensible advice, since, after all, any family, business, or country that spends beyond its earnings will go into debt. As such, governments should not spend beyond what they earn in taxes, and countries should not import more than they export. Nonetheless, Pakistan commits both of these 'sins', which begs the following questions: why can't Pakistan control its imports? Why can't the government's highly qualified economists sit down and work it out? Since the country earns roughly $50 billion a year ($20 billion from exports and $30 billion from remittances), its imports should be in the range of $50 billion – not the current amount of $70 billion. If every household understands that you cannot spend more than you earn, how is it that these economists, who are equipped with the most sophisticated mathematic skills, cannot plan what and how much the government will import? If Third World countries could make these sorts of plans, they would never experience any balance of payment deficits, current account deficits, or dwindling foreign exchange reserves. They would never have to borrow money from any IFI. Why doesn't this happen?

To answer these questions, let us delve deeper into the IMF's four major recommendations to loan recipients as well as their impact on developing countries like Pakistan. First and foremost, the IMF recommends that Pakistan remove all barriers to exports and imports and allow the market to determine the rupee price of the dollar. This effectively means that the government is unable to regulate international trade to prevent trade deficits. Fluctuations in the rupee price of dollars are supposed to balance trade, but this is not what happens in practice: as the dollar goes up, so too does the price of inputs for export industries in Pakistan. Consequently, Pakistani industries fail to become more competitive and the economy experiences cost-push inflation.

The IMF tells Pakistan to live within its means, yet it will not allow the government to control its current account deficits by regulating the rupee-dollar exchange rate. During the period that the IMF was unwilling to extend credit to Pakistan's government, the country was able to reduce its current account deficits by 75% by restricting letters of credit* to importers.[35]

The government's inability to regulate the dollar also has a significant impact on its foreign debt, which has been accrued in dollars and is sensitive to fluctuations in the exchange rate. For instance, if the rupee value of the dollar rises by 10%, that would in turn increase Pakistan's external debt obligations by 10%, from Rs. 37 trillion to Rs. 41 trillion ($130 billion to $144 billion). Since Pakistan's total debt obligations are more than six times its annual exports, even if it were able to increase its exports, this would be a drop in the bucket compared to what Pakistan loses from the growth of its foreign debts. This is how the country slips further down the ladder in the international division of labour.

* A letter of credit is a guarantee by a bank that payment will be made to the foreign suppliers after the goods have been received and cleared by customs.

The devaluation of the rupee also leads to dramatic increases in the price of vital commodities such as plastics, metals, steel, and industrial chemicals. For most of its history, Pakistan exported cotton to other countries, but, in a shocking reversal of this trend, it now spends close to $2 billion annually importing raw cotton that is used to produce textile goods for export.[36] Domestic cotton production has lagged far behind mainly because of the lack of development of new seeds and because the domestic market is incentivised towards the production of sugar cane. Naturally, when the dollar goes up, the price of raw imported cotton does too, further deteriorating the competitiveness of exporters. How can the technological base of Pakistan's industries be improved if the dollar appreciates and increases the cost of importing more sophisticated machinery?

Further exacerbating these issues is the reality that private capital has been leaving Pakistan at a steady rate. The capitalist class has always kept its assets diversified outside of the country. So, while some assets are within Pakistan, much of the ruling class's wealth is parked overseas in foreign banks and real estate in the Middle East. The free trade regime makes it easier for capital to move while labour is tightly regulated by immigration laws.[37] Pakistan, as it turns out, is losing both capital as well as labour at a staggering rate. The IMF's free trade regime takes away the power of Third World states to regulate capital flight.

The total capital flight from Pakistan between 1978 and 2018 amounted to $333 billion (at 2010 rates), and between 2013 and 2014 alone, Pakistanis purchased properties worth over $4.3 billion in Dubai, according to *The Nation*.[38] The Pakistani state is unable to control this capital flight and promote domestic investment in the country. Given that the dollar keeps rising, even a high interest or profit rate in Pakistan cannot offset the money that businesses lose due to the devaluation of the rupee. Hence, even if Middle Eastern or Western banks offer lower interest rates, Pakistanis prefer to invest in these banks rather than risk investing their capital in Pakistan.

The exodus of skilled labour or 'brain drain' presents an additional problem. In 2022, 800,000 people left Pakistan to work abroad, a number that is expected to reach a million in 2023.[39] Many of these people are productive workers in the prime of their youth. Can any economy progress if it loses a million educated workers every year? Labour will go after capital, and so both are flying from Pakistan. What remains is a country that produces some clothes from an outdated textile industry, set up at a time when Pakistan had greater strategic value to the West, and has become a supplier of low-skilled labour power for the Middle East and Europe.

The IMF recommends that the government eliminate fuel and electricity subsidies, the latter of which makes up the lion's share of the subsidies in the 2023 national budget.[40] Ironically, the privatisation of power is the main reason that the Pakistani government cannot balance its budget: out of the Rs. 1 trillion ($3.7 billion) given in subsidies, Rs. 677 billion ($2.34 billion) is paid to the power sector.[41] Though some IPPs are owned or operated by Pakistanis, many are foreign-owned or operate with sizeable investments from abroad.[42] If subsidy payments are not made, IPPs can take Pakistan to court at the International Centre for Settlement of Investment Disputes

(ICSID). Precedence for this course of action exists. In 2020, the ICSID awarded the Canadian-Chilean company Tethyan Copper nearly $6 billion in damages after Pakistan halted the Reko Diq mining project amid a lease dispute.[43]

Despite the economic depression that the country is experiencing, the IMF recommends cutting expenditures, introducing new taxes, and maintaining an incredibly high interest rate to combat inflation (Pakistan's interbank interest rate is currently 21%). In other words, at the very moment when aggregate demand is faltering, the IMF's policy recommendations would destroy opportunities to stimulate the economy by reducing public investment and deterring private investment, inevitably deepening Pakistan's stagflation.

Furthermore, the IMF recommends 'restructuring' SOEs. While these entities, which have been neglected for decades, certainly need serious restructuring and investment, that is not what the IMF means. Rather, the IMF is suggesting that the state consider privatising the ownership or management of SOEs while remaining adamant that the state make payments to IPPs, which account for the bulk of state subsidies. This stance is paradoxical: those SOEs that are already making a loss and require sizeable new investment to make a profit will not be bought by private firms. At the same time, the IMF's policy recommendations do not allow the government to make the necessary investments to upgrade these enterprises so that they are able to perform efficiently.


GENERAL
MATHEMATICS
9
LOVE
PLAY
ATLAS

Opening Pakistan up for Trade

In its mission statement, the IMF claims to 'promote high employment and sustainable economic growth and reduce poverty around the world'. However, these are entirely secondary to its three primary objectives: first, to 'foster global monetary cooperation' – that is, ensure that the market determines the dollar rate; second, to 'secure financial stability' by eliminating the Keynesian policy of deficit fiscal spending to stimulate the economy; and third, to 'facilitate international trade' by removing import restrictions of any kind.[44]

The IMF has a dogmatic faith in the market as a cure-all and rarely studies national economies in any detail before issuing their one-size-fits-all prescriptions. Its solution to almost every economic problem is quite simply to let the market determine all prices under the false assumption that everything else will magically fall into place. Rather than seeking to understand the varied realities of the countries to which it issues loans, the IMF is mainly concerned with ensuring that no country within its reach deviates from the following formula: liberalise international trade, eliminate the fiscal deficit, let the market determine the dollar rate, and privatise the economy.

The IMF's strategy is not designed to increase growth in Pakistan, which at the very least would require low interest rates and/or higher public sector spending. Instead, it is designed to keep the country open for international capital to do business. Pakistan is by no means an extraordinary case; it merely illustrates the IMF's general template for all economies, whether large or small, with little interest if its actions turn a cyclical recession into a depression.

Inflation and the Class Struggle

Together, these economic policy choices have had two devastating implications for the class struggle in Pakistan. The first relates to the differential impact of inflation on Pakistan's working class and elites. Inflation has little impact on Pakistani elites, who retain liquid investments to run their businesses within the country and hold the bulk of their wealth abroad. Local inflation actually increases the value of their foreign-owned assets in Pakistan, as they are often held in dollars. It is an entirely different matter for the working class and those on the poverty line, who are hard hit by the effects of inflation. In Pakistan, inequality has worsened as the working class and poor only have assets within the country (if at all).

Second, inflation has exacerbated Pakistan's central economic problem, namely that it cannot decrease its trade deficit. In the international market, those countries whose labour productivity does not rise or that do not have valuable natural resources to sell (such as oil, gas, gold, and minerals) inevitably slip further down the ladder in the global division of labour. Capitalism is a system of competition. Workers compete with workers, capitalists compete with capitalists, and countries compete with other countries. Those who cannot compete experience adverse terms of trade. As proponents of globalisation never tire of reminding us, nearly all countries are integrated into a world market, and so national economies simply cannot operate without international trade.

As Pakistan loses in the race to create products that the world requires, it experiences a debilitating cyclical crisis. The only short-run options recommended by the IMF ensure that Pakistan remains in this cycle in the long run. The IMF policy framework is a treadmill from which Third World countries can never disembark; it will keep Pakistan in an economically dependent configuration.

Neoliberal economists become outraged at mere suggestions that the market does not allocate resources efficiently, or that markets are volatile, and, most importantly, that so-called market equilibriums do not maximise output or growth but only maximise profits. Similar levels of outrage are expressed in the Pakistani media, directed at the government for not fulfilling its obligations to the IMF. But these perspectives completely ignore the fact that elected representatives have an obligation *to the people*. The economic and human costs of IMF programmes are so extreme that no political leadership that needs public support can carry them out fully because they are fundamentally anti-democratic. What the IMF is demanding can only be implemented by destroying representative democracy, even in its bourgeois parliamentary form.

The first steps that Pakistan can take towards economic independence would be to regulate international trade and the exchange rate, take back control of the State Bank of Pakistan, and reject any budget that has not been approved by the public's elected representatives. While this is still a long way off from socialism, it would at least be a major step forward in the current context, where even the possibility of independent national capitalist development has been stripped from most of the world.


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The Political and Military Ramifications of the Economic Crisis

The Pakistan Democratic Movement (PDM) coalition government, like every regime that has come to power in Pakistan, was desperate to start a programme of economic development. It launched a new initiative to attract foreign investment and rolled out a string of buzzwords such as 'game changer', 'collective government', and 'one window operation'.[45] However, the dark reality is that the government has invited the army to manage the economy and ensure that all foreign investment will be managed, coordinated, and brought to completion. If environmental or labour concerns arise, or if the demands of a particular province interfere with business interests, the army will remove these so-called bottlenecks. We know from history, of course, that economic bottlenecks are often eliminated by axing human necks.

The PDM government's military-centred approach is bound to put the federal government in conflict with provincial governments. Under the eighteenth amendment to the Constitution, many areas, such as education, labour, and the environment, now fall under the purview of provincial governments. As the military becomes responsible for the economic revival of Pakistan, any objection to mega-projects that impact inter-provincial relations is likely to be considered a direct challenge to the power of the military. This will cause greater tensions between the military-dominated central government and provincial governments, which are dominated by political parties.

This represents a tectonic shift that has gone almost completely unnoticed by most political commentators. The current PDM coalition initially came together in 2006 when the centre-left Pakistan People's Party invited the centre-right Pakistan Muslim League (Nawaz) to sign the Charter of Democracy, which stated that neither party would collaborate with the military to overthrow the other's government. It was notable that Pakistan's two biggest parties had seemingly united against the role of the military in civilian matters, since for most of the country's history the government has been run by military dictators or with the active participation of the military. Some progressives placed a lot of faith in this alliance, hoping that it signalled the Pakistani military's exit from the political sphere.

It was precisely in the context of this ostensibly anti-establishment alliance of Pakistan's largest parties that the military allegedly supported the Pakistan Movement for Justice (PTI), especially after 2014, when the Nawaz government and the military establishment had a major falling out. The PTI attacked other parties as corrupt and incompetent, and the media (largely controlled by the military) echoed this narrative. The PDM argued that the PTI's candidate, Imran Khan, was just a frontman for forces that wanted to undermine the Charter of Democracy and bring the military back to power. The opposition referred to Khan as the '(s)elected prime minister' and pointed out how military influence over the media, the economy, and political decisions had been growing during the PTI's term.

Despite accusing the PTI of being a 'hybrid regime', since coming to power the PDM government has gone even further down the militarist road at every level.[46] Not only is the army managing the political situation in the country by suppressing the PTI and other opposition parties; it has also been formally invited to take over the country's economic affairs. This reflects a broader trend in which the economic constraints that international capital imposes on Third World countries eventually push these countries' political leadership to place the management of the economy in the hands of the military.

The notion that the military should be restrained within its 'constitutional role' has simply gone out the window as the PDM, beset by an economic crisis and challenged by the PTI, has found it easier to rely on the military not only to drive back the opposition, but even to help stimulate the economy and complete economic projects. The Charter of Democracy has become a dead letter. The real beneficiary in this conflict remains the Pakistani military, whose hegemony over the political, economic, and ideological domain is now solidly entrenched. The adverse economic conditions created by international capital and the IMF have created the conditions for an authoritarian state and society.

Conclusion: Whither Pakistan?

Marxists tend to think that history is inexorably moving forward. In the larger framework of the development of humanity, this is undoubtedly true. However, that does not imply that each individual village, territory, or country is always moving forward. Even while history marches forward, many societies are destroyed (as in colonial and settler-colonial projects), stagnate (the Byzantine or the Ottoman Empires), or regress. The latter two tendencies seem to apply to the current situation in Pakistan.

After making some real historical progress following independence, Pakistan has entered a period of pervasive social, economic, and intellectual stagnation, or perhaps even regression. The historic task placed before the people of Pakistan today, therefore, is to organise, mobilise, and struggle for economic independence, just as they did to win their political independence from British colonialism in 1947. This is not solely a task for Pakistan but for the entire Third World, which suffers from the grip of neocolonial international financial arrangements that destroy opportunities for economic development.

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