Pakistan's military regime prepares IMF program

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Shaukat Aziz, the Pakistani military regime's finance minister, says he is reviewing an International Monetary Fund program for the country and having discussions with the business sector on ways and means to implement it.

As soon as the leader of the military coup, General Pervaize Musharraf, appointed Aziz, an executive of the US-based Citibank, the finance minister flew to New York. After meeting IMF officials on October 29, Aziz said the talks were “very positive." He said he had to return to Pakistan and "review what programs the IMF has proposed" before initiating further discussions. According to reports, he also met various investment bankers and executives of US companies while in New York.

It seems that the IMF officials may have informed the minister of the conditions it had insisted on with the former Nawaz Sharif government. General Musharraf had already indicated his desire to satisfy the IMF. In his policy statement on October 17 he promised measures to rebuild investor confidence, increase domestic savings, make state enterprises profitable and ensure austerity.

Squashing speculation that the IMF would impose sanctions on the military junta, an official said the institution was not "politically motivated" and "it would not have a problem with the nature of government in Pakistan". In fact, the IMF had no small role in the events that led to the ousting of Nawaz Sharif.

Displeased by the Benazir Bhutto government's inability to implement its recommendations, the IMF welcomed the Nawaz Sharif government when it came to power in March 1997. In October that year, the IMF approved a three-year financing package for Pakistan equivalent to $US1,588 million in support of a medium-term “adjustment and reform” program. It required tightened control of government expenditure, fundamental changes to the tax administration machinery and an expansion of the net of the general sales tax (GST) and the agricultural tax.

The resulting government spending cuts affected the poverty-stricken masses, and small entrepreneurs opposed the GST and agricultural taxes. With the blessing of government, landlords escaped from the tax net. The IMF then withheld the loan.

Following its nuclear tests in late May 1998, the Sharif government faced US-led sanctions. Following suit, the IMF suspended its loan facility. The sanctions magnified Pakistan's socio-economic difficulties, emptying government coffers, pushing the country to the brink of defaulting on foreign loans and worsening conditions for the poor.

When US wheat growers lobbied the Clinton administration, it waived sanctions on the export of agricultural products from US to Pakistan. Only then did the IMF and World Bank agree to advance credit to the Sharif government.

On January 14 this year, the IMF revived its loan under the Enhanced Structural Facility (ESF). Pakistani authorities prepared policy framework papers for IMF and World Bank officials. The main terms were as follows: An increase of the GST to 15 percent (from 12.5 percent); extension of the tax into other areas; enhancement of the tax on petroleum products; reduction in unproductive expenditure; strengthening the financial position of the Water and Power Development Agency (WAPDA) and Karachi Electricity Sales Company (KESC)—both state-owned enterprises; reduction of the subsidy on wheat; and reduced non-interest current expenditure.

Even though the Sharif regime was eager to implement the package, a political crisis and socially explosive conditions did not allow it to do so. In May this year the IMF management released a meagre sum of $US51 million to the country.

When the Sharif government prepared its budget for July 1999 to June 2000, an IMF team was in Islamabad to ensure its recommendations were included in the budget paper. According to the *Dawn* newspaper, the visiting mission head to Pakistan told the finance minister Isaq Dar he had “no option but to go for the new VAT (GST) on the service sector". The *News* reported, "The finalisation of the budget took place after intense discussions with the international financial institutions, chiefly the IMF". But when the budget was presented, the regime backed away from the IMF proposals on taxes, fearing opposition, not only from the poor but small traders as well.

In the aftermath of the Kashmir conflict with India—when US administration forced Sharif to withdraw the Pakistani-backed forces from Kargil heights—opposition parties launched a campaign demanding Sharif's resignation. In a desperate bid to head off mass support for the opposition campaign, Sharif pretended that he was concerned about the plight of the people. He launched a mega-housing project with much fanfare.

When Sharif's finance minister visited New York in July to plead with the IMF for a withheld loan tranche of $280 million, he was sent back empty-handed, with instructions to stop the housing project and implement the GST. The cash-strapped cabinet then decided to impose the 15 percent GST. The small traders, with the help of opposition parties, launched a strike that shut down the whole country on September 4. Sharif immediately met representatives of the small traders and promised to reduce the tax to a nominal 0.75 percent.

On September 11, *Dawn* reported that "IMF officials have been privately saying that they would need a firm and unequivocal commitment by the Nawaz Sharif government at the highest level" to implement its conditions, mainly the 15 percent tax.

The IMF intervention contributed to economic collapses, ignited socially explosive conditions and added to the political destabilisation in Pakistan. It was no surprise that the military exploited the situation to grab power. Now the new regime is preparing to implement the IMF conditions while tightening its grip in the country by launching a so-called anti-corruption drive to distract popular attention. The All-Pakistani Organisation of Traders and Cottage Industries has warned that it will initiate a countrywide indefinite strike if the regime implements the GST.

IMF intervention to secure an "open economic policy" in Pakistan started in 1988 at the end of military dictator Zia Ul Haq's tenure. The US State Department, evaluating the program, wrote in a report in November 1997: "Market-based reform began to take hold in 1988, when the government launched an IMF-assisted structural adjustment program in response to chronic and unsustainable fiscal and external account deficits." It praised the removal of barriers to foreign trade and investment, reform of the financial system, relaxed exchange controls and the privatisation of dozen of state-owned enterprises.

None of Pakistan's economic ills have been healed, however. Instead, they have been aggravated by the IMF interventions. The promised prosperity has not arrived. An IMF report, while sketching the failure of its structural adjustment program, demanded more of the same policy: "The authorities intensified their efforts in 1993, with IMF support but by 1995 the situation deteriorated again.” The report blamed "loose monetary policy" and weather conditions. The IMF admitted that the trade deficit had widened, external reserves declined, and inflation remained "stubbornly high”.

A recent UN-sponsored Human Development in South Asia 1999 report analysing the impact of the IMF's measures referred to "worsening poverty and income inequality in the wake of structural adjustment programs. Programs have hurt the poor in Pakistan, since the real incomes of lowest groups have declined by nearly 52 percent since the [IMF] adjustment."