Socio-Political Impact of International Monetary Fund (IMF) on Pakistan from 2008-2022

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Abstract

The International Monetary Fund (IMF) is an international worldwide organisation that assists countries with financial stability and monetary cooperation through economic surveillance, financial aid, and capacity-building support. Pakistan has benefited from IMF-supported programmes, but these have also negatively impacted its socio-political structure. This study aims to examine the socio-political impacts of IMF policies on Pakistan from 2008 to 2022, including positive and negative effects and future trends. The study focuses on the economic well-being and social and political stability of Pakistan, using the "Theory of Dependency" as a framework. IMF policies have played a role in shaping Pakistan's economic policies, and reforms such as privatisation and liberalisation. The deregulation has resulted in job losses, inflation, and reduced public spending on healthcare and education. The study concludes that the effects of the IMF on Pakistan's socio-political structure are mixed (both positive and negative). To end Pakistan's dependence on the IMF, it is recommended to implement comprehensive economic reforms addressing the root causes of its fiscal problems, for which the research proposes developing a 'Five-Year Six Points Plan.

Keywords: International Monetary Fund, Socio-Political, Economic Reforms

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Introduction

Historically, democratic states have prioritised economic development, which has resulted in social change and prosperity. Capital migration from one sector to another is one of the significant aspects of growing economic development. Economic progress in sectors provides an opportunity for people to understand how society's restructuring affects local social structures, including employment patterns, income, population, agriculture, health, and other public sector departments. A country's social development plays a crucial role in protecting its economic stability at an international level. According to various experts, local social changes are integral to the external processes of economic development, demonstrating the intertwined nature of social change and economic development for a country's progress.[1]

The International Monetary Fund (IMF) is a global organisation consisting of 189 countries that collaborate on monetary cooperation and international financial stability. It aids member countries in three key ways. Firstly, the IMF conducts economic surveillance by carefully observing and assessing the economic and financial policies of its member countries. Secondly, it provides financial aid and loans to member countries that are experiencing varying degrees of economic difficulties. Finally, the IMF offers capacity-building support, which involves the modernisation of economic policies and institutions of its member countries as well as training their people to enhance their skills and abilities.[2]

Pakistan has obtained a total of 22 loans, with four of them provided under the Poverty Reduction Growth Trust (PRGT). It is specifically aimed at reducing poverty and boosting economic growth. However, despite the intended focus on poverty reduction, each programme was

[1] Umair, Jamal, "The PTIs struggle to govern Pakistan," *South Asian Voices*, June 4, 2019, https://southasianvoices.org/the-ptis-struggle-to-govern-pakistan/.

[2] Hisham Sajid, "Pakistan's 60 years of history with IMF in one chart," *Samaa,* May 16, 2019, https://www.samaa.tv/money/2019/05/pakistans-60year-history-with-imf-in-one-chart-hs/.

primarily dedicated to enhancing economic growth, as poverty rates tripled during this period.[3]

From 1980 to 1995, Pakistan was involved in seven programmes, with all but one lasting between one and two years. Between 1997 and 2013, six programmes were implemented, with the last loan of $6.4 billion borrowed by the PML-N government. Except for one programme, which lasted for an extended period, all the other programmes lasted for approximately three years.

The IMF-supported programmes in Pakistan have helped the country manage the widening fiscal deficit, but they have also had a significant negative impact on the country's socio-political situation. To assess the effect of IMF policies on the country's socio-political fabric, various indicators will be analysed. These include employment and poverty levels, national sovereignty, public infrastructure, quality of life, government and institutional performance, provincial development, human development index, and public satisfaction. These indicators will be used as variables to evaluate the economic policies of Pakistan under the IMF.[4]

When examining the social consequences, it is crucial to consider the stability, quality of life, living standards, and facilities provided by the state. Pakistan's human development index ranking in 2022 was 161, the lowest in South Asia, tied with Afghanistan. Although both countries have been accused of having sanctuaries for terrorist organisations, this does not justify Pakistan's low ranking. Moreover, sustained economic growth is a critical driver of poverty reduction, and despite the IMF loans, Pakistan has not experienced stable economic growth, which will be further investigated in the research.

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[3] Umair Jamal, "The PTIs struggle to govern Pakistan," *South Asian Voices,* June 4, 2019, https://southasianvoices.org/the-ptis-struggle-to-govern-pakistan/.
[4] Stephanie Flamenbaum, "Peace Brief," *USIP*, May 24, 2012,https://www.usip.org/sites/default/files/resources/PB-127.pdf.

This research focuses on why Pakistan continues to go to IMF time and again. The other most important question it caters to answering is what impact IMF and its conditions have had on developing the social and political structure of Pakistan? The paper focuses on a brief historical background, rationale and research questions along with literature reviews on the subject that helps streamline the research to achieve its desired goal. The paper is based on both primary and secondary data used in order to reach advisable recommendations.

Historical Background

IMF programmes have become a recurring cycle for Pakistan, with the country repeatedly seeking assistance from the IMF. This dependency on the IMF has developed over the course of more than six decades, with both military and democratic regimes in Pakistan turning to the organisation for support. However, before delving into the pros and cons of this relationship, it is important to understand how and when it began.

Pakistan's association with the IMF dates back to 1958 when General Ayub Khan signed a standby agreement for SDR $25 million. Subsequent leaders followed this precedent, with Zulfiqar Ali Bhutto seeking IMF assistance three times, withdrawing SDR $314 million out of an agreed SDR of $330 million.

From 1988 to 1997, Pakistan visited the IMF eight times, withdrawing a total of SDR $1.64 billion. General Pervez Musharraf's government secured SDR $1.33 billion in two attempts from the IMF during his nine-year tenure.

In 2008, the PPP government obtained the largest bailout package of SDR $4.94 billion. The implementations of the macroeconomic policies involved enhancing tax administration, eliminating tax exemptions, and introducing an interest rate corridor to achieve a stable economy with a 7 per cent GDP growth rate.

The PML-N government sought IMF assistance in 2013, and obtained a loan of SDR $4.399 billion, which had a positive impact on the macroeconomic situation. The PTI government, led by Imran Khan, returned to the IMF for assistance and has taken on the highest amount of external borrowing, totalling $52 billion, with $36.05 billion repaid.

The country has yet to experience significant structural development. It has faced criticism for the three-year reforms that were not successful.[5] The PTI government has borrowed the most, amounting to $52 billion over three years and eight months, with $36.05 billion already repaid. The PML-N government is in second place with $49.761 billion in external borrowing over five years, retiring $27.071 billion in debt. The PPP borrowed $25.008 billion over five years, retiring $14 billion, putting them in third place for borrowing among the last four administrations. Despite numerous loans from the IMF, Pakistan's struggling economy has not significantly improved the living standards for its people significantly. This research aims to investigate the effectiveness of IMF loans in promoting social development and improving the quality of life in the country.[6]

It is, therefore, vital to explore the socio-political impact of the IMF on Pakistan from 2008-2022. It is equally vital to comprehend the socio-political consequences rather than purely economic implications. Though economic aspects are crucial, the socio-political impact, including its effects on governance, public sentiment, political stability, and social cohesion, is equally significant. By delving into the socio-political realm, this research can provide insights into how IMF interventions influence political decision-making, governance structures, public trust in institutions, and societal stability, which are often overlooked. They are,

[5] Sarfaraz Abbasi, "22 Loans in 61 years-Pakistan's unwavering habit of going to IMF," *The Express Tribune*, April 29, 2019, https://tribune.com.pk/article/81864/22-loans-in-61-years-pakistans-unwavering-habit-of-going-to-the-imf.

[6] Tahir Amin, "PTI govt. procured $52bn; $36.05bn was repaid," *Business Recorder*, May 16, 2022, https://www.brecorder.com/news/40173274.

however, integral for a comprehensive understanding of the real-world impact of international financial institutions on a nation's well-being.

Hence, a deep-rooted analysis of the history curated by the socio-political impact with its both negative and positive implications is quintessential to understand the relationship between the international financial agencies and the recipients. Similarly, it is crucial to study the policies and strategies devised/implemented so far by Pakistan to address the socio-political influence of the loans. The study is also aimed at determining the possible trends while recommending the policy options to counter the negative influence caused by the perpetual reliance on the IMF.

Theoretical Framework

Though there are several theories applicable on the study of the socio-political impact of IMF on Pakistan from 2008-2022, the 'Dependency Theory' has been aptly chosen to substantiate the argument.

Dependency Theory is a critical perspective in the field of international relations and economics. It seeks to explain underdevelopment and economic disparities between developed and underdeveloped countries. It emphasises the role of historical, economic, and political relationships in perpetuating global inequality.

There are three prominent schools of thought within the Dependency Theory. The first school of thought is commonly known as 'Dependencia' surrounded by the works of Andre Gunder Frank. Frank's core-periphery model posits that the world is divided into a core of dominant, industrialised nations and a periphery of underdeveloped nations. The core exploits the periphery through economic relationships, including trade and investment, which perpetuate underdevelopment and economic inequality. This exploitation, according to Frank, has historical roots in colonialism and continues through neo-colonial economic practices.[7]

[7] Mathew Rose, "Andre Gunder Frank & Dependency Theory," *ourPolitics.net,* September 9, 2016, *https://ourpolitics.net/andre-gunder-frank-dependency-theory/.*

Second is the Global historical materialism or the Unequal Exchange Theory by Samir Amin. Amin's theory argues that underdeveloped countries are subject to unfavourable terms of trade, which result in the systematic transfer of value from the periphery to the core. This unequal exchange, combined with the core's economic domination, contributes to the underdevelopment of the periphery. Amin emphasises that global economic structures perpetuate this unequal exchange.[8]

Immanuel Wallerstein and his World Systems Theory expands on Dependency Theory by framing the global economy as a world system divided into core, semi-periphery, and periphery regions. Core nations are economically dominant, semi-periphery nations are intermediaries, and periphery nations are exploited. Wallerstein argues that the capitalist world system perpetuates the exploitation of periphery nations through historical processes like colonialism and ongoing economic relationships.[9]

These three schools of thought within Dependency Theory share the common belief that global economic relationships are rooted in historical exploitation and maintained by contemporary structures. They emphasise on the underdevelopment of peripheral nations and highlight the role of external forces. The unequal power dynamics shape the socio-economic conditions of the underdeveloped countries, offer critical perspectives on global inequality and development.

In the context of Pakistan's relationship with the IMF, Dependency Theory is used to analyse how Pakistan's economic and political dependence on the IMF has affected its socio-political landscape. This includes the analysis of the conditions stitched with the IMF loans and their implications on Pakistan's economic policies, social welfare programmes, and political stability.

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[8] Kufakurinani et al, "Dialogues on development Volume 1: On Dependency," (2017), 12-18.

[9] Kufakurinani et al, "Dialogues on development…"

Literature Review

Even though borrowing countries have had a wide range of multidimensional impacts of IMF loans and have been extensively retraced, the issue still lacks in consensus and needs further investigations. The discourse from all the scholars is split between different schools of thought. The available literature witnesses both supportive as well as conflicting findings in terms of maintaining economic equilibrium in the borrower states.

Reichman and Stillson (1978) and Killick (1984) discovered that Fund programmes had no impact on the balance of payments, whereas Connor (1979) observed an improvement in both current account and balance of payments in his research. Despite their findings on the negative impact of these programmes on economic growth, deficits, and inflation, all of these studies shared a commonality.

Khan and Haque (1998) employed a "before-after" approach to examine the performance of a country's economy before and after participating in an IMF programme. The "with-without" method was also utilised to compare the economic outcomes of countries with and without IMF assistance.

Another approach, the "target against actual" format, compares the programmes' intended objectives with the actual performance of the country. In addition, the simulated performance of programme's policies is evaluated against each other. Despite using the "before-after" analysis, there is no consensus on the impact of the Fund agreement on the Balance of Payments (BOP) and Current Account (CA).

According to Looney (2002), the changing of governments during the 1990s was a factor that contributed to Pakistan seeking IMF assistance on multiple occasions. Pakistan was ruled by two political parties during this time, both of which were removed from power due to corruption allegations.[10] This lack of trust in the competence and expertise of successive governments led each new government to seek a new agreement with the IMF. In addition, the Asian financial crisis and international community sanctions resulting from nuclear tests in 1998, exacerbated Pakistan's economic problems, resulting in seven agreements with the IMF in that decade. These frequent agreements damaged Pakistan's reputation and credibility, forcing international institutions to impose harsh terms for subsequent loans.

According to the findings of Dreher (2004), countries with greater debt-servicing requirements, lower levels of democracy, and smaller short-term debt are more likely to seek financial assistance from the IMF.[11] Following a military coup in 1999, Pakistan saw a significant improvement in the social and macroeconomic indicators due to timely reforms, trade liberalisation, good governance, and foreign aid resulting from cooperation in the United States War on Terror (WoT) after 9/11. By 2007, Pakistan had a robust and healthy economy. However, subsequent increase in militancy, compounded with the global recession of 2007, and domestic energy crisis, led to the economy's decline.

According to Zaidi (2005), Pakistan has a population of 184.4 million and is classified as a lower-middle income country, ranking 6th in the world in terms of population. The country's total GDP is Rs22.9 trillion (approximately $240 billion), with a per capita income of $1,368.[12] The

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[10] Ishrat Hussain, "Pakistan and the IMF 1988-2002: A Case Study," A paper presented at the International Expert Workshop organised by the German Foundation for Development (DSE) at Berlin on July 1 – 2, 2002. https://ishrathusain.iba.edu.pk /speeches/economicManagementPolicies/2-Jul-02.pdf

[11] Dreher, Axel, "IMF and Economic Growth: The Effects of Programs, Loans and Compliance with Conditionality," *Conference Paper,* ECON STOR, https://www.econstor.eu/bitstream/10419/19804/1/Dreher.pdf

[12] Dr. Dirk Linowski and Stefan Lukas, "The China-Pakistan Economic Corridor (CPEC) and Its Implications for Security Cooperation in the Region," *Policy Brief,* No. 67, January 2021, Norwegian Institute of International Affairs, https://www.ssoar.info /ssoar/bitstream/handle/document/78384/ssoar-2021-linowski_et_al-The_China-Pakistan_Economic_Coridor_CPEC.pdf?sequence=1&isAllowed=y&lnkname=ssoar-2021-linowsk

agriculture, industry, and services sector contributes 21.4%, 20.9%, and 57.7% to the GDP, respectively.[13] Pakistan is a major global producer of agriculture commodities such as cotton, wheat, rice, sugarcane, and milk, and the textile sector is the country's largest industrial sector, accounting for 53% of total exports.[14] Pakistan's economy experienced 6% growth in the first four decades after its independence in 1947, making it a role model for the developing world in the 1960s.[15] However, economic growth was hampered by costly confrontations with India in 1965 and 1971, and the detachment of Bangladesh in 1971.

Haque (2018) asserts that Pakistan has approached the IMF 22 times in the past 30 years, and each time, there has been a disappointed effort. He argues that IMF bailout programmes are just for show, and no Pakistani government has ever truly wanted to reform the country's economy. He suggests that these programmes have undermined Pakistan's productivity and growth potential by eroding governance and state capacity while creating conditions for rent-seeking and corruption. Haque provides an example of how funding for public services was cut to the bone after the bus service was ended in 1990, resulting in a severe erosion of state capacity. He also criticises PTI's IMF programme, which he believes will lead to postponed reforms, the dying down of industries, underfunded education, and frequent energy and water shortages. He argues that the IMF prioritises achieving stable macroeconomic indicators in the short term, even if it accelerates social and political decay.[16]

In Shahid's (2019) discussion of the economic situation in Pakistan, he highlights the impact of rising prices and taxation on local industries, which led to a nationwide strike organised by the All Pakistan Anjuman-

[13] "Pakistan at a Glance," Food and Agriculture Organisation of the United Nations. https://www.fao.org/pakistan/our-office/pakistan-at-a-glance/en/

[14] "Pakistan at a Glance…", FAO.

[15] Ishrat Hussain, "Pakistan's Growth Experience 1947-2007," *Speeches,* ishrathusain.iba.edu.pk/speeches/Pakistan_s_Growth_Experience_1947-2007.pdf

[16] Nadeem ul Haq, "Pakistan's IMF Problem," *Project Syndicate,* 31 July, 2018. https://www.project-syndicate.org/commentary/pakistan-misguided-imf-programs-by-nadeem-ul-haque-2018-07?barrier=accesspaylog

e-Tajran. The working class in Pakistan is becoming increasingly vocal against the IMF, viewing it as an "Imperialistic Takeover."[17] It is putting pressure on the people and burdening their lives with no viable means to pay taxes. Furthermore, Shahid blames the partisanship or unfair appointments of the individuals to oversee the implementation of programme conditionalities, resulting in job losses. He also posits that the IMF is pursuing geopolitical interests rather than economic help to Pakistan, as part of a US agenda to influence the country's politics.[18]

In their 2020 study, Iqbal, Tabussam, Asad and Hussain examined the impact of the conditions imposed by IMF programmes on the Pakistan's economy, which has been a long-standing recipient of IMF resources. The study analysed data from FY1970 to FY2020 and found that while IMF programmes had a significant impact on financial sector reform, trade liberalisation, privatisation, and deregulation had a little effect on key macroeconomic variables. Unfortunately, these programmes did not improve Pakistan's finances or lead to better GDP growth rates or more sustainable external accounts. Interestingly, the programme implementation was better during military rule and poorer during the civilian rule.[19]

Most studies suggest that Fund arrangements had a positive impact on current account, showing improvement. However, the studies conducted for Pakistan do not explain why programmes have not led to an improvement in the economy, despite prolonged engagement, nor do they answer why policy programmes often fail in Pakistan.

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[17] Umair Javed (LUMS), Sher Afghan Asad (LUMS), Hamid Ateeq Sarwar (REMIT), "Understanding Informality in the Wholesale, Retail and Real Estate Sectors," *Report,* Pakistan Business Council. https://cdpr.org.pk/wp-content/uploads/2023/05/ Understanding- Informality-in-the-Wholesale-Retail-Real-Estate-Sectors.pdf

[18] Umair Javed (LUMS), Sher Afghan Asad (LUMS), Hamid Ateeq Sarwar (REMIT), "Understanding Informality …

[19] Iqbal, Tabassum and Hussain, Asad, "Impact of IMF Conditionality on Pakistan*," MPRA Paper, (2020), mpra.ub.uni-muenchen.de/112870/*

Socio-Political Impact of IMF on Pakistan

Given the long history of IMF and Pakistan, the question, however, remains unanswered. Why, despite several programmes, Pakistan has not been able to develop itself? While many believe that Pakistan does have the potential to be self-sufficient, it is still unclear why the IMF remains one of the most favourite doors to knock at each time a regime changes. Ever since Pakistan came into existence, it has perpetually faced economic turbulence.

Time has proven that social and political problems stem out of the fragmented and sometimes inefficient government set-ups. The inability to produce a comprehensive legal structure adds to deficiencies. Nonetheless, it is important to shed some light on the problems that have been accumulating ever since. An effort is made to discuss and analyse some pertinent points. Whether or not IMF and their conditionalities have affected the socio-political setup of Pakistan is the scope of the discussion.

Historically, in 1980s Pakistan's per capita income was 40 to 60 % higher than its neighbouring countries. Unfortunately, the tables have turned, and situation has worsened over the years (Abbasi, 2019). The rating has dropped 14 times as compared to 2008 when Pakistan's ranking was 147. This has proved that the social conditions of people, the living standards, and education and health opportunities have declined even further. This year's index shows that Pakistan's expected schooling years are up to eight and gross per capita income to $4,624.[20]

The conditions laid down by IMF have mainly affected the marginalised segments of the society, particularly in Pakistan. Whatever agreements are made between the government and the international financial institutions, the consequent affliction is on the people in the shape of inflation. This instigates unrest in the society leading to increment in the population of

[20] IANS, "Pakistan drops 7 places to 161st rank in Human Development Index," *Business Standard,* September 9, 2022, https://www.business-standard.com/article/ international /pakistan-drops-7-places-to-161st-rank-in-human-development-index.

below subsistence level. In Pakistan, it has already increased manifold. To limit this increasing number, there is a need to maintain economic growth of around 6 to 7 per cent. This will help alleviate about 30 per cent of the population living under poverty.[21]

On the other hand, the gap between haves and have-nots in the society can also be conspicuously identified. For instance, though Pakistan has a huge potential as an agrarian society, there is still almost a lot that is being imported on macro and micro level. Similarly, the obsession that Pakistanis' have sprawling of land, complemented housing schemes. It accommodates the elite culture more comfortably.

For loans to work and economies to flourish, countries have to present their best policymaking options. In 2008, the PPP government protected the country from going in default. However, after acquiring the SBA agreement worth $11.3 billion from IMF, the policy matter was not followed to reduce public debt.[22]

According to Economic Survey of Pakistan 2010-2011 by the State Bank of Pakistan, Pakistan's debt profile reveals that Pakistan had a better debt profile in the tenures of Benazir Bhutto and Nawaz Sharif. Even the debt profile was fairly under control during the military regime of General Pervez Musharraf.[23] In 2013, PML-N worsened the social indicators by their weak policy decisions. The country was pushed into a deep debt-trap as every single Pakistani owed almost above Rs.66000.[24] During the same period, the income inequality increased. The biggest failing decision that

[21] Afzal et al, "Poverty trends in Pakistan: A glimpse from last two decades," *PIDE*, 2021.
[22] "Pakistan Economic Survey 2021-2022," Finance Division, Government of Pakistan. https://www.finance.gov.pk/survey/chapter_22/Economic%20Survey%202021-22.pdf
[23] Abdul Khaliq, "Pakistan: Debt spiral under PPP govt," *CADTM,* November 2, 2012, http://cadtm.org/Pakistan-Debt-spiral-under-PPP.
[24] Ghulam Abbas, " PMLN's performance review contrary to claims," *Pakistan Today,* May 18, 2018, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwi6gpTZibv7AhVn7rsIHXc6A9AQFnoECBMQAQ&url=https%3A%2F%2Fprofit.pakistantoday.com.pk%2F2018%2F05%2F30%2Fpml-ns-performance-reviews-contrary-to-claims%2F&usg=AOvVaw0-qtR1PM0E5NQoOgeAFG.

the government took was regarding the failing foreign reserves which the government could not maintain. To maintain reserves, the PML-N government took another IMF loan that ended in September 2016. The foreign reserves that increased because of the IMF loan plummeted very soon. Imports grew by 21 per cent whereas the exports fell by a whopping 20 per cent.[25]

Dependency Theory posits that underdeveloped countries like Pakistan are economically and politically dependent on more developed countries and institutions like the IMF. In this framework, the IMF is seen as a tool of developed countries to maintain their dominant position in the global economy and to control the economic policies of the developing countries.

The IMF programmes have reinforced Pakistan's economic dependence on the developed countries and international institutions. The conditions attached to these programmes have constrained Pakistan's economic policy autonomy and limited its ability to pursue policies that are in its best interest.

IMF And the Asian Financial Crisis

During the period of 1992-1995, the economies of Asia showed an exceptional transformation and recorded an average GDP growth of over 9 per cent. This growth was mainly driven by China, which had double-digit growth rates, but other countries like Indonesia, Malaysia, and Thailand also showed significant growth of over 7 per cent. These countries also reported notable advancements in living standards. Hence, the term "Asian Miracle" became commonly used to describe the region's economic success.[26]

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[25] Ghulam Abbas, " PMLN's performance review contrary to claims," *Pakistan Today,* May 18, 2018, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwi6gpTZibv7AhVn7rsIHXc6A9AQFnoECBMQAQ&url=https%3A%2F%2Fprofit.pakistantoday.com.pk%2F2018%2F05%2F30%2Fpml-ns-performance-reviews-contrary-to-claims%2F&usg=AOvVaw0-qtR1PM0E5NQoOgeAFG.

[26] Donghyun Park and Jungsoo Park, "Drivers of Developing Asia's Growth: Past and Future," *ADB Economics Working Paper Series,* https://www.adb.org/sites/default/files/publication/28279/economics-wp235.pdf

According to the IMF, the impressive economic growth in Asia was not a matter of chance but as a result of intense planning. While many may describe the region's economic and social progress with words like outstanding, superlative, and admirable, the IMF does not consider it a miracle since it was due to good policies. However, some people viewed certain accomplishments, such as prudent macroeconomic policies and investments in human capital, as miraculous. Until the crisis happened, Asia attracted a significant amount of capital inflows, averaging more than $60 billion per year from 1990 to 1996.[27] The IMF attributed the crisis to domestic policies, which were deemed as the main culprit for the crisis, similar to the case of Mexico. The shortcomings and inconsistencies in domestic macroeconomic and exchange rate policies were identified as two problems that led to the crisis.

In some countries, the prolonged maintenance of pegged exchange rates encouraged external borrowing, which led to an excessive exposure to foreign exchange risks in the financial and corporate sectors, and increased vulnerability to sudden changes in the market sentiment. The IMF attributed the severity of the crisis to domestic authorities and policy choices. In the case of Mexico, the government ignored IMF advice and faced problems. The same situation applied to Asia during the 1997-98 crisis, where Thailand was warned about an impending crisis but delayed appropriate responses. The IMF was criticised for mismanaging the Asian crisis, and three criticisms were famously levelled against it.

Firstly, the IMF suggested the wrong solutions; secondly, it interfered with national sovereignty, and thirdly, it nurtured moral hazards. The criticisms aimed at the IMF included imposing an austerity programme, monetary and fiscal retrenchment on countries experiencing a liquidity crisis, which worsened the economic slowdown and caused undue suffering to the population. Instead of demanding that countries raise their interest rates to defend their currencies, the IMF should have suggested

[27] Manuela Moschella, *Governing risk; The IMF and Global Financial Crisis,* (Palgrave Macmillan, 2010) 155-169.

keeping interest rates low to help the economy recover. The measures suggested by the IMF were reportedly condemned by the Malaysian Prime Minister and Thailand's Deputy Prime Minister for worsening the economic situation.

Another criticism that IMF faces is of violating economic sovereignty of the borrowing state. Last but not the least, it is also held against IMF that it is dominated by the developed countries, which have a significant influence on the policies and decisions of the organisation. However, at the same time, IMF and its performance have been praised by many.

IMF just has an ability to recommend policy changes. Borrowing countries have the ultimate decision-making power when it comes to accepting or rejecting the IMF loans and the policy conditions attached to them. This means that they have the ability to negotiate with the IMF and ensure that the conditions are aligned with their own economic policies and priorities.

Similarly, the IMF provides technical assistance and advice to borrowing countries, which can help them to implement sound economic policies and strengthen their economic institutions. This assistance is voluntary and does not infringe on a country's economic sovereignty.[28]

IMF and South Asia

South Asian countries have had mixed experiences of their interactions with the IMF. Some countries have experienced significant economic growth following their engagement with the IMF, while others have struggled to see sustained economic progress. However, it is necessary to remember that IMF is not the only criteria to measure economic or socio-political growth. It is clear that sustained economic growth requires a combination of sound economic policies, effective implementation, and good governance. The responsibility solely relies on individual

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[28] Manuela Moschella, "Governing risk; The IMF and Global Financial Crisis*,"* (Palgrave Macmillan, 2010) 155-169.

governments and not the IMF. IMF's support is more temporary leaving long-term progress on broader economic and institutional reforms.

Between 1947 and 1991, India had one of the most protected economies globally, characterised by high fiscal deficits, low foreign exchange reserves, and non-competitive exports. India had to seek external support from the IMF three times, due to balance of payments crises. In 1966, India was going through a tough time facing famine and drought in many parts of the country. At the same time, there was a great pressure on the country for having devalued Indian rupee and to seeking funds from IMF. It was seen as India succumbing to Western pressure.[29]

Despite political pressures and public disagreements, the Indian leadership hailed the decision to devalue the currency on agreement with IMF. The devaluation of India's currency appears to have had a positive impact on the country's trade balance. Although there was a slight decrease in export volume during the two years following the devaluation, this was largely due to a drought. After accounting for this factor, exports actually showed a mild improvement. The reduction in imports was also significant, falling by 19 per cent. Though there was a sharp increase in the prices due to drought, there was no evidence to suggest that the devaluation caused inflation.

Similarly, the balance of payment (BOP) situation underwent a dramatic change in 1979-1980, as agricultural growth suffered and industrial bottlenecks arose due to shortages of power, coal, cement, and deteriorating labour relations, as well as issues with ports and railway transportation. The IMF simply required the plan's implementation and the necessary discipline to be maintained by the Indian authorities. The IMF's conditionalities, if taken with a non-partisan point of view, reinforce good governance.

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[29] V.Srinivas, "India's IMF Programmes-1966 and 1982: An Analytical Review," *Indian Journal of Public Administration*, (2018).

The Indian government's primary strategy for restoring BOP viability in the coming years involved increasing domestic production of petroleum and petroleum products, fertilizers, steel, edible oils, and non-ferrous metals, which accounted for almost 60 per cent of the total imports. The IMF programmes for India eventually helped overcome periods of high inflation and difficult BOP situations faced at that time, and they were successful in bringing economic reforms to the economy.

Other than India, the other South Asian countries have had more than three bailouts from the IMF. However, despite the larger number of takeout, it still is less than and more effective than the amount of times Pakistan has been to the IMF. For instance, even Sri Lanka has seen significant economic growth in recent years, following a successful IMF programme. The government of Sri Lanka implemented significant economic reforms and has seen improvements in areas such as fiscal management and debt sustainability.

Similarly, Bangladesh has had a success by implementing economic reforms, leading to sustained economic growth and poverty reduction. The country has not had to rely on IMF support in recent years, and instead has pursued its own economic development strategies up until 2023.[30]

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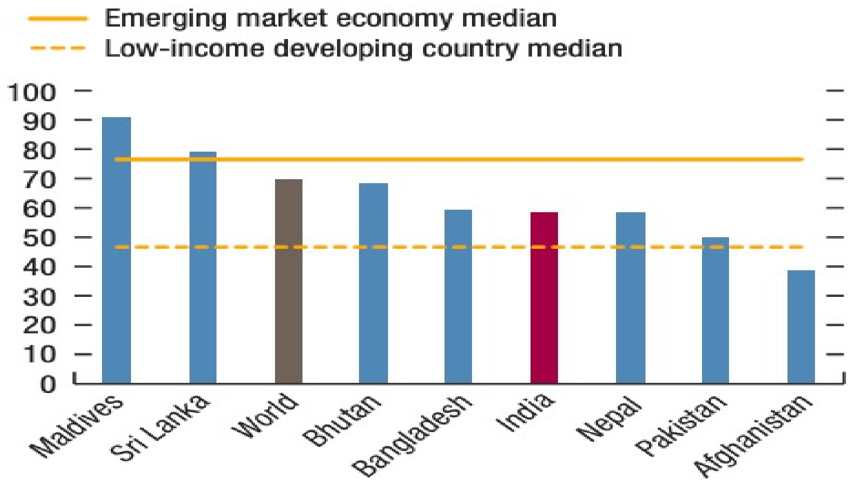
[30] "Bangladesh: history of lending commitments," *IMF*, June 30, 2015, https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=55&date1key=2015-06-30.

Figure 1

Health outcomes in South Asia (SDG Index)

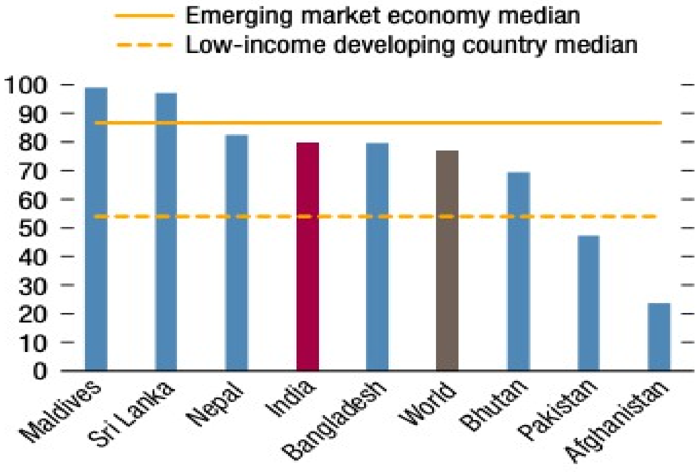


Source: World Bank 2020

Over the past few decades, there has been an improvement in education outcomes in all South Asian countries. Adult literacy rates have doubled or tripled in Bangladesh, India, Nepal, and Pakistan since the 1980s. Currently, Sri Lanka and Maldives have literacy rates above 90 per cent, while other countries have rates lower than the world's average.[31]

[31] "South Asia," *IMF*, accessed April 18, 2023, https://www.imf.org/external/datamapper/profile/SAQ.

Figure 2
Adult Literacy Rate in South Asia

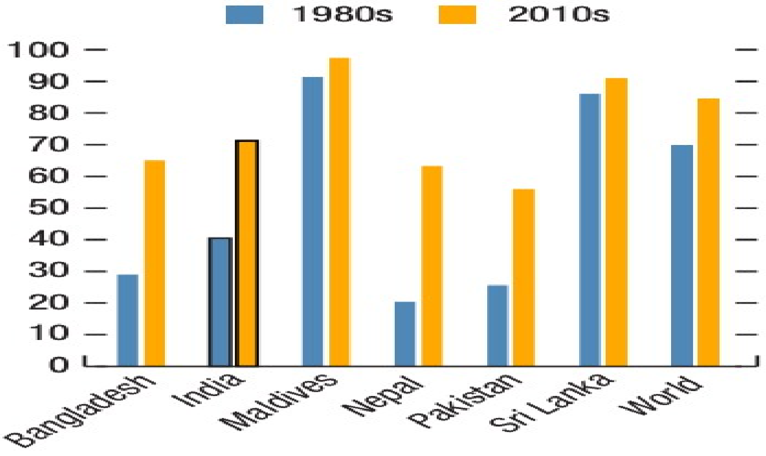


Source: World Bank 2020

Despite some advancements, the educational achievements of most South Asian nations lag behind those of their peers in the emerging economies. The educational performance of South Asian countries varies greatly. Only Maldives and Sri Lanka are near to reaching a SDG4 index of 100, surpassing the median index of 87.4 for emerging economies. However, Pakistan and Afghanistan fall below the median index of 54 for low-income developing countries. India's score of 80.2 is lower than the median index for emerging economies, which could be attributed to the relatively large size of classes and disparities in pre-primary and tertiary enrolment.[32]

[32] Salgado et al, "South Asia's Path to Resilient Growth," (Washington, IMF, 2023).

Figure 3
Education Index of South Asia



Source: World Bank 2020

The employment rate in South Asia has seen significant variations among countries. Overall, the region has experienced an increase in employment rates in recent years, but there is still much room for improvement.

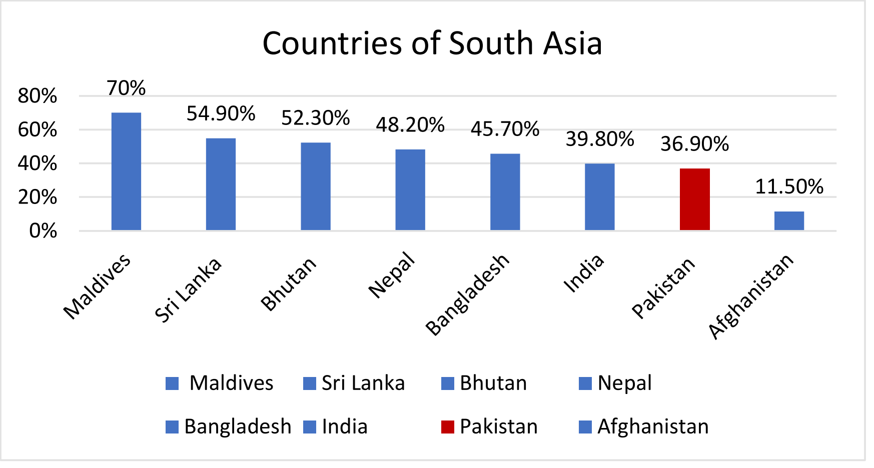
Sri Lanka and Maldives have the highest employment rates in the region, with rates above 95 and 98 per cent, respectively. Bangladesh and Nepal have also made notable progress in increasing their employment rates, with rates around 60 and 75 per cent, respectively.

India, as the largest country in the region, has an employment rate of around 55 per cent. While this is higher than Pakistan's employment rate of around 44 per cent, both countries still face significant challenges in creating enough jobs to meet the needs of their rapidly growing population.[33]

[33] Salgado et al, "South Asia's Path …".

Figure 4

Employment Rate of South Asian Countries (In Percentage)



Source: World Bank 2020

Pakistan has one of the lowest employment rate in the region, which is a major concern, given the country's large population and the need for job creation. The lack of job opportunities has contributed to high levels of poverty and inequality in the country.

The employment rate in South Asia remains a challenge for most countries in the region. While progress has been made, there is still a long way to go in creating enough jobs to meet the needs of the growing population and reducing poverty and inequality.[34]

Can Pakistan Survive Without IMF?

It is difficult to say definitively whether Pakistan can survive without the IMF, as it depends on various economic factors and policies implemented by the government. Without IMF support, Pakistan may face difficulties

[34] Ashfaq Tola, "Surviving Without IMF," *The News International,* December 2021, https://www.thenews.com.pk/magazine/money-matters/914296-surviving-without-imf.

in accessing international credit and may struggle to meet its external debt obligations.[35] It is worth noting that despite the challenging conditions imposed by the IMF in previous bailout programmes, Pakistan was able to achieve a commendable growth rate of 5.80 per cent under the Nawaz government's IMF programme. Additionally, inflation and interest rates remained historically low during this time, and the Pakistani rupee was stable, valued at Rs104 per US dollar. These factors helped restore investor's confidence in Pakistan. [36]

A brief review of IMF programmes in Pakistan suggests that the improvement in macroeconomic performance is temporary, as it is achieved artificially due to a short-term increase in foreign exchange reserves. Any progress made is quickly reversed after the programme ends. Reportedly, the discussion with the IMF has focused on reducing federal spending on energy and other non-targeted subsidies, cutting costs at state-owned businesses that are suffering losses (such as PIA, railways, and utility stores), privatising government-owned businesses (including steel mills, power plants, and DISCOs), and implementing additional tax measures.[37]

There are several ways to achieve these objectives without harming existing taxation levels. Firstly, the retail market, which accounts for 18% of GDP ($152 billion), contributes only 3.9% to the national exchequer. We should focus on this untapped sector and effectively implement the POS system.

Secondly, the E-commerce market, valued at $5 billion, can generate tax revenue of PKR 33 to 35 billion if taxed between 4 per cent and 5 per cent. Thirdly, VAT should be uniformly applied and tax the entire value

[35] Ashfaq Tola, "Surviving Without IMF," *The News International,* December 2021, https://www.thenews.com.pk/magazine/money-matters/914296-surviving-without-imf.
[36] Muhammad Sheroz Khan Lodhi, "Surviving Without the IMF," *Business Recorder*, February 12, 2023, https://www.brecorder.com/news/40225747.
[37] Vaqar Ahmed, "Pakistan must end damaging dependency on IMF," *Nikkei Asia,* February 26, 2019, https://asia.nikkei.com/Opinion/Pakistan-must-end-damaging-dependency-on-IMF.

chain (excluding consumption items for the poor), instead of just imports and manufacturing. Thirdly, withholding taxes should only be levied on transactions representing income or a close proxy for income. Finally, increasing tax enforcement is the only way to increase real revenues, and technology and data offer affordable solutions for this problem. A real-time national database is the first step towards improving compliance in a country with 85 million bank accounts but only 2 million taxpayers.[38]

Continued borrowing from the IMF is contracting investments, output, and employment, resulting in worsening income and wealth distribution, increasing poverty levels, and terrible social and political implications. IMF is a safety net for Pakistan. Every time the country faced economic instability or turbulence, the IMF remained its best bet.

There have been fears of Pakistan defaulting in 2023, since it did not have sufficient money to pay off its debts. This leaves a huge impact on a state. Institutions and countries find it difficult to provide loans to a state having inability to payback. Similarly, the exports and imports of a country are restricted and it becomes difficult to get through markets for their existing commodities. Markets are unwilling to buy or sell the commodities as they fear that the payments will not come through.

This, however, is what seems critical to understand that in such moments only the support of the IMF can regulate the economy of a country. The mercantile relations between the states are restored only in the case of confidence re-established by the IMF. When foreign currency inflow is revived, the defaulted state is able to pay off its debt. Even though IMF sometimes looks exploitative, but if planned strategically, IMF could be

[38] Dohadwala et al, "Pakistan and the IMF: Debts, Deficit and dependency," *ISAS Insights*, September 30, 2020, https://www.isas.nus.edu.sg/papers/pakistan-and-the-imf-debts-deficits-anddependency/#:~:text=Dependency%20on%20the%20IMF%20is, Pakistan's%20burgeoning%20debt%20to%20China.

used to help upscale a state's economy.[39] In view of the concept observed, following two reasons determine Pakistan's dependency on the IMF:

- Persistent Current Account Deficit
- Fiscal Management

Persistent current account deficits have caused problems for Pakistan's balance of payment, with each deficit leading to dwindling reserves and IMF assistance. Despite import-driven growth and debt financing, sustained export promotion and Foreign Direct Investments (FDI) are necessary to prevent recurring crises. From 2000 to 2018, imports increased significantly more than exports, primarily due to domestic consumption, an overvalued rupee, and the China-Pakistan Economic Corridor. The sluggishness of exports stems from a failure to diversify, reliance on low-value commodities, low labour productivity, and overvaluing the rupee, which has led to sustained trade deficits and depletion of foreign reserves.

Secondly, Pakistan's fiscal problems are due to limited revenue-generation capacity, ailing energy sector, and recurrent spending-side issues. The country's tax-GDP ratio is below the required level, and the tax base cannot be expanded due to a large informal sector, predominance of cash-based transactions, and tax evasion. Bloated state-owned enterprises and ailing energy sector have also contributed to the fiscal deficits. Inefficient and mismanaged government expenditure has widened fiscal deficits, as resources are allocated to accommodate the interests of the military and political elites. These problems have led Pakistan to repeatedly seek IMF assistance, which has been allowed due to the country's strategic and geopolitical value.[40]

[39] Momina Ashraf, "If Not IMF, Then Who?" *PT Profit,* March 24, 2023, https://profit.pakistantoday.com.pk/2023/03/24/if-not-imf-then-what/.

[40] Dohadwala et al, "Pakistan and the IMF: Debts, Deficit and dependency," *ISAS Insights*, September 30, 2020, https://www.isas.nus.edu.sg/papers/pakistan-and-the-imf-debts-deficits-anddependency/#:~:text=Dependency%20on%20the%20IMF%20is ,Pakistan's%20burgeoning%20debt%20to%20China.

Conclusion

While historically, the IMF programmes have helped the recipient countries to achieve commendable economic growth rates, there is evidence to suggest that such improvements are only temporary and that the IMF's bailout policies can have a detrimental effect on developing countries.

In case of Pakistan, the socio-political impact of the IMF during 2008-2022, had both positive and negative impacts. On the one hand, at some point, the IMF programmes have helped Pakistan to stabilise its economy, restore investor's confidence, and boost economic growth. Yet, on the other hand, the IMF programmes have also led to austerity measures, increased inflation, high unemployment rates, and immeasurable poverty. They have affected other social indicators as well while hitting the people the hardest.

Pakistan's economic policy was essentially shaped by the IMF. Its role had always been crucial since it provided loans to Pakistan on the condition that it implements economic reforms, such as privatisation, liberalisation, and deregulation. Pakistan's political decisions also got influenced as a result.

Often the IMF loans were stitched with the conditions that required the government to implement structural reforms. Such reforms have been invariably unpopular and difficult for the political governments to comply with. Besides, the IMF programmes have also had a significant impact on Pakistan's social welfare. The austerity measures often suggested, have led to decrease in public spending on social welfare, such as healthcare and education. The poor suffered the most as a consequence. Moreover, the programmes significantly increased inequality as the rich largely remained unaffected.

Since international financial institutions are often aligned with their individual interests, it leaves little room for the recipient countries to make independent decisions with respect to their foreign relations. For instance, it had always been difficult for Pakistan to make unconstrained relations throughout its dependency on the IMF. Being major contributor to the IMF funds, the West-centric dictates remained the root cause while making Pakistan's foreign policy. As a result, it remained devoid of balance and independence.

Internally, this dependency is keeping the country delicately underdeveloped and with an inability to break free from foreign economic aid. The situation is reinforced with each IMF tranche.

Politically, the international financial institutions remain oblivious of the public sentiments. The policy dictates, in the absence of inclusivity and public participation, added more to the public's dissatisfaction and mistrust in the governments.

Way Forward

To end its dependence on the IMF, Pakistan needs to implement comprehensive economic reforms that address the root causes of its fiscal problems. For that to happen Pakistan needs to develop a 'Five-Year, Six Points Plan,' since political instability remains the main component of the solution for every problem.

- Increase Tax Revenue: Pakistan needs to broaden its tax base and improve tax collection systems to increase revenue generation. This can be done by improving tax compliance, reducing tax exemptions, and expanding the formal economy.
- Energy Sector Reforms: The energy sector needs to be reformed by reducing subsidies and improving efficiency to reduce the burden on the budget.
- State-Owned Enterprise Reforms: The government needs to restructure state-owned enterprises and reduce their losses by improving their management and governance.

- Rationalise Expenditures: The government needs to rationalise its expenditures, prioritise spending on development and social services, and reduce wasteful spending.
- Attract Foreign Investment: Pakistan needs to attract foreign investment by improving the business environment, reducing bureaucratic hurdles, and providing incentives to investors.
- Diversify Exports: Pakistan should focus on diversifying its export base to reduce dependence on a few sectors, and also promote value-added exports.■