Q# Evaluate impact of IMF on the economy of Pakistan (CSS 22)

Ans.

1. Introduction:

Pakistan has been on ~~IMF's~~ International Monetary Fund's (IMF) ventilator for as long as 60 years, taking bailout count to 22. The fact of its old and frequent relation with the financial lender speaks volumes not only of state of Pakistan's economy but also the repercussions wreaked by IMF. Time and again, Pakistan has faced economic difficulties reflected in its balance of payments (BoP) crisis. That is when IMF ~~enters~~ is looked upon as a sole way out ~~of~~ during times of bust. It saves Pakistan from sovereign default, stabilizes foreign account, rationalizes taxation and expenditures and signals other ~~tax~~ multilateral as well as bilateral lenders. However, it comes with strings attached. The attached conditionalities of IMF ring as a death knell for local industries and depress growth leading to perpetual cycle of dependency. This boom-and-bust cycle can be broken at the level of indigenous economic reforms that are independent of ~~po~~ sly political engineering and point-scoring.

2. Role of IMF

IMF is a "cooperative international monetary organization" as defined in Articles of Agreements (its charter). It serves as a choice of last resort in times of economic crunch, extant or approaching. As delineated in its charter, IMF assists in balancing BoP crises across countries that can threaten int'l economic prosperity. It ~~does~~ ~~a~~ achieves the purported goal by bailout packages known as "arrangements" or "facilities". It is in no way noblesse-oblige; rather, the loans are contingent on requisite structural and stabilization reforms.

3. IMF's Impacts on Economy of Pakistan:

3.1. Positive Impacts:

a. Shield from a default

Despite all arguments of sovereignty-eroding impacts of international financial organizations, specifically IMF, World Bank and World Trade organization, the former serves to protect ~~from~~ a country from sovereign default. At present, Pakistan's economy is inching towards imminent default. The only way out in sight is resumption of current $6.5 bn loan scheme of IMF. No doubt, it can dictate - and is dictating - the country's sovereign decisions of economic steering, it is lesser of the two evils: IMF or default. Currently, under the dispensation of coalition party of Pakistan Democratic Movement, Pakistan has chosen the non-existent option of "political capital".

b. Stability on foreign account

Since inception of foreign account troubles for Pakistan's economy, the state has often struggled to balance its foreign account. It is rarely seen in surplus and that, too during times of foreign ~~loans~~ inflows in form of loans and excess remittances. But neither one is sustainable. IMF, by drawing down on tax leakages and depressing growth, seeks to ~~curtail~~ preserve foreign currency and stabilize foreign exchange reserves.

c. Tax and expenditure rationalizations:

IMF loans are contingent on levying heavier taxes, direct and indirect, to bridge fiscal deficit. It helps remove subsidies and exemptions that have ~~to~~ lingered for longer than their purpose of growth stimuli. Furthermore, it helps in right-sizing the unwieldy sprawl of government by ~~reigning~~ reining in unproductive expenditures by measures such as privatizing

State-owned-Enterprises (SoEs). that are in red.

d. greenlights foreign lenders

IMF's letter of Intent signals other ~~buyers~~ bilateral as well as multilateral lenders that the country is safe for loans and investment. This increases much-needed inflows as loans and ~~fdi~~ direct foreign investment shore up Pakistan's foreign exchange reserves.

3.2. NEGATIVE IMPACTS

a. Principle of Laissez-faire

IMF endorses principle of laissez-faire, thus compartmentalizing government and market economy. It leaves ~~fledgling~~ emerging industries and markets at the mercy of international competition for which they are not ripe

State Bank of Pakistan made autonomous

Besides inflation control, SBP could be used as a resort of "last reserve" to finance ~~trade~~ foreign trade. But monetary policy can no longer be tweaked by the government of Pakistan. When it should have every resource at its disposal to incentivize and facilitate indigenous industries, govt. of Pakistan is increasingly being rendered helpless. Since Pakistan is not a developed country with competitive domestic industries, SBP's ~~co~~ sovereignty cannot be compared with conservative Bundesbank of Germany.

b. Cycle of dependency

Path to development and growth goes through protecting local industries and ~~deregulating~~ letting down controls on foreign patents. By restraining government to interfere in effective steering and boosting the growth of economy by encouraging exports, IMF conditions loans on deregulating exchange rate and removing subsidies. Depreciating rupee and helpless industries further discourage exports of the country, thus perpetuating cycle of dependency.

c. yawning gap of social inequalities

All measures endorsed by IMF harm the poor segment of society. In the capitalist world of ~~economy~~ trickle-down economy, burden of taxes ~~pass~~ seeps to the lower ranks faster than profit passes on to the underprivileged.

4. Way out of dependency cycle:

4.1. STRUCTORAL REFORMS

a. document economy

To break free from persistent dependency cycles it is imperative for Pakistan to document its economy. Only 30% population of the real economy is under tax radar. Sectors such as agriculture, retail and real estate are the major evaders.

b. targeted subsidies

Instead of general subsidies, Pakistani dispensation must protect strategic industries by targeted subsidies. Every developed country once followed protectionism for as long as its industries did not acquire a competitive edge over international competition. Japan, for instance, protected Toyota Company and facilitated it to to turn into car-making industry from a textile-based firm before it acquired lead in car manufacturing throughout the world.

4.2. RESEARCH AND DEVELOPMENT

R&D is one of the crucial investments. Pakistan can promote exports by encouraging innovation and incentivizing 'reverse-engineering'. By replicating and developing indigenous products Pakistan can become a hub of international trade and connectivity.

5. Conclusion

In conclusion, Pakistan suffers from internal structural maladjustments in its economy. It is soothed by IMF but it is only a salve on tumor for IMF does not address the root cause evident in its impacts. If anything, IMF exacerbates the boom-and-bust cycle as Pakistan fails to acknowledge to need to boost its trade by targeted subsidies and strategic investments. Once realized, Pakistan has the potential to join the ranks of developed countries of the world.