

IMF and the Pro-Growth Strategy 2024

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Pakistan has been the recipient of the IMF programme since the second five-year plan, when the country under the direct military rule of Ayub Khan opted to align the economic, military and political direction of the nation state with the western hemisphere led by the United States. If on one hand the military was integrated into the Pentagon's remote partnership via CENTO and SEATO, the same arrangement brought in economic strategy of growth based on expanding the two gaps – namely the saving-investment gap and the import-export gap, both of which can be seen as having been created deliberately in order fill them up with investment as well as foreign assistance from multiple sources.

That has been the order of the day since that period of history. For good or for bad, the impact of the IMF programmes has cast its intrusive shadow on one single count; that the system we have sought to follow cannot stand without these dosages. Over the past half-decade, that intrusion has permeated into the domains that would otherwise be out of reach: the informal urban economy and the rural economy. As things stand, the devastating cost impact of the disproportionate reform as advocated by the IMF has done more damage than any meaningful correction of the economy. It would be safe to deem the situation we see in Pakistan as IMF led poverty rather than IMF led reform.

Returning to the early years debate, which may help identify the contradictions and move towards course correction. During those times, the World Bank was commissioned to create infrastructure reforms. Likewise, the IMF entered the scene with SDR input aimed at keeping the exchange rate stable enough for the private sector to import capital goods at favourable rates and push forward the wheels of industry in a somewhat controlled environment. For all practical purposes, the system was tuned to serve the elite, not the masses.

That development strategy had an early 'political mishap' in the form of managed presidential elections which defeated the sister of the father of the nation and consolidated the grip of the ruling establishment. As expected, the state – intoxicated with impressive economic growth and complete political control – got itself embroiled into a conflict that served to undo much of the achievements of the planning period. The war with India in 1965 completely disturbed the assumptions that had been laid out. The arms embargo from the United States, despite Pakistan being part of the defence pacts of the period, forced the country to seek arms on hard cash payment from China, France and Russia to address the additional threat perception generated as a result of the ongoing war. This hit on the foreign exchange stunted imports for the industrial sector. This adversely impacted the industrial growth projections and slowed down growth in even minimum wages for the urban working class. Political agitation ensued, fueling the separatist movement in erstwhile East Pakistan and divisive populist politics in the western wing. The dire situation in 1971 has been best chronicled in the White House talking points prepared by then Secretary of State Henry Kissinger. A statement from him on April 28, 1971¹ reads, "The West Pakistanis, on their part, face serious financial difficulties... default on the outstanding loan repayments... restrict imports to the point of stagnating the economy."

Without delving further into that crisis, the takeaway from that period was that the development strategy which was based on widening the gaps fell flat and the economy was exposed to doses of foreign assistance which were ultimately counterproductive in the final assessment.

Periodic exposures with the IMF and other donor agencies since then sometimes landed the central bank to devalue the Rupee to the tune of 131 percent in 1972

¹<https://nsarchive2.gwu.edu/NSAEBB/NSAEBB79/BEBB9.pdf>

(keep in focus the Nixon Administration Policy Brief), progressive devaluation during the 1988-99 era, artificial stability in the exchange rate during the war on terror years (the previous stability dated back to Cold War years).

The story since then has been of the slow transformation of the economy from nominally inflationary to a high-cost one. The inflation cycle, whilst pushing an increasing number of Pakistanis beneath the poverty line, has also made it extremely difficult for businesses to earn bumper profits; suggesting that the firms are now unable to break even to remain afloat, both in the micro and macro sense. This aspect discourages the expansion of operations and consequently leads to slower generation of job opportunities in the economy.

The current state of affairs can only aggravate the situation where the Pakistani economy cannot go beyond getting loans and repaying them; with no growth or reform prospects in the real sense. Politically, it means strengthening of a client state like Egypt rather than fostering a growth economy like Turkey or India.

Coming to the possible ways out of the current quagmire, it is imperative that the reform not be based on a bland mix of checklists. It must rather involve an overhaul of the system in its barest sense, including political reform, transformation into an authentic democracy, social reform, and legal reform. Perhaps most importantly, building an economy with equal opportunity for access to resources.

What seems to be happening now is that the tasteless and unhinged policies, disconnected from ordinary citizens and without any reform agenda, are being finalised between the IMF and political elite. It looks more like an exchange of ideas in a foreign language between the referred above stakeholders with hardly any resonance with the prime stakeholders, the Pakistani masses, whose growth in economic terms actually defines the success or failure of any reform process. The options within the political system might not readily allow a more optimal arrangement; however, it is imperative that instead of passing on the stringent cost of reform to the informal economic sphere, the regulated and high-income strata of the economy may be put as the target in clear terms.

Recently there has been talk of disinvestment or privatisation of corporations like the PIA. That might be a welcome sign, but not enough of a step. The cost of administrative maintenance itself needs to be questioned for audit and eventual resetting. This may

not be welcomed by entrenched interests in the Pakistani economy, polity or society, but it is imperative and unavoidable.

The above argument stands on the ground that passing on the inflationary impact of the reforms as advocated by the IMF in the form of haphazard withdrawal of subsidies might not win over the general population. Instead, it is likely to cause riots and political instability. Here it is important that the fuel subsidy operations of India and Iran in 2010-2011 are studied, where the reform was gradual. Targeted subsidies can also be explored such as those deployed in Iran or other middle eastern economies. Here it may be noted that the draconian image of IMF reform in Pakistan has actually discouraged vast tracks of the population from voluntary documentation of the economy.

The recipe for going forward needs to be based on the following commitments, failing which the upsurge of revolt can easily overtake reform. The reform process needs to be owned by the people and not something from above. With ideal prerequisites of the reform still not present; administrative measures should be balanced out to create breathing space for the informal, agricultural and SME sectors to go beyond subsistence planning at the micro level.

Secondly, the gradual resetting of the budget in a manner that improves productivity and export potential at a systemic level may be an important direction to adopt. Without mincing words, the defence establishment's weapon systems manufacturing can be leveraged to identify needs and capture markets in the international arena. With Pakistan having made its name in airborne assets, these ideas can be realized: offering third world operators better solutions at more affordable rates. The USA is perhaps the greatest example of a success case in this vein, its defense-industrial complex being a major source for armaments and military technologies across the globe but with democratic processes placing parameters around the decision-making process.

Political reform based on cost-cutting and aimed at discouraging extravagant spending needs to be pursued. Here the state and the government as they are now have to take bold steps and introspect. Conclusively, with the current ground realities and the paucity of time, it is a hard choice for the established setups to cajole the masses towards a partnership in reform. A difficult proposition, but a necessary one to move forward in a meaningful sense.

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