Role of IMF Over the Governance Structure and Economic Development of Pakistan

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Abstract

Developing countries like Pakistan seek for financial assistance in order to fulfill their deficits. IMF is one of the largest financial institutions who give loans to countries who need it. This research has studied the IMF role and the effects of IMF conditions on the economy of Pakistan. To carry out this research, both quantitative data from primary sources has been gathered and qualitative analysis has been made to signify whether this borrowing creates and maintains dependency of Pakistan on West and financial and governance structure constructed to curtail Countries like Pakistan. The results concluded that there is negative and insignificant relationship between GDP and IMF loans in the long run. The short-term dynamic shows that weak economic and Political Institutions in Pakistan. The Development dilemma constitutes dependency even today. The Current Budget Deficit Pakistan’s fiscal deficit climbs to Rs 3.403 trillion in 2020-21 needs to be readdressed in such a manner that Pakistan can counter Balance of Payments and import/export imbalance.

Keywords: Dependency, Development, IMF, Loans, Debt, Pakistan, Governance structure

Introduction

Uneven development is one of the central problems of Geo-economics, and may have to be interpreted very literally; it simply means that the economy is not developing on equal bases. This imbalance manifests itself in a variety of ways, for example, in the various sectors of the economy in developing countries, progressing on varying degrees and at different rates, however for the geographers ‘uneven development’, it means that the uneven geographical expansion. This imbalance can be made on the basis of a number of different indicators, such as employment, income, economic growth, etc.) and it has been described, and elaborated at all geographical levels, from intra-city disparities at the regional level, the regional differences and inequalities in the global level.

International organizations perform a wide range of functions, including data collection and monitoring mechanisms, service delivery and assistance and provide forums
for the resolution and resolution of disputes. By providing political institutions where countries can work together to achieve common goals, international organizations can help promote co-operative behavior.

**Literature Review**

The IMF is one of the largest financial institutions and has always been in the news and economically. Provides international financial assistance. The IMF provides loans when the economy is struggling to stabilize. Provides bail packages, poverty packages and various other packages. But then the question arises, to what extent this service is effective or not. Different researchers have a different view.

Some think that the IMF’s role in the developing economy plays a role as a major pillar. Developing countries thanks to IMF Loans. Ahmad, Khalid, & Noor, (2016) find that Government borrowing is closely related to GDP. Fidrmuc & Kostagianni (2015) took a more general approach and found that the IMF loan has a good relationship with GDP which takes the IMF loan as a dummy. Bird & Rowlands (2017) reviewed the IMF and concluded that the IMF has shown fruitfulness in the sustainable development of low-income countries.

But some think that the IMF only works in developed countries. Their assistance in developing lands was unsuccessful. IMF assistance has hampered international economic growth. Dreher (2004) argued that IMF loans do not have a positive relationship with economic growth.

Muhumed & Gaas (2016) in their study concluded that IMF assistance reveals a very painful and destructive situation leading to backward growth and inequality. Gilbert & Unger (2009), IMF loan relationship and financial equity are good. Doucouliagos & Paldam (2007) found that the overall effect of resources was unhealthy. Some think that IMF programs and conditions have no positive or negative consequences. Kean, Hoon, Yoong, Xavier & Siang (2015) argue that IMF conditions have no positive or negative effects on the economy.

Lombardi (2005) viewed the IMF loan from a different perspective. He pointed out that low-income countries have only 10% voting rights which makes it difficult to get loans on their own terms.

**Determining Global Uneven Development and Role of IMF**

International economic relations are the result of the division of labor, and by their very nature are characterized by the dominant that is, to determine the economic reality of the situation. The colonial heritage is to be considered as the main cause of failure in the development of human and economic development at the global level, as the effect of the intergovernmental panel on climate change are particularly acute in the context of a high dependence on the global economy. The different levels of the functioning of the institutional mechanisms of the metropolis and the colonies, as well as economic
exploitation, is one of the sources of the differences in the level of economic development and the distribution of power and influence between the 19th and the early 20th century.

The vast majority of people in the world - especially in sub-Saharan Africa - have been left behind by economic progress. As a result, the gap between the richest and the poorest nations is now widening, with increasing incidence of poverty in the world. Poverty is not only unacceptable for moral reasons, but it also creates a breeding ground for war and terrorism. It is, therefore, the greatest challenge to peace and stability in the 21st century.

Many thinkers argue that IMF fails to adopt a better policy for improving the welfare of developing countries states that the IMF "did not participate in the conspiracy, but expressed the interests and aspirations of the Western financial community".

**IMF: The World's Controversial Monetary Firefighter**

The IMF and the World Bank - have a key role to play in making the world a better place. They were created in 1944 to help restore and preserve the benefits of global integration, by promoting global economic cooperation. Today, they pursue, within their own ranks, a common goal of shared prosperity. The World Bank focuses on long-term investment projects, institutionalization, and social, environmental and poverty issues. The IMF is focused on the implementation of the international financial system, and on promoting sound macroeconomic policies as a guarantee of continued economic growth. (Ruger, 2005).

180 countries of the world are represented by the Board of Governors of the IMF. There is an executive board; members of the executive board, consisting of 24 executive directors, come together thrice a week. Out of these 24 directors, 8 directors represent the major powers of the modern world including China, USA, UK, France, Japan, Germany, Saudi Arabia and Russia (Encyclopaedia Britannica, 2012).

IMF is to provide a stabilized environment for currency exchange rates without the need to back-up the currencies entirely with gold. This would consequently decrease the severity of the balance of payment deficit i.e. the influx of foreign currency leaving a country is more than the inflow of it. This enables the IMF to also control and in a sense eliminate the destructive commercial trade practices which involve forced depreciation of the value of local currency of a country and artificial control on outflow and inflow of foreign exchange. In short, IMF allows a country to retain its independent economic policies. (Encyclopaedia Britannica, 2012).

**IMF and Pakistan**

IMF loan programs influences the economic growth of a country. It can be concluded that higher IMF loan participation does not affect investment, government budget and import and exports greatly but it slows down the economic growth and also has a bit of adverse effect on democracy and rule of law. (Robert J.Barro, 2005).
Pakistan has been a member of the International Monetary Fund (IMF) since 1950. Due to the unpredictable economic situation and the heavy reliance on imports, the IMF has granted Pakistan loans twenty-two times since becoming a member, most recently in 2019.

IMF lending programs are of two types: General Resource Account (GRA), and Poverty Reduction Growth Trust (PRGT). GRA is for the poor in rich countries, and PRGT is for poor countries. GRA is used to provide a conditional loan (SRA). Economists in particular have called the SRA a bail package. According to this division, since becoming a member, Pakistan has been released for 13 months, the largest in the Imran Khan administration in 2019.

Pakistan's economy has been suffering lately and one major reason is that the country has lower export rate as compared to import rate. The import equals almost double of export and the high cost of import badly affects the trade deficit. Previous government didn’t pay heed to the uplift of worth of rupee.

IMF has granted different loan packages to Pakistan, so far their count is 22 since 1958. It was done for maintaining the deficit or because of authorization that Pakistan went to IMF for its loan packages. However, the country has paid loan ahead of time because of maintaining the balance of payments or the sanctions applied (Tribune, August 5, 2016).

In 1958, for the first time, Pakistan went to the IMF for help. In this regard, the IMF borrowed US $ 25,000 from Pakistan on a standstill arrangement on December 8, 1958.
Pakistan went to the IMF again in 1965. During this time, the IMF provided US $ 37,500 to the war-torn nation on March 16, 1965. Three years later, Pakistan went to the IMF again for the third time to find the balance of payment problems in which the IMF provided US $ 75,000 on 17 October 1968. (Ishrat Husain, 2004)

In 1971, Pakistan lost its Eastern Part, East Pakistan, in a war against India. The war resulted in heavy casualties in Pakistan. Pakistan borrowed US $ 84,000 in 1972, US $ 75,000 in 1973 and another US $ 75,000 in 1974 to meet its growing needs. In 1977, another arrangement was made to raise US $ 80,000 on an emergency basis. Three years later, an expanded area of US $ 349,000 was reached in 1980. Pakistan’s struggle continued, with Pakistan withdrawing another US $ 730,000 as Pakistan was already part of the US-Soviet cold war. (IMF, 2002)

Another era began, with democracy back in Pakistan but the old ways of dealing with the economy did not go well. The government of Benazir Bhutto released US $ 194,480 as a stand-up and another US $ 382,410 for a commitment to renovate the building on December 28, 1988 friendly like Saudi Arabia. (Ibid)

In 1993, Benazir Bhutto re-entered the government and his government re-joined the IMF and reached an agreement to set aside a US $ 88,000 set aside on September 16, 1993. $ 123,200 under expanded fund and another US $ 172,200 borrowed on February 22, 1994. At that time the Pakistani economy was in a state of disarray and Pakistan had to go back to the IMF for a third record in Bhutto’s government. Some say, this was the most corrupt government in the history of Pakistan. Pakistan currently received a total of US $ 294,690 on December 13, 1995. (SUSHIL KHANNA, 2010)

In 1997, Nawaz Sharif came to power. The government of Benazir Bhutto was ousted on corruption charges and left Pakistan’s economy in dire straits. The Sharif government went to the IMF on an emergency basis for the first time and reached an agreement to get two prices of US $ 265,370 and US $ 113,740 on October 20, 1997. In 2008, Yousaf Raza Gillani received a $ 7.6 billion loan from the IMF. (ISHRAT HUSAIN, 2010)

In 2018, Imran Khan became Prime Minister of Pakistan. From the beginning, Pakistan had a large budget and its foreign reserves were only two months old. As a result, they are organizing friendly loans from Saudi Arabia, the United Arab Emirates and China to avoid difficult IMF situations. In 2019, when the economic situation worsened, they went to the IMF for a 22-year loan of $ 1 billion. The International Monetary Fund (IMF) has provided loans based on conditions such as rising energy prices, energy cuts, tax increases, private sector corporations and budget adjustments.

IMF gives 12 perks along with specific terms which are observed in case of continuous draw which depends on periodic reviews. ([IMF Lending Arrangements, 2020], IMF is never interested in the default of any country so it provides its schemes to countries for the return of their payments. However, those schemes do not correlate with the economy of Pakistan as there’s too much interference of politicians in the structure of
economy, very high value of dollar as compared to rupee and privatization of highly revenue generating companies (Tribune, August 5, 2016).

However, the exporters are showing dedication towards uplifting the generation of revenue so they can vie with global firms. But the government does not provide favorable environment to do so. Stakeholders do not provide strong support for developing globally competitive ventures. Government’s high priority is state sponsorship and does not pay attention towards the growth global market.

A lack of public interest in the politics of the country has left an adverse effect on the national policy towards borrowing and/or repaying of loans. The previous governments have taken undue advantage of this situation and have taken loans on unfavorable terms. A lack of awareness and therefore, the absence of check and balance has led previous governments into taking loans from various international financial institutions without giving it a second thought (Wani, 2018).

The long spells of tyrannical democratic and dictatorial regimens have resulted in Pakistan falling into the depths of economic crisis one after the other. The lack of acumen and maligned intent of these regimes had led Pakistan into darkness with the only beneficiary being these rulers who filled in their own pockets and the masses were left with nothing.

If one is to review the East Asian history of mid-20th century, many examples would surface wherein researchers or experts have helped economies out of troubled waters; Pakistan could also probably use some assistance in this matter (Wani, 2018).

When reviewed, the condition of our political system compared with that of other economies, reveals how the collective political incompetency and lack of goodwill towards the masses and the country itself has brought the economic crisis upon us. It is about time that we allocate political power in a just and fair manner in order to escape the looming economic failure in Pakistan

At this point it is imperative to sign up IMF’s program, even though as a temporary measure, in order to provide stability to the staggering financial institutions for the economy to recover. This will shrink the fiscal deficit and allow the stock market to recover. The only negative would be that inflation would increase and so would taxes. This would however allow the system to recover and stand on its own feet. In the long run, we would be able to distance ourselves from taking loans from IMF over and over again. In order to be able to achieve this, the government would need to focus on the untapped markets for economic growth (Wani, 2018).

In order to achieve economic growth such that we do not require any more loans from IMF, the government must work on developing an egalitarian system; focus must be on ending the class divides with equal allocation of political power and resources, a fair political system that would allow the institutions of the country to work independently and to their full potential. If not, the country will be pulled back towards the ground again and again. Considering the above recommendations, the economic crisis can be alleviated temporarily however, certain challenges and constraints would reoccur which would need
to be addressed for the country to prosper in the long-run. If the system is structured in just and fair manner, only then can we achieve prosperity which will result in a transformation in our society. The current scenario being faced by Pakistan both internally and externally demands a fool proof strategy and expert knowledge for dealing with the looming crisis. The induction of experts is not something new and would not be a first for the world; The United States of America, during the Great Depression had introduced technocrats within their legislature. (Salman, 2014).

Similarly, in 1980s, China was also led by technocrats in their government. Even till date there are many officials in Chinese government who are trained for administration and have expertise in a particular discipline. Consequently, as of today, China has become a developed country with an ever growing economy and shadowing the global markets. During the tenure of Shaukat Aziz, a technocrat who was a former banker and later on became the finance minister and prime minister, Pakistan’s GDP was uplifted. This was a result of his economic strategies and expertise in the field. This trend of bringing in technocrats was established in Pakistan during military regimes and benefits were reaped and reflected in the economic growth of the country in those times.

There are two major reasons why the democratic system has failed to provide any fruitful results, corruption being one of them. Political leaders with corruption in their blood and fake academic degrees have ministerial positions which in turn results in poor performance and lack of competence. The other issue is the feudal system which is deep-rooted in the political system of Pakistan. This has resulted in the suppression of the voice of the common man. Land reforms appear to be the only solution to this problem or else people will always be left at the mercy of these so called leaders.

During the preceding decade, macroeconomic stability has been absent in Pakistan. The instability created due to internal politics has created an unstable economic environment and the country has faced many challenges over the course of time. Till date, the economic instability remains one the major problems of Pakistan. It is widely accepted that a country which has internal political instability will hardly ever be able to achieve macroeconomic stability. (Salman, 2014).

Pakistan has struggled to achieve macroeconomic stability during the last decade. The major challenges faced by the economy were due to lack of internal political instability which has resulted in a slow growth of the economy. A state will always fail to achieve its economic potential as long as there is political instability. Due to derailment of democratic government, recurring marshal laws, the long term vision of gaining economic growth has been compromised. The ever changing political scenario of Pakistan has resulted in a decreased investment, innovation and institutional development in the country. The political system is alone to be blamed for this downfall.

In addition to the above, the resource allocation and political continuity have been impacted by the diversity of ethnic groups which form the Pakistani nation; Pakistan is a land with various ethnicities and languages like Punjabi, Sindhi, Pashto and Balochi.
Amongst these are people ranging from Punjabi, Sindhi, Pashtun, Balochi, Mohajir, Kashmiri and Gilgiti leading to further complexities.

### IMF History of Lending Arrangements for Pakistan

<table>
<thead>
<tr>
<th>S #</th>
<th>Facility</th>
<th>Date of Arrangement</th>
<th>Expiration Date</th>
<th>Amount Agreed</th>
<th>Amount Drawn</th>
<th>Amount Outstanding</th>
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<tbody>
<tr>
<td>1</td>
<td>EFF</td>
<td>3/7/2019</td>
<td>2/10/2022</td>
<td>4,268,000</td>
<td>1,044,000</td>
<td>1,044,000</td>
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<tr>
<td>2</td>
<td>EFF</td>
<td>4/9/2013</td>
<td>30-09-2016</td>
<td>4,393,000</td>
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<td>3,793,000</td>
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<tr>
<td>3</td>
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<td>24-11-2008</td>
<td>30-09-2011</td>
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<td>4,936,035</td>
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<td>4</td>
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<td>6/12/2001</td>
<td>5/12/2004</td>
<td>1,033,700</td>
<td>861,420</td>
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<td>5</td>
<td>SBA</td>
<td>29-11-2000</td>
<td>30-09-2001</td>
<td>465,000</td>
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<tr>
<td>6</td>
<td>EFF</td>
<td>20-10-1997</td>
<td>19-10-2000</td>
<td>454,920</td>
<td>113,740</td>
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</tr>
<tr>
<td>7</td>
<td>ECF</td>
<td>20-10-1997</td>
<td>19-10-2000</td>
<td>682,380</td>
<td>265,370</td>
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<td>8</td>
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<td>13-12-1995</td>
<td>30-09-1997</td>
<td>562,590</td>
<td>294,690</td>
<td>0.000</td>
</tr>
<tr>
<td>9</td>
<td>ECF</td>
<td>22-02-1994</td>
<td>13-12-1995</td>
<td>606,600</td>
<td>172,200</td>
<td>0.000</td>
</tr>
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<td>10</td>
<td>EFF</td>
<td>22-02-1994</td>
<td>4/12/1995</td>
<td>379,100</td>
<td>123,200</td>
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<td>11</td>
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<td>16-09-1993</td>
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<td>265,400</td>
<td>88,000</td>
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<td>28-12-1988</td>
<td>27-12-1991</td>
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<td>15</td>
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<td>16</td>
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<td>8/3/1978</td>
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<td>11/11/1974</td>
<td>10/11/1975</td>
<td>75,000</td>
<td>75,000</td>
<td>0.000</td>
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<td>18</td>
<td>SBA</td>
<td>11/8/1973</td>
<td>10/8/1974</td>
<td>75,000</td>
<td>75,000</td>
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</tr>
<tr>
<td>19</td>
<td>SBA</td>
<td>18-05-1972</td>
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<td>84,000</td>
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<td>20</td>
<td>SBA</td>
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<td>16-10-1969</td>
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<td>21</td>
<td>SBA</td>
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<td>15-03-1966</td>
<td>37,500</td>
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<td>22</td>
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<td>8/12/1958</td>
<td>22-09-1959</td>
<td>25,000</td>
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</tbody>
</table>

(IMF Lending Arrangements, 2020)

Since each and every IMF’s funded facility is approved conditionally subject to adherence of agreed terms which is monitored chunk wise cyclically and next chunk within it is disbursed subject to satisfaction of IMF Executive Board.
IMF: the Hidden Agenda

People are protesting against the International Monetary Fund (IMF) in the countries on which it has borrowed, be it Argentina, Ecuador, Egypt, Greece, Jordan, Kenya, Nigeria, and Tunisia. Protesters held by the protesters often accused the IMF, the last global lender, of promoting debt segregation and worse economic inequality.

Much of the bitterness towards the IMF comes from the conditions that cling to its loans. These situations arise from risky free markets: reducing the role of government due to the unwavering belief in the rise of the markets. "Free markets may be incomplete but they are probably the best way to plan the economy," (Joseph Stiglitz, 1989) reads a tag line article on finance and development on the IMF website - which summarizes the critical attitude that many have criticized over the years. The late Mahboobul Haque, a Pakistani economist and finance minister, who received widespread respect for his human development work, made the following statement: "Markets are not very friendly to the poor, the weak, or the nation or the world. We often pretend the markets are free. Not at all, I’ve seen that in my country. Markets are often dominated by strong interest groups, and are greatly affected by the current revenue sharing". (Mahbub ul Haq, 1992)

The conditions attached to IMF loans, known as Structural Adjustment Program, are often very low, such as reducing government spending, freeing trade, removing barriers to cash flow, making state-owned enterprises stockbroking, cutting subsidies, raising taxes, and so on.

The Governor's debt is full of spillover costs (or foreign assets) including injustice between generations. Debts are received by senior officials but are repaid by generations of ordinary citizens through the nose. It is because of financial injustice in debt that the IMF is facing Kenyan protests over the $ 2.34 billion funding package for Kenya. (IMF, 2004)

The IMF reform does not address the economic inequalities that exist in the current political economy of the debtor country. Inevitably, it is what harms the general public - such as rapid inflation - rather than the potential for the upper echelons of the ruling elite, such as bringing the tax-free elites into the tax net.

Conclusion

In this paper we have tried to address some of these limitations by focusing less on licensed programs in low-income countries, and by considering various factors that could contribute to the link between IMF programs and economic growth. We have used a point-by-point approach to address the potential problem of choice and we have supported this in a participatory model specifically designed to capture situations where LICs turn to the IMF to sign plans.

In terms of economic policy, IMF programs should have a positive impact on economic growth as they improve policy formulation. Better policies should lead to better results. In addition, by helping to create economic stability and reducing the risk of shock,
for example by creating a fiscal space and promoting targeted revenue collection, there can be other positive growth outcomes associated with IMF programs.

It is difficult to establish a systematic model that directly captures the linkages that the Fund can impact on economic growth in LICs. As a result, we introduce and implement a more scientific approach that views economic growth as a constraint on the amount of foreign exchange available and the quality of economic policies pursued. IMF programs can help reduce financial constraints by providing resources directly as part of the program, or indirectly by adding additional revenue. For many LICs with limited access to the international financial markets only, the potential impact of IMF programs on foreign aid will be significant.

However, in some cases the IMF system can transmit a negative signal about the magnitude and nature of the country’s economic problems. In this case the catalytic effect on other capital flows, especially the secret, may be negative. This result could mean that, due to declining revenues, IMF programs have a negative impact rather than a positive effect on economic growth.

Whether the system turns out to be beneficial or harmful to the economy depends on how the community responds to these measures and how the government uses them thoughtfully at present the government has no choice but to take out loans to prevent the country’s financial collapse from collapsing. Pakistan’s current economic situation and future government plan show that Pakistan has fallen into debt. Pakistan’s debt and debt have risen sharply to Rs35.1 trillion or 91.2% of economic growth. However, the government is showing higher interest rates, especially in the IMF and in Friendly countries.
References


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