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By Sampath Perera

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Pakistan government prepares savage austerity following IMF "bailout"

Pakistan's Islamic populist Tehrik-e-Insaaf (PTI) government is preparing to bring down a savage austerity budget next month, after reaching agreement with an International Monetary Fund (IMF) technical team on a $6 billion "bailout" and "structural adjustment" package.

Reports describe the terms of the bailout—which still requires approval from the IMF's Board of Directors—as the toughest ever accepted by Pakistan, which has received IMF aid 21 times since 1950 and more than a dozen times in the past 30 years.

At a press conference last Saturday, Hafeez Shaikh, Prime Minister Imran Khan's principal economic adviser, bluntly declared that the upcoming budget would be "an austerity budget." He claimed the "army, civilian and private institutions are on the same page," and that all of them will participate in "serious, sustained and structured reforms and difficult decisions."

The IMF is demanding that Pakistan reduce its annual budget deficit by $5 billion or 0.6 percent of the country's gross domestic product (GDP). It is also demanding Islamabad increase tax revenue by 36 percent, or the equivalent of 2.2 percent of GDP. Dodging a question on whether the budget of Pakistan's nuclear-armed military will be cut, Shaikh affirmed that the "sovereignty [of Pakistan] will be protected by giving every possible sacrifice."

Defence and debt servicing currently consume more than half of all Pakistan government expenditure. Shaikh's refusal to countenance any reduction in the defence budget means that the cuts to social and development spending will be even more savage. Reported plans include the elimination of subsidies for electricity, gas and petroleum products.

Shaikh did not elaborate where the increased tax revenue would come from. The tax evasion of Pakistan's ruling elite, both government-sanctioned and illicit, is notorious—to the point that even the IMF advocates it do more to support the infrastructure needed to make Pakistani capitalism more "competitive." But the pro-big business PTI, like all its predecessors, will undoubtedly ensure that most of the burden of any tax hikes falls on Pakistan's impoverished workers and rural toilers.

According to a 2018 World Bank report, 30 percent of Pakistanis are living in poverty, and one in every five Pakistanis is malnourished.

Islamabad and the IMF technical team reached agreement on the proposed bailout against the backdrop of intensifying geopolitical rivalry between the United States and China. Washington, which over the past 15 years has downgraded its traditional strategic partnership with Pakistan in pursuit of closer ties with its arch-rival India, is seeking to exploit Pakistan's economic crisis to disrupt Islamabad's burgeoning economic and military-strategic ties with Beijing.

Last summer, shortly after the PTI government was elected to office, the Trump administration threatened to use its influence in the IMF to block any bailout, with Secretary of State Mike Pompeo declaring that the US had no interest in rescuing Chinese creditors.

Since then, Washington has repeatedly raised concerns about Pakistan's growing economic reliance on China, and in particular the more than $60 billion China-Pakistan Economic Corridor (CPEC) project. Not only would the CPEC dramatically expand Chinese-Pakistani economic ties. It has major strategic implications, as it would link western China to the Pakistani Arabian Sea port of Gwadar, providing a means for Beijing to partially counteract Pentagon plans to blockade China by seizing Indian Ocean and South China "chokepoints," in the event of a war or war crisis.

The May 12 announcement of the proposed IMF-Pakistan bailout package in no way means Washington has relented in its opposition to the CPEC or in its determination to limit and disrupt ties between Islamabad and Beijing. If the deal is subsequently approved by the IMF, over whose policy the US retains a commanding say, it will only be because Washington calculates it has leveraged Pakistan's economic crisis to the optimum.

In recent months, Pakistan has sought to curry the Trump administration's favour by assisting it in launching "peace negotiations" with the Taliban. Washington is also no doubt concerned about the impact of a refusal of all and any IMF assistance to Islamabad. Such action would only push Pakistan further into China's economic and strategic embrace, and could trigger an economic collapse that would be disruptive to an already fragile world economy.

Full details of the IMF-Pakistan package have yet to be announced. But there is also much to suggest that the IMF has made "transparency" about the financing and other details of the CPEC a condition of its bailout package.

The proposed agreement falls far short of the $12 billion Islamabad originally sought, but will provide a desperately needed injection of funds to its depleted foreign reserves.

Uncertain of its chances of securing IMF assistance and wary of the draconian terms it expected would be attached to any "bailout," the PTI government secured $9.2 billion in assistance from China, Saudi Arabia and the United Arab Emirates last fall. Nevertheless, the government continued backroom negotiations with the IMF, and repeatedly imposed austerity measures to demonstrate its determination to implement "politically difficult" pro-investor "reforms."

However, Pakistan's economic position has continued to deteriorate in recent months. Pakistan's rupee is among the worst performing currencies in Asia, with its value plunging more than 40 percent since December 2017 against the US dollar. Inflation has risen to 9 percent in recent months.

"Pakistan is facing a challenging economic environment, with lackluster growth, elevated inflation, high indebtedness, and a weak external position," the IMF statement announcing the bailout agreement said.

Apart from demanding austerity, the IMF is also expected to have insisted on an aggressive drive to privatize state-owned "loss making" enterprises.

Prime Minister Imran Khan, who posed as a vociferous critic of the IMF while in opposition and promised an "Islamic welfare state" as part of his election campaign last year, has restructured his government in recent weeks so as to demonstrate to the IMF that he is ready to impose its diktats on the population.

This has involved elevating to senior positions in his government a number of people who played leading roles in imposing neo-liberal reforms under the hated, US-backed dictatorship of General Pervez Musharraf.

Khan picked Shaikh, Musharraf's minister for privatization, as his chief economic adviser after firing his finance minister, Asad Umar. In addition, to serving in Musharraf's government, Shaikh oversaw the implementation of a previous round of IMF austerity measures, while serving as finance minister of the Pakistan People's Party government that came to power after Musharraf's regime unraveled. Shaikh is popularly reviled for refusing to provide any meaningful relief to the millions of people severely affected by unprecedented floods in 2010.

Khan has named Ijaz Shah, who served as head of the Intelligence Bureau under Musharraf, to run the Interior Ministry. Shah's appointment is a sharp warning to the workers and toilers that the PTI government is preparing to face down the inevitable eruption of popular opposition to its policies with vicious state-repression.

The new governor of the State Bank of Pakistan (SBP), Reza Baqir, was himself for 18 years a senior IMF employee, and as such played a leading role in designing and implementing anti-worker "structural adjustment" programs in multiple countries. When the announcement was made that Baqir was becoming the head of Pakistan's central bank, he was the IMF's Senior Resident Representative to Egypt, advising President Abdul Fattah el-Sisi on the austerity measures to be implemented by his blood-soaked military dictatorship.

The London based *Financial Times* responded to the announcement of the IMF package for Pakistan by publishing an editorial that demanded it "enforce strict targets in Pakistan." After warning against possible backtracking by Islamabad in the face of popular opposition, the mouthpiece of Britain's financial elite urged the IMF to leverage the bailout against China. "An IMF programme will at least help in that goal, and limit the country's growing overdependence on China," declared the *Times.* It then went on to insist that the IMF require "full transparency on the currently opaque terms of Pakistan's bilateral loans (from China), and the repayments due after Beijing invested $62 billion in the China-Pakistan Economic Corridor."

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