**Structural Adjustment Programs**

[Muhtasim Afridi](https://dailytimes.com.pk/writer/muhtasim-afridi/" \o "More Articles by Muhtasim Afridi)

July 8, 2024

The International Monetary Fund (IMF) serves as the backbone for underdeveloped economies around the globe. In times of recession, the international lender provides financial support in the form of loans or bailout packages to help countries stand on their feet. However, when any state seeks an IMF loan, it must adhere to given reforms called structural adjustment programs. Similarly, when the government of Pakistan visits the IMF for a loan, the ruling party has to agree on certain conditions to get it approved. But in that way Pakistan (just like other states receiving loans from the organization) let the IMF decide its foreign policy.

Pakistan and the IMF always had a rocky relationship throughout history, characterized by many ups and downs. Very rarely, the country is found to meet the IMF deadline successfully, in most cases it fails to do so – given the poor economic activity. The condition of Pakistan’s economy can be well understood by the fact that whenever a new party holds power, its first plan is to get an IMF loan – “first things first”. In return for a loan, the top leadership has to sacrifice its key decisions. To put it, “the sovereignty of any nation is compromised the moment it lets others make its decisions.”

The newly formed government, Pakistan Muslim League (PML-N), seeks to negotiate the Extended Fund Facility (EFF) with the IMF in a move to avert default, which may consist of at least $6 billion US dollars. While its approval remains unclear, this bailout package from the international lender will mark the 24th term for the country, leading to further burdening of debt. While it might bring some optimism into the air, it is quite hard to predict a bright future for Pakistan’s economy – given the impact of IMF’s structural adjustment programs on the country’s domestic and foreign policies.

Pakistan and the IMF always had a rocky relationship throughout history, characterized by many ups and downs.

In past regimes, the set of reforms suggested by the IMF under structural adjustment programs has brought little improvement in terms of tax revenue; nevertheless, it did not serve the interest of Pakistan at large – given that the country has needs and problems other than the Western nations. Pakistan is in dire need of introducing technical equipment in industries, such as heavy machinery used for boosting processes; however, high taxes on such imports, as suggested by the IMF, slow the development of the technical sector. It ultimately limits Pakistan’s relations with the developed states (China, Italy, Germany) that produce machinery – heavy tariffs on imports directly affect the trade volume.

Contrary to that, the government of Pakistan provides subsidies to the agricultural sector, which might help in ensuring food security but it adds little to the economy because food products are cheap in the international market, hence they do not generate revenue comparably higher than the technological goods. In contemporary times, everything is based on technology – the developed states are thriving because they have machinery and produce electronic or digital products that are high in demand and price. Pakistan needs a strong technological base to generate revenue and increase trade with other states.

Moreover, high tariffs on vehicles greatly impact Pakistan’s relations. The country imports cars from Japan, China, Indonesia, Thailand, and South Korea. Each household, including the elite class and the middle-class families in particular, demands a vehicle. Now, increased taxes on such imports surge the final cost for the citizens, ultimately testing their buying power. The wealthy class in Pakistan has the purchasing power to buy vehicles; however, for the middle class, it becomes difficult to meet the sky-high prices. Therefore, they go for alternative means rather than buying expensive cars, which eventually decreases Pakistan’s trade volume and consequently weakens foreign policy towards other states.

Another major setback for Pakistan’s economy is the long-delayed Iran-Pakistan gas pipeline project, which otherwise would have fulfilled the energy needs of the country at a very low cost and would have further contributed to increased trade volume between the two neighbours. Both Muslim majorities observe peaceful relations in terms of trade; however, the project is stalled due to the cloud of embargoes on Iran. Despite US sanctions on Iran, the country is all set to commence the project and the ball is now in the court of Pakistan. The US, being the greatest contributor to the IMF, would never allow Pakistan to proceed with the project. However, if Pakistan does that, it might not receive further bailout packages from the international lender, which would bring Pakistan to the brink of default.

Pakistan does make independent choices on certain occasions; however, the country does not enjoy full authority over its key decisions – given its huge dependence on international lenders. In such a globalized world, states are trying to attract Foreign Direct Investments (FDI), such as investment by Multi-National Corporations (MNCs) – they serve as a means to strengthen foreign policy, but due to high taxes imposed on corporations by the government, they do not operate in Pakistan. In essence, the structural adjustment programs revolve around taxes as a means to generate revenue; however, this is not a sustainable economic model, the country needs to have policies of its own, and it must know its priorities to get out of the vicious cycle of loans.

*The writer is an intern at the Center for Law and Security, TMUC and can be reached at muhtasimafridi166@gmail.com*