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GLOBALISATION AND NORTH-SOUTH DIVIDE: A CASE OF PAKISTAN'S POLITICAL ECONOMY

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ABSTRACT

Globalisation, often celebrated for promoting economic growth and cross-border connectivity, has also contributed to reinforcing economic disparities between the Global North and South, perpetuating the historical divide between affluent and developing nations. For Pakistan, globalisation has presented both opportunities, such as access to international markets and technological advancements, and challenges, particularly in terms of economic stability. While it has opened avenues for trade and development, it has also exposed the country to external economic shocks, increased debt burdens, and created structural dependencies on foreign aid and financial assistance. This paper investigates the North-South divide through the lens of Pakistan's political economy, examining how globalisation has shaped its developmental trajectory. The paper highlights the role of international financial institutions, particularly the IMF, in exacerbating fiscal instability through conditionalities tied to financial programmes, which often mandate austerity and privatisation measures. Such interventions have led to recurrent debt cycles, illustrating a form of economic dependence. The paper argues that there is an urgent need for policy reforms aimed at reducing reliance on external support and fostering sustainable, self-reliant economic growth.

Keywords: Globalisation, North-South Divide, Political Economy, International Monetary Fund, Foreign Aid, Dependency

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1. INTRODUCTION

Globalisation, a transformative process of increasing interconnectedness and interdependence across the national boundaries, has significantly altered the counter of the modern world. This phenomenon can be defined as the process of rapid economic integration between countries, facilitated by trade liberalisation, Foreign Direct Investment (FDI), capital flows, and advancement in technology.[1] Although globalisation is widely believed to have emerged from the Uruguay Round of General Agreement on Tariffs and Trade (GATT), it is rather an old concept.[2]

The process of globalisation gained renewed traction in the aftermath of the Second World War with the expansion of free trade and international cooperation. The end of Cold War, along with advancements in communication and transportation technologies during the 1990s, further propelled globalisation. Moreover, with the formation of World Trade Organisation (WTO) in 1995, the principles of liberalism, multilateralism, and non-discrimination were solidified, reinforcing the prevailing trend towards globalism.[3]

Globalisation has long been recognised as a catalyst for economic growth, technological advancements, and cultural exchanges, contributing to increased prosperity in many regions and fostering deeper international cooperation. For numerous countries, it has provided opportunities to integrate into global value chains, boost export-led growth, and attract foreign direct investment. However, while globalisation has delivered substantial benefits for many, its impacts have been

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[1] Raymond Torres, *Towards a Socially Sustainable World Economy: An Analysis of the Social Pillars of Globalization* (Intl Labour Organisation, 2001).

[2] A. R. Kemal, "Globalization and South Asia," *Mahbub Ul Haq Human Development Review* 1, no. 1 (2001): 61–75.

[3] Naima Saeed, "Impact of Globalization on Pakistan's Economy," 2006, 1–18, https://www.researchgate.net/publication/255631231_Impact_of_Globalization_On_Pakistan%27s_Economy.

uneven, and the anticipated universal gains have not materialised equitably across the Global North and South. Many scholars argue that globalisation has widened the economic gap between the affluent North and the struggling South, deepening historical inequalities and perpetuating a cycle of dependency. This gap is particularly evident in the domain of political economy, wherein the advanced industrial nations have largely dictated the rules of the global economic system to serve their interests.[4] Therefore, economic and political structures of the global South have been frequently shaped by these externally imposed constraints.

Pakistan, as a developing nation situated at the crossroads of South Asia, serves as compelling case of how globalisation interacts with political economy of the global South. Throughout history, Pakistan economic trajectory has been influenced by complex interplay of internal factors, such as governance challenges, military influence, socio-economic disparities, as well as external pressures from international financial institutions, trade agreement, and geopolitical alliances.[5] State policies have largely been driven by the necessity to secure foreign aid and investment, reflecting wider struggles of developing nations in operating within the global economic framework.

This paper argues that in Pakistan, globalisation has brought both opportunities and challenges. While it has opened access to international markets and enabled acquisition of advanced technology, it has also made the nation susceptible to global financial flows, exposed it to intensified global competition, and, at times, fostered a reliance on foreign assistance and loans. While it is

[4] Rory Horner et al., "Globalisation, Uneven Development and the North–South 'Big Switch,'" *Cambridge Journal of Regions Economy and Society* 11, no. 1 (January 22, 2018): 17–33, https://doi.org/10.1093/cjres/rsx026.

[5] Hassan Jalil Shah and Ahmad Khan, "Globalization and Nation States – Challenges and Opportunities for Pakistan," *Social Sciences & Humanities Open* 8, no. 1 (January 1, 2023): 100621, https://doi.org/10.1016/j.ssaho.2023.100621.

acknowledged that no country can thrive in complete isolation and that competitiveness is a critical factor for economic advancement, the nature of this competition can sometimes skew economic relationships, particularly for countries with less diversified economies. For example, Structural Adjustment Programmes (SAPs) and conditionalities imposed by international financial institutions constrains the state's economic sovereignty, compelling it to adopt policies that often prioritises short-term gains over long-term development.

This paper highlights the complexities of Pakistan's political economy within the context of globalisation, analysing how global economic system has influenced state's development trajectory. By critically examining the intersection of globalisation and North-South divide, this research provides insights into structural challenges faced by Pakistan and offer potential pathways for attaining a more equitable and sustainable political economy in a globalised world.

2. GLOBALISATION AND NORTH-SOUTH DIVIDE

While the concept of the North-South divide existed in academic and political discourse even before the independence of colonial states, it took on a more concrete form when former German Chancellor Wily Brandt gave the visual representation of the global North-South divide in 1980s. Ever since, the global North-South division and the problems arising as consequences have turned into a lingering debate in global political economy. Figure 1 shows that the Brandt line crosses the world map at 30-degrees latitude, clearly depicting the countries that are a part of rich North and poor South, respectively.[6]

[6] Arkadiusz Michał Kowalski, "Global South-Global North Differences," in *Encyclopedia of the UN Sustainable Development Goals*, 2021, 389–400, https://doi.org/10.1007/978-3-319-95714-2_68.

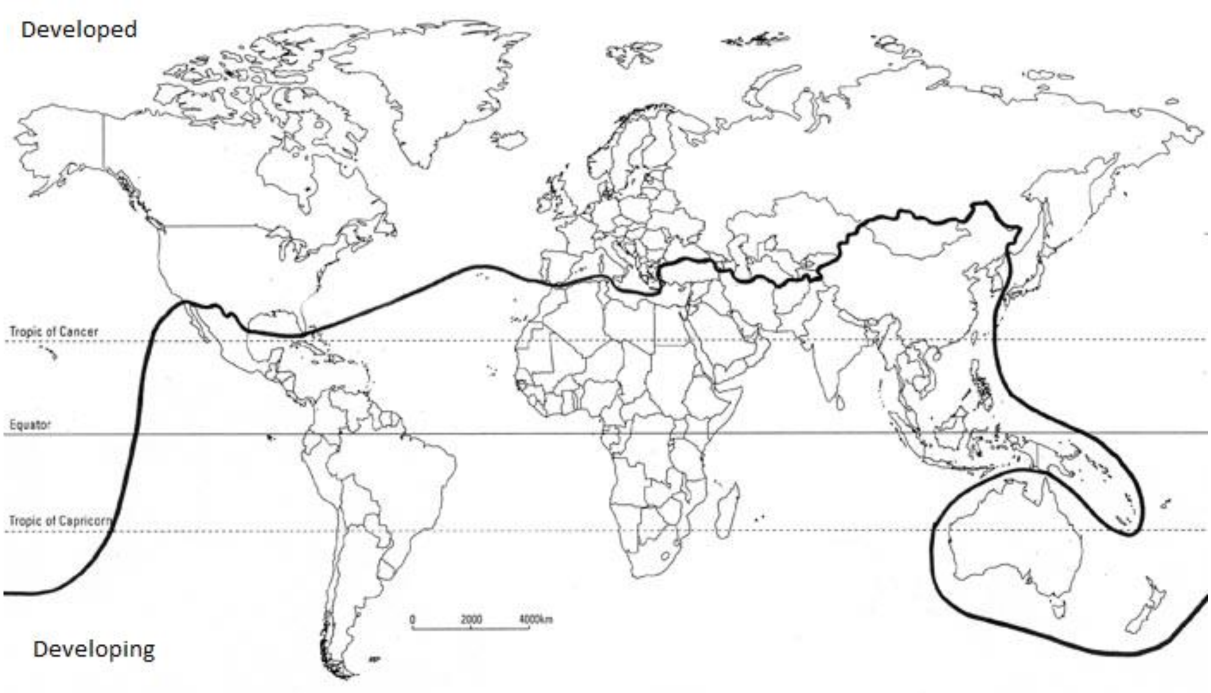

Figure 1: Brandt Line

Within the International system, North and South are not only geographical terms. They also relate to other factors, including economic and political development. The North comprises of the Western world i.e. the developed states (also known as 1st and 2nd world) while the South consists of developing states (known as 3rd world). The divide between North and South is based on economic development, political stability, wealth, democracy, freedom, and income inequality. The countries in the North tend to be more democratic, offering freedom and stable economic rise to their nations. On the other hand, more than half of the countries in the South are former colonies of countries from the Global North, having poor infrastructure, lack of technology, fragile political systems, and economies dependant on the developed world.[7] They largely rely on the developed world for investment, exports, technology, armament, etc.

[7] Sunday Ebaye and Ellah Timothy Ogbang, "The Politics of the North-South Economic Divide & the 21st Century 3rd World Economies," *North American Open Politics and International Relation Research Journa* 1, no. 1 (2016): 1–10, https://www.researchgate.net/publication/343474527_The_Politics_Of_The_North-South_Economic_Divide_The_21_St_Century_3_Rd_World_Economies.

Even in today's globalised world, the economic disparities between the North and South remain stark. The North, which represents just a quarter of the world's population, captures around 80 percent of the global income. The majority of manufacturing industries are concentrated in the North, which relies on inexpensive labour from the South. Despite the fact that workers from the Global South contribute 90 percent of the labour powering the global economy, they receive only 21 percent of the global income.[8] While population and political instability is increasing in the South, economic development is enjoying a faster pace in the North. Several factors contribute to this politico-economic divide, with numerous scholars debating the extent to which globalisation deepens the North-South disparity. Some of the ways in which globalisation perpetuates the North-South divide include the following:

2.1. North-South Trade Inequality

Globalisation has heightened the risk of widening income disparities in countries of the global South. Trade liberalisation not only intensified economic competition, but it also effectively pits the highly advanced economies of North against the weaker and more vulnerable economies of the South.[9] For example, many African states, including Nigeria and Ghana, primarily export raw materials like oil, cocoa, and minerals to Europe; these exports are often low in value as compared to high-value manufacture goods imported from Europe.[10] This trade imbalance results in less revenue for African nations, deepening financial inequalities.

[8] Jason Hickel, Morena Hanbury Lemos, and Felix Barbour, "Unequal Exchange of Labour in the World Economy," *Nature Communications* 15, no. 1 (July 29, 2024), https://doi.org/10.1038/s41467-024-49687-y.

[9] Nancy Birdsall, "Globalization and the Developing Countries: The Inequality Risk," Carnegie Endowment for International Peace, March 18, 1998, https://carnegieendowment.org/posts/1999/03/globalization-and-the-developing-countries-the-inequality-risk?lang=en.

[10] Nahanga Verter, "International Trade: The Position of Africa in Global Merchandise Trade," in *InTech eBooks*, 2017, https://doi.org/10.5772/intechopen.68897.

Figure 2 illustrates how the core (developed countries) exploits the periphery (underdeveloped countries) by obtaining cheap labour and raw materials, while supplying high-profit consumption goods back to them. The semi-periphery acts as an intermediary, partially benefiting from and contributing to both ends of this global economic structure.

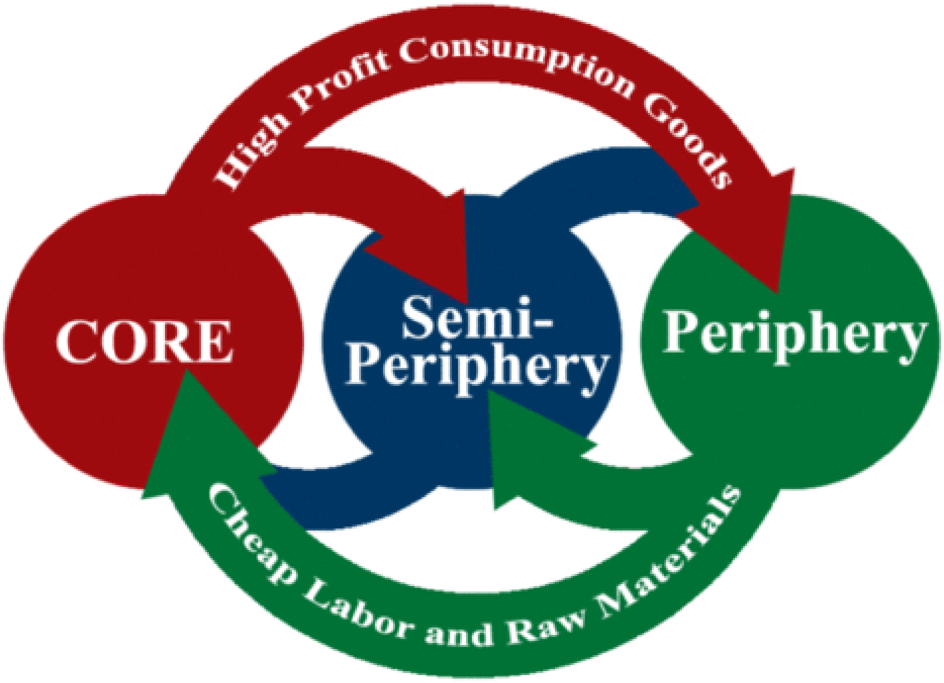

Figure 2: Emmanuel Wallerstein's Model of World System[11]

However, there exist alternative perspectives on globalisation, arguing that these disparities are not solely an outcome of economic structures but also reflect the inherent nature of capitalism itself. For example, scholars such as Thomas Piketty content that economic inequality is an inherent feature of capitalism, with globalisation reinforcing structural disparities between North and South.[12] His formula, $r > g$, where the rate of return on capital (r) exceeds economic growth (g), demonstrates how capital flows predominantly benefit already capital-rich Northern

[11] Nasrullah Mambrol, "World Systems Theory," Literary Theory and Criticism, January 12, 2018, https://literariness.org/2018/01/12/world-systems-theory/

[12] Thomas Piketty, *Capital in the Twenty-First Century* (Harvard University Press, 2014).

economies.[13] Without state intervention, Piketty warns of a shift towards "patrimonial capitalism," further marginalising countries like Pakistan that lack the capital base to compete.

In contrast, Thomas Friedman presents a more optimistic view, arguing that globalisation has "flattened" the world, reducing traditional barriers and providing developing states with unprecedented access to global markets through technological advancements and digitalisation.[14] However, Friedman's argument overlooks the persistent structural barriers in the Global South, such as weak institutional frameworks and a lack of skilled workforce, which limit the benefits of globalisation for countries like Pakistan. This contrast highlights the complexities of globalisation's impact, where its potential to create a level playing field remains largely unfulfilled for many in the Global South.

2.2. Concentration of Wealth

Globalisation has frequently facilitated the privatisation of previously public corporations, particularly those that were financially insolvent. This process tends to concentrate wealth in the hands of a limited number of individuals or multinational corporations, who subsequently implement strategies that are often extractive in nature.[15] In countries of the Global South, where economies are typically smaller and more vulnerable, and state institutions are relatively weak, such privatisation often exacerbates the disparity between the wealthy and the poor, thereby intensifying social and economic inequalities.

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[13] Thomas Piketty, *Capital in the Twenty-First Century* (Harvard University Press, 2014).

[14] Thomas L. Friedman, *The World Is Flat: A Brief History of the Twenty-first Century* (Macmillan, 2005).

[15] Charisma M. Eleazar, "Globalization and the North South Divide," *Icheke Journal of the Faculty of Humanities* 19, no. 4 (2021): 173–80, https://www.academia.edu/103758913/Globalization_and_the_North_South_Divide.

2.3. Growth Debt Crises in the South

Economic integration of global economies and the creation of The Bretton Woods Institutions, i.e., the International Monitory Fund (IMF) and the World Bank (WB) have accelerated the indebtedness of the global South. For example, the IMF's SAP, intended to assist developing economies in recovering from the financial crises of the 1980s, ultimately pushed many Third World countries into even greater economic hardships.[16] It increased their financial indebtedness and, as a result, doubled the rate of poverty.

The problem arises not just from increased debt but from the fact that debt has often grown faster than the GDP of countries in the Global South, making it challenging for them to service their obligations. While countries in the Global North, such as the US and Japan, have also accumulated significant debt over the years, they benefit from lower interest rates and stronger economic fundamentals, allowing them to manage debt more effectively. In contrast, Pakistan’s situation is far more precarious. With a debt-to-GDP ratio of nearly 90 percent, 42 percent of which is external debt, the country struggles to generate sufficient revenue through taxation, exports, and investment to meet its financial needs. This limited revenue base, coupled with low export competitiveness and structural economic issues, prevents Pakistan from leveraging its debt for development, trapping it in a cycle of dependency and fiscal strain.

3. INTEGRATION OF GLOBAL SUPPLY CHAINS

Global Supply Chains are complex networks that connect countries and companies globally, allowing goods, services, and capital to move across borders at

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[16] Jason Hickel, Morena Hanbury Lemos, and Felix Barbour, “Unequal Exchange of Labour in the World Economy,” *Nature Communications* 15, no. 1 (July 29, 2024), https://doi.org/10.1038/s41467-024-49687-y.

an unprecedented speed.[17] Since these supply chains are heavily integrated, means of production are no longer confined to a single country. Rather, different stages of production takes place in different parts of the world, often based on where resources, labour, or expertise are most cost effective.[18]

Countries at the top of the global supply chain, such as the US, have attained high levels of modernisation, which allows them to exert control of crucial aspects of the supply chains.[19] These countries possess advanced technology, infrastructure, and industrial capacity, having significant influence over global market stands, trade policies, and financial system. However, countries like Pakistan, which are on the lower end of the supply chain, struggle to complete in this globalised environment. For example, Pakistan's industrial base is not as modernised so the state struggles to add significant value to its exports, which makes it difficult to compete with countries that can produce high-tech goods and services.[20]

Furthermore, Pakistan's constrained GDP growth and lack of integration into global value chains are rooted in interrelated structural and policy deficiencies. Frequent changes in government and inconsistent policy directions have created an unpredictable business environment, deterring investment and limiting industrial development. Additionally, the country's narrow export base, focused on low-value goods like textiles and agricultural products, coupled with inadequate investment in technology, R&D, and modern manufacturing processes, has restricted its ability to

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[17] Zdenka Vidrova, "Supply Chain Management in the Aspect of Globalization," *SHS Web of Conferences* 74 (January 1, 2020): 04031, https://doi.org/10.1051/shsconf/20207404031.

[18] Goran Milovanovic, Slavoljub Milovanovic, and Goran Radisavljevic, "Globalization: The Key Challenge of Modern Supply Chains," *Ekonomika* 63, no. 1 (January 1, 2017): 31–40, https://doi.org/10.5937/ekonomika1701031m.

[19] Ling S. Chen and Miles M. Evers, "'Wars without Gun Smoke': Global Supply Chains, Power Transitions, and Economic Statecraft," *International Security* 48, no. 2 (January 1, 2023): 164–204, https://doi.org/10.1162/isec_a_00473.

[20] Ernesto Sánchez-Triana et al., "Revitalizing Industrial Growth in Pakistan: Trade, Infrastructure, and Environmental Performance" (World Bank Group, 2014), https://documents1.worldbank.org/curated/en/680081468286261431/pdf/Revitalizing-industrial-growth-in-Pakistan-trade-infrastructure-and-environmental-performance.pdf.

upgrade to higher-value industries. This, along with an absence of globally competitive Special Economic Zones (SEZs), underdeveloped logistical networks, and a lack of export-oriented policies, has kept Pakistan on the periphery of global supply chains dominated by more industrialised economies. However, the changing global R&D landscape presents new opportunities for countries like Pakistan to move up the value chain and compete in knowledge production, provided that essential reforms are undertaken, and investments in skill development and innovation are prioritised.

4. A CASE OF PAKISTAN'S POLITICAL ECONOMY

People born in Pakistan after 1980 have grown up accepting a dominant narrative about the country's struggling economy. This narrative, rooted in neoclassical economics, suggests that Pakistan has been consistently plagued by deficits both externally and internally.[21] In simple terms, the country does not earn enough foreign exchange to cover its import bills and external debts, nor does it generate enough revenue domestically to fund government operations.

4.1. Imperial Political Economy until Independence

The genesis of this can be traced back to British colonial period, where consistent focus on heavy taxation and revenue generation, primarily to support military expenditure and elite consumption, extracted substantial resources from the economy.[22] For example, during this period, India's traditional industries, such as handloom weaving, suffered because they were unable to compete with cheaper,

[21] Ilhan Niaz, "Pakistan's Search for a Successful Model of National Political Economy," *The Round Table* 110, no. 2 (March 4, 2021): 232–49, https://doi.org/10.1080/00358533.2021.1904590.

[22] Aziz Rahman, Mohsin Ali, and Saad Kahn, "The British Art of Colonialism in India: Subjugation and Division," *Peace and Conflict Studies*, 2018, https://doi.org/10.46743/1082-7307/2018.1439.

mass produced goods from Britain.[23] While British bought about some institutional developments and infrastructure investments like railways and irrigation, they were meant to serve the colonial regime's industrial and mercantile interests. This history set the stage for growing economic challenges faced by Pakistan.

4.2. Pakistan's Transition into a National Political Economy In 1947

Following the independence of Pakistan in 1947, country faced numerous challenges as the state sought to rebuild its central state apparatus with an insufficient share of pre-independence asserts, many of which were delayed or denied by India. Moreover, amid these circumstances, the government prioritised national security above all else, allocating 60-70 percent of the state's fiscal resources to defence between 1947 and 1958.[24] This significant focus on defence spending became a defining feature of Pakistan's political economy, and lead centralisation of revenue collection, with about 90 percent of the taxes becoming federal.[25] Provinces were funded through a divisible pool controlled by the central government, which limited their financial autonomy. Simultaneously, the wealthier segments of society avoided paying taxes proportional to their income, leading to a persistently low tax-to-GDP ratio of 9-12.4 percent since independence.[26]

Furthermore, Pakistan swiftly established central planning and regulatory machinery to oversee industrial transformation. However, the country's limited resources forced it to seek external alliances, most notably with the United States, which became a key partner from 1955 onwards, facilitating access to much-needed

[23] Tirthankar Roy, "Indian Handlooms in the 20th Century," *Jahrbuch Für Wirtschaftsgeschichte / Economic History Yearbook* 39, no. 2 (January 1, 1998), https://doi.org/10.1524/jbwg.1998.39.2.129.

[24] Ilhan Niaz, "Pakistan's Search for a Successful Model of National Political Economy," *The Round Table* 110, no. 2 (March 4, 2021): 232–49, https://doi.org/10.1080/00358533.2021.1904590.

[25] Government of Pakistan. (1947). Readjustment of the tax structure between the centre and the provinces. Cabinet Secretariat.

[26] Serhan Cevik, "Unlocking Pakistan's Revenue Potential" (International Monetary Fund, 2016), https://www.imf.org/external/pubs/ft/wp/2016/wp16182.pdf.

external assistance.[27] However, it is important to view these transitions not merely as reactive shifts but as attempts at state-building and structural improvement. While they may not have always yielded the desired outcomes, each phase in Pakistan's economic evolution, from prioritising national security to seeking industrial transformation and external alliances, was driven by the objective to create a more stable and self-sufficient economy.

4.3. The Onset of Sustained Fiscal Crises in the 1970s

The 1970s marked a period of significant economic and political turbulence for Pakistan, ushering in what can be termed a permanent fiscal crisis. The disintegration of East Pakistan dealt a severe blow to Pakistan's economic stability, stripping the country of a major source of revenue and export surplus.[28] During this period, the government embarked on an ambitious economic programme rooted in socialist ideals. However, the reality of implementing such programme proved far more complex. Instead of a well-structured five-year plan, the government resorted to arbitrary nationalisation of key industries and services.[29] However, this led to widespread economic dislocation. Private investment collapsed as businesses and capital fled the country, leaving the government with a portfolio of industries it was ill-equipped to manage. The result was bloated public sector plagued with inefficiency and corruption.

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[27] Mohammed Ayoob, "U.S. Economic Assistance to Pakistan 1954—1965," *India Quarterly a Journal of International Affairs* 23, no. 2 (April 1, 1967): 127–44, https://doi.org/10.1177/097492846702300203.

[28] Muhammad Arshad, "Essays on Long-Run Sources of Economic Growth in Pakistan" (PhD Dissertation, KDI School of Public Policy and Management, 2014), https://archives.kdischool.ac.kr/bitstream/11125/30556/1/Essays%20on%20long-run%20sources%20of%20economic%20growth%20in%20Pakistan.pdf.

[29] Ilhan Niaz, "Corruption and the Bureaucratic Elite in Pakistan: The 1960s and 1970s Revisited," *Journal of the Royal Asiatic Society of Great Britain & Ireland* 24, no. 1 (October 17, 2013): 97–113, https://doi.org/10.1017/s1356186313000631.

By 1974, Pakistan's fiscal situation had deteriorated to the point where the government was collecting only about 13 percent of GDP in taxes while spending 25 percent of GDP, resulting in a staggering deficit of 12 percent of GDP.[30] The government's attempts to inject large amounts of money into the economy to stimulate growth only served to fuel inflation, further exacerbating the economic crisis. While the government enacted policies such as subsidising plots of land, providing perks and special allowances, and offering various post-specific privileges, such measures only institutionalised corruption.[31]

Although internal factors contributed to Pakistan’s fiscal crises during this period, it is essential to consider these challenges within the broader context of the North-South divide. The global oil crisis of the 1970s, which was triggered by geopolitical tensions and the formation of the Organisation of the Petroleum Exporting Countries (OPEC), created an unprecedented shock to the global economy. For a country like Pakistan, heavily reliant on imported oil, this external shock significantly exacerbated existing economic vulnerabilities. As oil prices quadrupled, the cost of imports surged, drastically expanding Pakistan’s trade deficit and leading to severe inflationary pressures. While wealthier nations in the Global North, with more diversified economies and stronger fiscal buffers, could absorb the impact, Pakistan’s limited industrial base and dependence on primary goods exports left it exposed. The resulting economic strain not only deepened Pakistan’s fiscal crisis but also diverted resources away from essential development projects.

[30] Government of Pakistan. (1974). Final report of the taxation commission (Vol. I). Printing Corporation of Pakistan.

[31] Ilhan Niaz, “Pakistan’s Search for a Successful Model of National Political Economy,” *The Round Table* 110, no. 2 (March 4, 2021): 232–49, https://doi.org/10.1080/00358533.2021.1904590.

4.4. Economic Struggles since 2000s

Since the year 2000, Pakistan's economic journey has been marked by recurrent cycles of decline, largely fuelled by external factors rather than sustainable domestic policies. Despite a short-lived economic upturn between 2002 and 2007, the broader trajectory has been one of stagnation and increasing reliance on international financial institutions like the IMF, World Bank, and Asian Development Bank.[32] Between 1999 and 2008, Pakistan benefitted from significant external windfalls, including the resumption of aid, debt rescheduling, and the lifting of sanctions related to Pakistan's nuclear programme, all due to Pakistan's role as a key ally in the War on Terror post-2001.[33] These factors provided the regime with a temporary fiscal cushion of about $25 billion, enabling economic liberalisation efforts, particularly in the financial and telecommunications sectors.[34] During this period, Pakistan's exports doubled, but imports quadrupled, creating an unsustainable trade deficit. The brief period of growth ended, and the country was once again thrust into the clutches of the IMF, forced to implement austerity measures aimed at managing an increasingly unmanageable current account deficit.

Subsequent governments made considerable efforts to improve the economic situation; however, deeper challenges persisted. By the late 2010s and into the 2020s, Pakistan continued to face on-going economic difficulties despite various efforts to stabilise the situation. The economy experienced slow growth, partly due to a rapidly increasing population. Although the defence budget has been reduced as a proportion of GDP, resources for development remain constrained. The country's

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[32] Mirza Qamar Baig, "Pakistan's Trade Policy, 1999–2008: An Assessment" (Pakistan Institute of Development Economics, 2009), https://eaber.org/wp-content/uploads/2011/05/PIDE_Baig_2009.pdf.

[33] S Akbar Zaidi, "Who Benefits from US Aid to Pakistan?," *Economic and Political Weekly* 46, no. 32 (2011): 103–9, https://www.jstor.org/stable/23017764.

[34] Ishrat Hussain, "Pakistan's Economy under Musharraf," *South Asia Magazine*, March 2023.

economic trajectory has been challenging, with modest industrial growth, hurdles in agriculture, and steady growth in services. While exports have contracted, there is potential for recovery as policies evolve. Pakistan remains on a difficult path, but with targeted reforms, there is room for improvement and future growth.

Figure 3 illustrates Pakistan's GDP growth from 1961 to 2023, marked by significant volatility. Key periods of growth occurred in the 1960s, 1980s, and early 2000s, while sharp declines are seen during the 1971 war, 2008 financial crisis, and the COVID-19 pandemic.

5. PAKISTAN AND THE IMF: A LEGACY OF ECONOMIC DEPENDENCE AND FISCAL CHALLENGES

Established in 1944 as part of the Bretton Woods system, the IMF's mission is to promote global monetary stability, provide financial assistance, and support economic growth.[35] Pakistan, which joined the IMF in 1950, has received 24 financial programmes, making it one of the IMF's largest debtors.[36] The IMF offers various financial mechanisms, including Standby Agreements, Extended Fund Facilities, and the Structural Adjustment Facility, often tied to specific policy conditions.[37] These programmes are delivered in Special Drawing Rights (SDRs), an international

[35] Vishal Tekale, "Research Paper on the Role of the IMF and the World Bank in Promoting Global Economic Development," *SSRN Electronic Journal*, January 1, 2024, https://doi.org/10.2139/ssrn.4850278.

[36] Jiyeong Go and Alex Irwin-Hunt, "The IMF's Top 10 Biggest Debtors," The Financial Times Ltd, April 3, 2024, https://www.fdiintelligence.com/content/news/the-imfs-top-10-biggest-debtors-81405.

[37] Jiyeong Go and Alex Irwin-Hunt, "The IMF's Top 10 Biggest Debtors," The Financial Times Ltd, April 3, 2024, https://www.fdiintelligence.com/content/news/the-imfs-top-10-biggest-debtors-81405.

reserve asset based on a basket of major currencies, allocated according to each country's economic size.[38]

Table 1 presents the IMF funding arrangements with Pakistan over the years, detailing the type of facility, the year of agreement, and the amount of funding. An increase in the size of funding programmes over the years is reflective of Pakistan's expanding fiscal balances and rising debt servicing needs. Similarly, the emergence of single-tranche arrangements, like the 2023 Standby Agreement indicates of emergency assistance aimed at providing immediate financial liquidity to prevent default and stabilise short-term economic volatility.

[38] "What Is the SDR?," IMF, October 6, 2023, https://www.imf.org/en/About/Factsheets/Sheets/2023/special-drawing-rights-sdr.

Form of Funding Facility	Year of Facility Finalisation	Agreed Funding (in million USD)
Standby Arrangement	1958	33.13
Standby Arrangement	1965	49.69
Standby Arrangement	1968	99.38
Standby Arrangement	1972	111.30
Standby Arrangement	1973	99.38
Standby Arrangement	1974	99.38
Standby Arrangement	1977	106
Extended Fund Facility	1980	1,680.13
Extended Fund Facility	1981	1,217.70
Standby Arrangement	1988	257.06
Structural Adjustment Facility Commitment	1988	506.16
Standby Arrangement	1993	116.60
Extended Fund Facility	1994	227.90
Extended Credit Facility	1994	227.90
Standby Arrangement	1995	390.88
Extended Credit Facility	1997	351.13
Extended Fund Facility	1997	149.14
Standby Arrangement	2000	616.14
Extended Credit Facility	2001	1,140.85
Extended Credit Facility	2008	6,540.33
Extended Fund Facility	2013	5,280.84
Extended Fund Facility	2019	1,383.33
Standby Arrangement	2023	2,981.31

Table 1: IMF Programmes to Pakistan (1958-2023)[39]

There are several factors that drive Pakistan's dependence on the IMF. First, Pakistan often faces balance of payment crises caused by persistent current account deficits.[40] Pakistan's reliance on imports for growth, development through debt financing, or protection of local consumers from international market shocks requires

[39] European Foundation for South Asian Studies, "Bailout Politics: Pakistan's Economy and the IMF," May 2024, https://www.efsas.org/EFSAS%20Study%20Paper-Pakistan%20Bailout%20Politics-May%202024.pdf.

[40] Kristian Rosbach and Lilia Aleksanyan, "Why Pakistan's Economic Growth Continues to be Balance-Of-Payments Constrained" (Asian Development Bank, December 2019), https://www.adb.org/sites/default/files/publication/545406/cwwp-008-pakistan-economic-growth-bop-constrained.pdf.

backing through sustained export promotion and foreign direct investment.[41] Without this support, growth driven by imports and debt is likely to lead to economic instability every few years.

Second, poor fiscal management, coupled with problems, such as limited revenue generation capacity, ailing energy, and recurrent spending also causes Pakistan's dependence on the IMF.[42] In most countries, public revenue generation largely depends on taxation. According to Federal Board of Revenue (FBR), during 2023-24, Pakistan's tax-GDP ratio stood in the range of 8.7 to 9.2 percent, falling short of the 20% required to sustain adequate investment in public sector.[43] Expanding tax base is also challenging due to the large informal sector, prevalence of cash transactions, and widespread tax evasion.[44] Furthermore, overburdened State-owned Enterprises (SEOs), such as the Pakistan International Airlines (PIA), Pakistan Steel Mills, and Pakistan Railways have been operating at substantial losses, severely weakening fiscal stability.[45] In fact, the net losses of these SEOs have grown so large that they exceed the annual defence budget. While privatisation of SOEs could be a viable solution to enhance efficiency and fiscal health, it must be preceded by comprehensive reforms in governance, transparency, and accountability. Learning from successful privatisation cases in other countries, Pakistan must first address fundamental issues such as improving operational

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[41] Nadia Dohadwala and Muhammad Bin Khalid, "Pakistan and the IMF: Debts, Deficits and Dependency" (Institute of South Asian Studies, September 30, 2020), https://www.isas.nus.edu.sg/wp-content/uploads/2020/10/644.pdf.

[42] Nadia Dohadwala and Muhammad Bin Khalid, "Pakistan and the IMF: Debts, Deficits and Dependency" (Institute of South Asian Studies, September 30, 220), https://www.isas.nus.edu.sg/wp-content/uploads/2020/10/644.pdf.

[43] Sohail Sarfraz, "Tax-to-GDP Ratio in FY24 Stands at 9pc: FBR," *Brecorder*, July 9, 2024, https://www.brecorder.com/news/40311975.

[44] "Informal Economy Enabling Tax Evasion and Money Laundering in Pakistan: An Analytical Study." *Review of Politics and Public Policy in Emerging Economies*, 2021. https://publishing.globalcsrc.org/ojs/index.php/rope/article/view/1760.

[45] Ishrat, Husain. 2022. "The Future of State-Owned Enterprises in Pakistan." Https://Cdpr.org.pk/Wp-Content/Uploads/2022/06/The-Future-of-SOEs-In-Pakistan.pdf. Consortium for Development Policy Research. May 2022.

efficiency and reducing corruption within these enterprises. Until these foundational challenges are resolved, Pakistan's economy is likely to continue cycling between booms and busts.

Third, power sector reforms in Pakistan, particularly the introduction of Independent Power Producers (IPPs) in the 1990's have created significant economic challenges due to the import dependant nature of the economy.[46] The IPP contracts guarantee profits to foreign investors in US dollars, which has placed financial burden on the government, especially when the value of dollar rises.[47] This arrangement has also lead to a shift from hydroelectric power to more expensive and environmentally damaging fossil fuels, increasing the cost of electricity production. Moreover, the reliance on imports for producing export commodities undermines the potential benefits of a weaker domestic currency, as higher import costs drive up production costs, reducing the competitiveness of Pakistan's exports and contributing to persistent trade imbalances and fiscal deficits.[48] Consequently, neither excessive internationalisation through dependency on IPPs, not autarky appears a viable solution for Pakistan's power sector woes. Effective reforms would require a nuanced approach that balances capacity building with strategic international partnerships.

Reliance on external mandates without addressing structural issues may only result in temporary fixes. Yet, in order to secure assistance Pakistan is expected to comply with the policies of the IMF, especially with regards to issues, such as

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[46] Afia, Malik, and Ghulam, Mustafa. 2024. "Power Sector Debt and Pakistan's Economy." Islamabad: Pakistan Institute of Development Economic Islamabad. https://file.pide.org.pk/pdfpideresearch/wp-2024-2-power-sector-debt-and-pakistans-economy.pdf.

[47] Taimur, Rahman. 2023. "How the International Monetary Fund Is Squeezing Pakistan." Tricontinental: Institute for Social Research. October 17, 2023. https://thetricontinental.org/dossier-69-how-the-international-monetary-fund-is-squeezing-pakistan/.

[48] Taimur, Rahman. 2023. "How the International Monetary Fund Is Squeezing Pakistan." Tricontinental: Institute for Social Research. October 17, 2023. https://thetricontinental.org/dossier-69-how-the-international-monetary-fund-is-squeezing-pakistan/.

international trade, interest rates, taxes, government spending, and even prices of essential goods, including electricity, petrol, diesel, and gas.[49] Consequently, with the IMF effectively managing control over monetary, fiscal, and economic policies, the government faces significant constraints on its ability to implement economic stimulus measures. In this context, the governor of the State Bank of Pakistan also has the authority to reject government directives aimed at expanding the money supply, further limiting the government's ability to influence economic growth.

6. IMPLICATIONS OF IMF AUSTERITY MEASURES ON PAKISTAN

This section will examine the impact of four major IMF recommendations on loan-recipient countries like Pakistan, and how these recommendations contribute to a cycle of debt and dependency.

6.1. Elimination of Trade Barriers

The IMF prescribes Pakistan to fully eliminate all barriers to imports and exports, allowing the market to determine the price of dollar in rupees.[50] This entails that government is not able to regulate international trade to avoid deficits. While the idea behind this is that changes in the rupee-dollar exchange rate should balance trade, the reality is starkly different. As the value of dollar increases, so does the cost of inputs for Pakistan’s exports industries, making it challenging for Pakistani businesses to compete. It also leads to increased cost of production, which contributes to rising

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[49] IMF Communications Department, ‘IMF Executive Board Approves US$3 billion Stand-By Arrangement for Pakistan’, International Monetary Fund, 23 July 2023, https://www.imf.org/en/News/Articles/2023/07/12/pr23261- pakistan-imf-exec-board-approves-us3bil-sba.

[50] Ehsan Khan, Usama, Asher Raja, and Uzma Aftab. 2023. “Impact of IMF Programs: A Context of Pakistan.” The Federation of Pakistan Chambers of Commerce and Industry. https://fpcci.org.pk/wp-content/uploads/2023/06/Impact-of-IMF-Programs-A-Context-of-Pakistan.pdf.

inflation in the economy.[51] The government's inability to regulate the dollars also significantly impacts its foreign debt. For example, if the value of dollar against the rupee rises by 10 percent, Pakistan's external debt obligations would increase by the same proportion. Given that Pakistan's total debt is more than six times its annual export, even a substantial increase in its exports would not sufficiently offset the growing debt, making its challenging for the country to improve its economic standing.[52] This highlight a crucial concern with regards to North-South engagement. While the Global North champions trade liberalization, it could potentially lead to unfavourable outcomes for Global South, given that their unique economic circumstances are not adequately considered**.**

6.2. Fiscal Tightening

The IMF recommends the country to cut its expenditure, introduce new taxes, and maintain high rate of interest to combat inflation. In essence, just as aggregate demand weakens, the IMF's policy recommendations would hinder efforts to boost the economy and discourage private investment, which would ultimately worsen Pakistan's stagflation.[53] Moreover, high interest rate also makes borrowing expensive. This, in turn, deters both consumer spending and business investment, as higher cost of financing could lead to reduced capital expenditure and expansion plans.

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[51] Mohammad Salih Memon, Mohammad Shaikh Faiz, Hussain Kazi, Zahid and Syed Abdul Sattar Shah. 2015. "Impact of Currency Devaluation on Pakistan's Economy." *International Journal of Management & Information Technology* 10 (5): 2136–45. https://doi.org/10.24297/ijmit.v10i5.616.

[52] Taimur, Rahman. 2023. "How the International Monetary Fund Is Squeezing Pakistan." Tricontinental: Institute for Social Research. October 17, 2023. https://thetricontinental.org/dossier-69-how-the-international-monetary-fund-is-squeezing-pakistan/.

[53] Imran Khan Bozdar, Hussain Nazar, Irfan Ali Lashari, Ali Raza Lashari, and Abdullah Shah. 2023. "Analyzing the Impact of IMF Policies on the Economic Health of the Pakistan." *IRASD Journal of Economics* 5 (1): 700–708. https://doi.org/10.52131/joe.2023.0501.0109.

6.3. Privatisation of SEOs

The IMF calls for restructuring SOEs; however, when analysed closely, such a recommendation seem problematic. Even though enterprises, such as Pakistan International Airlines (PIA) or Pakistan Steel Mills (PSM) have not been performing at their best capacities for years and are in dire need of reforms, IMF's idea of restructuring does not focus on revitalising them through targeted investments or modernisation. Instead, IMF pushes for privatisation, recommending to the government to either sell or hand over management of these SOEs to private enterprises.[54] However, the paradox is evident here: SOEs are currently running on loss and require significant inflow of capital or structural reforms to become profitable.[55] Moreover, private firms are not likely to buy or manage entities that require such large-scale investment without an immediate run on investment. For privatisation to succeed, it should be accompanied by strategic investments and reforms that address the underlying inefficiencies and enhance the attractiveness of these SOEs to potential buyers.

Furthermore, IMF's insistence on continued payment to the IPP further complicates the situation. These IPPs absorb a substantial portion of state subsidies, which creates a further drain on the state resources.[56] IMF continued support for privatisation while simultaneously supporting continued payments to the IPPs

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[54] Abdul Khaliq. 2024. "New Wave of IMF-Imposed Privatisation in Pakistan." CADTM.org. April 28, 2024. https://www.cadtm.org/With-Islamabad-already-meeting-the-demand-for.

[55] Policy Research Institute of Market Economy. 2017. "State Owned Enterprises in Pakistan PRIME Policy Report." Islamabad: PRIME Institute. https://primeinstitute.org/wp-content/uploads/2021/05/State-Owned-Enterprises-in-Pakistan.pdf.

[56] Zafar Bhutta. "Power Sector to Eat up Major Chunk of Subsidies." *Express Tribune*, January 10, 2023. https://tribune.com.pk/story/2421017/power-sector-to-eat-up-major-chunk-of-subsidies

perpetuates the state into an unsustainable cycle financial obligations without enabling the type of reforms needed to stabilise the economy at large.

6.4. Removal of Subsidies

The IMF advocates for removal of subsidies on essential goods such as fuel and electricity. These subsidies make up a significant proportion of the national budget, but also remain crucial is protecting the general masses from skyrocketing energy prices.[57] Therefore, eliminating these subsidies would lead to a sharp increase in electricity and fuel cost, disproportionality impacting low-income segment of the society as well as the industries dependent on affordable energy. Businesses would face increase operational cost, which would not only increased cost of goods and services, but also worsen inflation and probably triggering more layoffs.

7. POLICY RECOMMDATIONS

In order to address Pakistan's longstanding and enduring economic challenges, it is extremely important to move beyond short term measures and fixes to adopt policies and strategies that prioritise long term economic growth and development. The subsequent section proposes measures that could lay a groundwork for sustainable growth and address root cause of country's economic stagnation.

7.1 Revamping Tax Base

To strengthen Pakistan's economic framework, it is essential to establish a fair tax system that eliminates non-filers and implements a uniform tax rate based on income for all salaried individuals. This would promote equity and enhance revenue

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[57] Benjamin.K, Sovacool. 2017. "Reviewing, Reforming, and Rethinking Global Energy Subsidies: Towards a Political Economy Research Agenda." *Ecological Economics* 135: 150–163. https://doi.org/10.1016/j.ecolecon.2016.12.009.

collection. Additionally, bringing the informal economy into the tax net through a digitised payment system and mobile banking solutions can improve transparency and encourage participation, ultimately fostering civic responsibility and trust in the taxation system.

7.2. Strategic Approach to Privatisation

Pakistan should adopt a strategic approach to privatisation that prioritises targeted investment in SEOs before divestment. This approach should involve conducting thorough assessments to identify viable SOEs for privatisation, followed by implementing comprehensive reform plans that focus on modernisation and efficiency. Additionally, the government should foster transparent partnerships with private investors, ensuring that they commit to reinvesting in the revitalisation of these entities.

7.3. Enhancing Revenue Performance

To foster an economic turnaround, Pakistan should adopt an overarching framework aimed at enhancing revenue performance. This framework should prioritise optimising revenue collection through a fair taxation system, implementing comprehensive industrial reforms, modernising the agricultural sector, and encouraging investment-led growth alongside foreign direct investment. By focusing on these key elements, Pakistan can create a robust strategy for sustainable revenue generation and economic stability.

7.4. Creation of Special Economic Zones (SEZs)

Pakistan must develop SEZs that focus on high-value manufacturing and technological driven sectors. Such an initiative would not only modernise the state’s industrial base but also enhance its participation in the global supply chain by creating an ecosystem conducive to attracting FDI and fostering local innovation. In order to implement this, Pakistan must focus on sectors with growth potential, including electronic, automotive, and renewable energy components, to diversify its export base beyond agriculture and low value manufacturing. Moreover, it is important to position these SEZs in close proximity to major transport hubs, such as Gwadar or China Pakistan Economic Corridor (CPEC) routes, to integrate with global supply chains and lower the transportation cost, thereby enhancing competiveness.

7.5. Harnessing the Chinese Market under (CPEC)

Pakistan should strategically leverage its partnership with China under the CPEC to access the latter's vast consumer market. Given the scale of China's population and its rising demand for diverse range of products, Pakistan can focus on sectors where it has comparative advantage. To stand out in the competitive Chinese market, Pakistan can target niche segments like organic products, driven by rising health consciousness, and halal-certified goods, which are in high demand in regions like Xinjiang with significant Muslim populations. To effectively execute this, Pakistan should work on direct trade agreements with Chinese provinces and facilitate private sector ventures that specialise in cross-border trade, with the government offering logistics support via CPEC.

7.6. Combating Corruption and Elite Capture in Global South

To address the issue of inequality within the Global South, focus must be on combating corruption and elite capture. While the Global South faces significant poverty, the existence of billionaires and offshore accounts highlights systemic issues that exacerbate disparities. Implementing transparent governance practices, enforcing anti-corruption measures, and ensuring that wealth is redistributed can help foster a more equitable society and enhance overall economic development.

8. CONCLUSION

In conclusion, Pakistan’s experience with globalisation exemplifies the challenges faced by many developing nations within the global economic framework. The persistent North-South divide continues to shape the country’s political economy, reinforcing patterns of dependency on international financial institutions and limiting opportunities for sustainable development. While globalisation has facilitated access to markets and technology, it has also exacerbated inequalities and deepened Pakistan’s reliance on external forces. Structural challenges rooted in colonial legacies, coupled with inadequate domestic policies, have perpetuated fiscal crises and stunted economic growth.

Moreover, Pakistan's economic struggles are deeply rooted in structural challenges that are exacerbated by IMF-prescribed austerity measures. The removal of trade barriers, fiscal tightening, privatisation of state-owned enterprises, and elimination of subsidies perpetuate a cycle of debt and dependency, making it increasingly difficult for the country to achieve sustainable economic growth. These measures have disproportionately burdened local industries and the most vulnerable segments of society, while failing to provide the structural reforms necessary to improve the economy’s resilience.

To break this cycle, Pakistan must prioritise long-term development strategies that promote self-reliance and economic diversification. Addressing these issues and enhancing its position in the global economy will require strategic initiatives that balance external engagement with domestic resilience. This approach will be crucial for fostering long-term growth and reducing dependence on external aid.

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