

The IMF and Afghan Taliban dismissed Bhutto government in Pakistan

by Ramtanu Maitra and Susan Maitra

On Nov. 5, Pakistan President Farooq Leghari used the Eighth Amendment of the Pakistani Constitution to dismiss the government of Benazir Bhutto and the duly elected National Assembly, almost two years before its expiry date. Bhutto's first prime ministerial term, which began in November 1988, was also ended by Presidential decree after less than two years, amidst charges of corruption and misrule. Charges of mal-administration and corruption and Bhutto's manifest political failure domestically are but the surface features of a new shift in the country's power geometry that has been determined in critical measure by foreign interests—in this instance the International Monetary Fund-World Bank, on the one hand, and the Taliban operation in Afghanistan, on the other.

Aside from extraordinary pressures upon the Bhutto government over the last three years, the most fundamental problem that the prime minister had been unable to solve, was her inability to deliver to her only real constituency, the poor and underprivileged. Upon her dismissal, Bhutto's vaunted statements that she is not accountable to either the President or the Army but only to the people, went abegging. Even the poorest of the poor did not express their anguish on the way she was treated by the President.

Bhutto had abided nominally by the diktats of the IMF, but failed to implement them whenever possible, realizing the political and economic pitfalls that attend total capitulation to the transnational financial institutions. The process led to a weakening support for her in Washington, and within the top wealthy layer in Pakistan; and, further, her effort to defy the IMF-World Bank was bereft of any constructive economic policy. As a result, she lost both her constituency at home, and her backers in Washington and elsewhere, and became a soft target for the IMF-World Bank and its allies in Pakistan. President Leghari can now be expected to deliver on the promises made to the Fund.

Walking a tightrope

Bhutto's trouble with the IMF began as soon as she came to power in late 1993. On the one hand, Pakistan's foreign exchange reserves were too low to allow her to backtrack on

the austerity package designed by the IMF-World Bank and imposed by her predecessor, Moeen Qureshi, former World Bank vice-president, brought in to lead a caretaker government in 1993, following the dismissal of the Nawaz Sharif government. Qureshi, brought in specifically to tailor the Pakistani economy for the IMF straitjacket, was free from electoral pressure, and therefore could cut subsidies, raise sales taxes, and increase the price of food and fuel—all for the purpose of reducing the fiscal gap.

At the time of his departure, Moeen Qureshi had warned Bhutto's second administration, "If the new government does not satisfy the conditionalities laid down by the IMF-World Bank institutions, it does not get the required assistance from them and the economy collapses." In making this statement, Qureshi had pointed out then that the democratic governments of Bhutto and Nawaz Sharif had been consistently flouting the conditionalities laid down by the IMF-World Bank.

Bhutto began her tightrope walking from day one of her second administration. She promised the IMF that she would implement the austerity measures signed by the caretaker government. In February 1994, after a period of uncertainty created by the IMF, Pakistan secured a \$1.37 billion loan, to be paid over three years. The first \$281 million loan was to be paid in the first year. The Fund said "the main objectives of the three-year program are to sustain economic growth at 6 to 12% a year, reduce the annual rate of inflation to 5% by the end of the period, strengthen gross official international reserves and reduce the ratios of domestic and external debt to GDP."

Although Bhutto had fully committed to the IMF program at that stage, the Fund held back the loan negotiations for months, pointing out that Pakistan had failed to meet two benchmarks: to raise the foreign exchange reserves, and to reduce the bank borrowing of the government.

In 1995, a fresh agreement was needed before the IMF would go forward with the second year of the \$1.37 billion three-year lending program. An IMF mission to Islamabad made it clear in March 1995 that the agreement would be signed only if Pakistan's performance in the fiscal year, which

ends in June, is assessed favorably and a new target is set for the 1995-96 fiscal year. As one of the measures to reduce the growing fiscal deficit, Bhutto planned to sell off billions of dollars worth of state enterprises. The promises, however, were not enough to please the IMF and the \$1.37 billion facility was suspended in 1995.

In December 1995, Pakistan signed a \$600 million standby loan with IMF. The loan was suspended in August 1996, when the Fund claimed that the Bhutto administration had doctored figures and the budgetary deficit for the fiscal year 1996-97 would actually be much higher than it was calculated by the administration. In order to appease the IMF, Bhutto introduced a tough austerity budget in June 13 of this year. She also imposed some of the heaviest taxes in the country's history to raise another \$1.2 billion to reduce budgetary deficits. The budget triggered anti-administration demonstrations, forcing the Army to quell the disturbances. Bhutto's attempt to bring down the 1996-97 fiscal year's budgetary deficit to 4% of the Gross Domestic Product—a prerequisite demanded by the IMF for releasing the stand-by loans—has, in effect, backfired.

Moody's intervenes

With the control over the economy now resting nowhere, Bhutto devalued the Pakistani currency by 8.5% in October and at the same time presented a mini-budget which promised to raise additional revenues by slicing government expenditures significantly. In early November, Moody's downgraded Pakistan's credit ratings to B2 from B1, and in the Karachi Stock Exchange, the most important bourse in Pakistan, the 100-share index went hurtling downward, indicating that the wind has been taken of the stock exchange sail. Moody's explained that the downgrading reflected the increased fragility of Pakistan's liquidity position and the severe pressure that the large domestic and foreign currency debt burden exerts on public finances, the external accounts and official reserves.

With that, the final bell tolled.

The International Monetary Fund mission arrived a few days before Bhutto's government was dismissed, and definitely acted to influence the situation. Earlier, the Fund had announced that it would disburse two delayed tranches of the standby loan, worth about \$80 million each, after approving Bhutto's mini-budget—a gesture to give Pakistanis the impression that the IMF cannot be held culpable for the dismissal of Bhutto.

As soon as yet another caretaker government under Mairaj Khaled—an 80-year-old former socialist, who had co-founded the Pakistan People's Party (PPP) with Zulfikar Ali Bhutto, Benazir's father, who had been ousted as prime minister and then slain—took office, President Farooq Leghari announced that the new guardians of Pakistan would honor all the earlier commitments to the IMF and begin a long-term economic reforms program.

He also said that the first item on the caretaker government's agenda is to finalize an agreement with the IMF to resume lending from a stalled \$600 million standby agreement. With Shahid Javid Burki, a World Bank vice-president taking a three-month sabbatical to join the cabinet as adviser to the prime minister on economy, securing loans from the IMF and other international lenders at a political price for the country is not expected to be difficult.

The other factor: The Taliban

The other factor which led to the Bhutto administration's dismissal is the resurgence of the Taliban in Afghanistan and their conquest of Kabul in late September. The Taliban are a fundamentalist Pushtun militia raised in Pakistan and nurtured by the Pakistani Inter-Services Intelligence (ISI), with the blessings of Washington.

Sponsorship of the Taliban, a tactical geopolitical measure to undermine Iran's influence in Afghanistan and beyond, and to open up an energy-exporting route from Central Asia to the Arabian Sea through Pakistan, was a joint venture between the Pakistani ISI, and the pro-West geopoliticians, and various circuits in Washington. Although Bhutto's interior minister, former Gen. Naseerullah Babar, was deeply involved in the Taliban operation, Bhutto's eagerness to push this Afghanistan policy was less than evident. This lack of eagerness to isolate Iran regionally made Bhutto easily expendable to one of Pakistan's key partners, Saudi Arabia. In the last phase of the Bhutto regime's existence, the Saudi-backed Jamaat-e-Islami party took to the streets in Pakistan and confronted the government troops with violent clashes demanding Bhutto's ouster.

The killing of the prime minister's brother, Murtaza Bhutto, which is indirectly related to the ISI moves to take full control of the Afghanistan policy from Benazir Bhutto, was designed to exploit the political differences that existed between her and Murtaza, and thus weaken her further. The killing was blamed initially on the prime minister by Murtaza Bhutto's family and members of his party, which had split from the PPP. But when it became apparent that Benazir Bhutto was not the killer, a sinister picture began to emerge which indicated that the enemies of Benazir Bhutto were not only powerful enough to kill the prime minister's brother, but can also pin the blame on Benazir Bhutto, in order to finish her politically.

What can be expected now

As for the new government, Pakistan has virtually handed over its economic management to the World Bank and IMF. Shaid Javed Burki, a critic of Bhutto and a vice-president in the World Bank, will now be in charge of the country's finance. In fact, three IMF-World Bank officials, Burki, Dr. Zuhair Khan, and Ishrat Hussain, have all been included in the caretaker cabinet. While Burki has been appointed adviser

to the Prime Minister Malik Mairaj Khaled, Ishrat Hussain will take over as deputy chairman of the Planning Commission. Dr. Khan, who is a research officer at the IMF and the junior among the three, has already taken charge of his portfolio as commerce minister. Burki, who is the vice-president of the World Bank for Latin America and the Caribbean, will not take an oath as minister.

The appointment of Malik Mairaj Khaled is an attempt to sideline Bhutto from the PPP leadership and bring the leadership mantle of the PPP to Punjab, home province of both President Leghari and Mairaj Khaled.

The appointment of Sahibzada Yaqub Khan, the Nawab of the Rampur (now part of India as a result of the 1947 partitioning of the subcontinent), as foreign minister, a post which he served for almost a decade during the turbulent 1980s, is extremely significant. Yaqub Khan is a former lieutenant-general, ambassador to the United States, and foreign minister. Yaqub Khan, who has many friends in India, is considered by some a perfect diplomat in the post-Cold War period. This itself has made Yaqub Khan a favorite among the powers-that-be in Washington. His connection to the Army establishment is strong.

But other forces are also on the scene. Following the dismissal of the Bhutto government, former cricket superstar

Imran Khan, announced that his party, Tehreek-e-Insaaf, would contest all the National Assembly seats. Imran Khan just recently married Jemina Goldsmith, the daughter of Sir Jimmy Goldsmith, whose wife is a Rothschild of the N.M. Rothschild side of the Jewish/Zionist banking family. Goldsmith, a billionaire himself, is also involved in putting up candidates on behalf of his Reform Party in the upcoming British elections, who primarily will challenge the ruling Tory party of John Major.

Imran Khan's announcement indicates that his powerful British father-in-law will be a major player in the Pakistani elections.

Goldsmith had already shown his interest in ousting Bhutto. According to the London *Daily Telegraph*, Imran Khan recently said that he would bring corruption charges against Bhutto, and that his father-in-law would be footing the legal fees for such a case. Goldsmith, who is a major shareholder of the British-American Tobacco (BAT), is likely to be interested in staking his claim to the future of Central Asian trade and agricultural projects. And in this context, the fact that Imran Khan is of Pushtun background, at a time when powerful global interests are projecting that Taliban obscurantists will be ushers to a new trade route, may come in handy for Sir Jimmy.

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