

## **Can US browbeat IMF on Pakistan?**

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Talk about starting things off on a bad note. Pakistan is about to form a new federal government but Uncle Sam is in no mood to go easy on her. With a macroeconomic crisis imminent, Pakistan is expected to knock on the IMF's door for the 22nd time since the country joined the fund in 1950. But the Trump administration has just hinted that it may put a spanner in the works, with an eye on China.

The source of the latest diplomatic melee is an interview the US Secretary of State Mike Pompeo gave to CNBC, a business channel, on July 30 (Monday). When the anchor raised the question whether Pompeo was concerned that an IMF bailout for Pakistan – “funded by US taxpayer dollars” – will go towards Chinese directed companies, the Secretary replied:

“...make no mistake – we will be watching what the IMF does. There's no rationale for IMF tax dollars – and associated with that, American dollars that are part of the IMF funding – for those to go to bail out Chinese bondholders or – or China itself.”

Forget for a moment the impact such a statement will have on the already-frail US-Pak bilateral relations. More important, what is the US really suggesting here? If it is indeed a threat, how credible is it? And if the threat is credible, how likely is it that it may turn into action?

At the heart of such an unprecedented warning is America's growing belligerence in global trade with China and its deep mistrust in regional security with Pakistan. The US has been losing influence in Pakistan, thanks to decline in its security and military aid as well as growth of Chinese economic footprint in Pakistan under CPEC in recent years. Concurrently, the super-power has become wary of China's growing influence in Asia and Europe under the trillion-dollar Belt and Road Initiative (BRI).

Pakistan heading to the IMF gives the US a perfect stick to not just beat Pakistan into momentary submission but also cast the BRI, of which CPEC is the flagship, in a negative spotlight. The US and the IMF have been raising concerns over “unsustainable debt” component in Chinese lending to BRI countries. Mind you, Pakistan having to seek another IMF bailout has already led to negative publicity around CPEC in particular, and BRI in general, in the Western press.

In a sign that the US is now actively working to counter Chinese influence in the region, the same day that Secretary Pompeo made the above statement, he also announced several American economic initiatives in the Indo-Pacific region in areas of energy, infrastructure and digital economy. The size of those initiatives, at \$113.5 million, is peanuts compared to BRI's size. But the US, unlike China, is looking to mobilize private-

sector investment to lead development in the region.

As for Pompeo's statement, it is unclear if it is a threat, because it was in response to a question and not a policy statement per se. The US, along with fellow OECD members, dominates the IMF decision-making. With a 16.5 percent voting share, the US does have the de-facto voting power on major IMF Executive Board decisions, which require at least 85 percent of votes to pass through. After the US went out of its way to corner Pakistan at the FATF this year, one cannot rule out similar behaviour at the IMF.

But even if it is a threat, it lacks credibility.

One, it is the IMF's *raison d'être* to lend to member countries in times of both crisis and caution. Denying any one country a bailout will not only set a bad precedent but it will also politicize a multilateral body that evaluates its lending decisions on technical grounds. Two, in a post-crisis world, IMF may be eager to lend – already, its 'credit outstanding' dipped more than 20 percent in the year ended April 30, 2018.

And three, the US itself may not push for an outright refusal; instead it may work to include China-specific provisions in the loan clauses. In that event, Pakistan may still get the funding it needs, but will it be a win for the Chinese, too? Besides BRI projects receiving some more bad press, CPEC-related project-financing details may also come out in the open if Pakistan enters an IMF programme.

No wonder then, the incoming finance minister is insisting that all options – besides an IMF programme – are on the table.