

Q) Critically evaluate the reasons for the global financial super cycle and their implications on Pakistan. What possible recommendations would you suggest to Islamabad?

1) Introduction :

The contemporary world is going through a financial cycles. The diverse impacts are pervasive, and no country, no matter how rich or poor, is out of harm's way. Financial super cycle refers to an extended period of economic expansion, typically lasting several years, followed by the eventual downturn phase marked with increased financial stress, and potentially severe disruptions in financial markets. This downturn phase is what the world is currently grappling with.

2) Overview of International Super Cycles :

The world has witnessed several financial super cycles. A notable example is the great depression

of 1930's, which plagued many western economies, leaving them susceptible to economic collapse. Another such cycle the world experienced was in 2008, wherein the world in general and UK~~e~~ and US in particular, faced a massive economic meltdown. The current financial super cycle has induced the highest price hike the world has seen in the past 4 decades. The gravity of this super cycle can be discerned by the ongoing inflation in Europe that is more severe than the Eurozone crisis.

Reasons for the Global Super cycle and its implications on Pakistan:

3) Reasons for the Global super cycle

3.1) Impact of Covid-19:

Covid-19, not only left the world in massive health crisis but, took a toll on the world's economic sector. Due to the lockdown, worldwide, precipitated by covid, countless industries had to bear

massive losses. The - transport, hospitality and industrial sectors have recorded losses of more than \$ 1 trillion. Similarly, the Tourism industry faced losses of \$ 1 trillion with another 100 million jobs at risk, (Forbes, 2020).

3.2) Post Covid Market Resumption:

The post covid market resumption period also contributed to the current financial crisis. When the lockdown restrictions were lifted and industries gradually reopened, the supply chain was severely disrupted. The demand was already very high during the covid-19 phase but it was restricted due to the lockdown. The demand, however, soared once the lockdown was lifted, and with the markets unable to meet the demand, the chain was disrupted.

3.3) Hydrocarbon Price Hike:

Due to the imposed lockdown restrictions, ~~the~~ during covid-19, the demand of hydrocarbons i.e. oil, gas, coal plummeted, which, in turn, dropped their prices.

Example:

The price of oil per barrel, in July 2020, dropped to \$23. The price of barrel was negative \$30 in US.

However, once the lock down was lifted, The prices sky rocketed. The barrel earlier sold ~~was~~ for \$23 was ~~no~~ later sold at more than \$78 per barrel. The beleaguered market could not ~~keep~~ cope with this instant price hike which, eventually, led to the current crisis.

3.4) Sanctions on Russia:

In light of the Russian assault on Ukraine, many European nations imposed severe sanctions on Russia. The Europeans, however, failed to weigh in their own dependence on Russian gas, as a corollary, Europe currently faces dire financial crisis, with inflation rising to a four - decade high.

4) Implications on Pakistan:

The financial crisis has engulfed many countries, leading to economic meltdowns. This situation

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in Pakistan is no different. Following are the implications that the current financial super cycle had on Pakistan:

4.1) Fuel and Hydrocarbon prices sky-rocketed:

As above mentioned, the financial super cycle significantly altered the hydrocarbon prices. Pakistan, since it relies heavily on imported hydrocarbons to fulfill its demands, found itself importing these at a substantially high price. This was followed by a swift, pervasive fuel price hike within the country, leading to increased inflation.

4.2) Expensive Electricity:

Electricity prices were quick to follow suit with the inflated hydrocarbon prices. Pakistan, unaccustomed to renewable energy, depends heavily of hydrocarbons to produce electricity. And with the hydrocarbon prices soaring, the increase in electricity cost should come as no surprise.

4.3) Price Hike in Industrial Products:

The expensive fuel and electricity has a ripple effect on industrial products. The industries, even after reducing profit margins, have no alternative but to increase the prices of manufactured products. This not only contributes to the inflation within the country but also renders the industry's ability to compete with foreign industries ineffective in global markets.

Example:

Pakistan, albeit the fourth largest producer of cotton in the world, faces tough competition in textile global market. This is mainly because of the country's energy crisis that raise the production cost.

4.4) Prevailing unemployment crisis:

The financial super cycle has induced a pervasive unemployment crisis in Pakistan. With many, not only small or medium size industries but also, large -

scale manufactures closing manufacturing units across the country, many people find themselves without a job.

Example:

Many large-scale manufacturers, like Toyota and Suzuki, are closing manufacturing units across country amidst economic crisis, exacerbating the unemployment crisis within the country.

5) Recommendations for Islamabad:

Albeit, Pakistan is gripped with an intense predicament, the situation can be ameliorated if robust measures are implemented

5.1) Apply Emergency Measures:

The country should implement emergency measures to stabilize the financial system. This includes equipping liquidity support to banks, ensuring the availability of essential services, and preventing a run on financial institutions

5.2) Fiscal and Monetary Policies:

Use fiscal and monetary policies to stimulate the economy. Government can increase public spending on critical infrastructure projects and social programs while central banks can adjust interest rates and engage in quantitative easing to increase money supply.

5.3) Debt Restructuring:

Pakistan, being one of the biggest debtor in the global community, is facing large debt repayments, which can only contribute to the plight. Therefore, the country needs to negotiate debt restructuring with creditors to reduce the burden and foster a sustainable path of repayment.

5.4) Seek International Support:

The country should seek the support of global economic hubs or international financial institutions, such as (IMF), to receive financial support and technical expertise in order to steer out

of this predicament.

6) Conclusion :

There remains no ambivalence that the financial super cycle has had dire impacts on Pakistan, which can be ignored only at great peril to the country. The shipwrecked country can still be steered to safer shores if robust measures are implemented. The recommendations embodied in this answer have the capacity to mitigate the current financial predicament.