

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

A

### Introduction

The world is faced with an unprecedented super cycle of its history. Whether it is a developed country like the US or a developing or struggling country like Afghanistan and all in between, all are captured by the grip of a global financial super cycle. For instance, North America is facing the highest price hike in 48 years, Europe is facing the highest price hike in 54 years, meanwhile for Pakistan, it is recorded as the highest ever price hike of its history. Hence it's a chaos out there. Pakistan is an import-based economy for which the highest imported items are the hydrocarbons composed in fuel, ~~or~~ coal or gas. The import of hydrocarbons works as an oxygen for Pakistan as well as other countries but since we don't have any other alternatives, our only option is to import.

## Petroleum products

The highest price hike we are currently faced with is through petroleum industry. Hydrocarbons are used to produce crude oil, LNG and coal. In July 2021, the price of crude oil per barrel was \$78 which exponentially increased to around \$127 in the following year.

Same proportional changes are found in the price of LNG and coal.

This sets huge impact on all the industries of Pakistan whether it be transport, electronic or agriculture.

## Reasons

Following are a couple of reasons that are responsible for this current global financial super cycle.

### Post covid markets

During the era of COVID-19, we visually remember the lockdown in all the cities and countries. That lockdown was not just individual but also industrial. Thus, many industries got shut due to decrease in demand. There was inter and intra state lockdown due to which a complete blockage was practiced around the world. Except medicines and food,

all other kinds of goods were restricted to pass through borders. But as soon as the lockdown was lifted up, the demand of goods abruptly increased. Industries were shut so the production sector was not able to fill the demands at once. Thus it created an abnormality in demand-supply phenomenon which resulted in price hike.

### War in Ukraine

It is safe to say that Ukraine is one of the agriculture power of the world. Europe is dependent on agriculture of Ukraine as it is the 5<sup>th</sup> largest exporter of grains to Europe. Eastern, central and Southern Ukraine was rich in agriculture. But ever since since war broke out, the crops and land has been destroyed and the agriculture as well as export industry is in bad condition as well as unable to meet the demands. Moreover, Russia also seized its seaports due to which Ukraine is restricted from exporting. Hence it laid ~~an~~ impact on the global agricultural sector which is having difficulty to work as an alternative. This created demand-supply reapture resulting in price hike.

## Sanctions on Russia

Russia is of significant importance for oil and gas industry of the world. It is the largest gas exporter of the world comprising of 20% of the overall gas production. Also, it is the second largest oil exporter of the world comprising of about 16% of the overall oil production. Ever since it declared war on Ukraine, it has start to face various sanctions on its exporting products. Countries like US, Australia, Japan etc have restricted its export to their countries in solidarity with Ukraine. Due to these sanctions, all the burden & turned & down to the shoulders of US as the largest gas and oil producer following Russia. But US is not able to fulfill the global demand alone. Hence we see phenomenon of price hike.

## Impact on Industries

Hydrocarbons are the major determinants of price hike since all other products depend on them. Be it agriculture or transport, electrical or electronic industry, it faces direct effects solely due to ~~put~~ price hike on hydrocarbons.

For instance, the cost of transport i.e. cargo or passenger is exponentially increased. Cargo (ships, trucks, trains) and passenger vehicles (Airlines, buses, planes) ~~has~~ have doubled their fares in these past few years. Moreover, electricity generation, being solely responsible for the consumption of hydrocarbons, have a drastic increase in its price. Same goes for automobile industry, electronic industry as well as ~~the~~ agriculture industry. Currently, the most price hike in Pakistan is in crude oil and edible oil. All products have become double or more than double in price which has a number of socio-political impacts on Pakistan.

### Implications on Pakistan

#### a) Purchasing capacity

Purchasing power capacity refers to the capacity of an individual to be able to afford a certain item. As a result of the on-going financial super cycle, the purchasing power capacity of an average person in Pakistan has declined. The wages are not able to coincide with the high prices in the market. The average increase in the wages of ~~over~~

a normal worker has been upto 25% but the prices of good has been increased to more than 100%. This resulting in abrupt decline of purchasing capacity of individuals.

### b) Unemployment

The purchasing power capacity being low impacts employments. The less the purchasing capacity of a society is, the more inflation there is. This results in unemployment.

### c) Set back of production sector

The less the purchasing power capacity is, the more unemployment people will have to face. Less employment results in less working staff in production sectors. Thus, the production sectors will begin to shut down. Moreover, they wont be able to give wages as well as buy raw goods to function an industry, hence it will be set back.

### d) Selling assets

When people become unemployed, they cant meet their physical and social demands by not buying anything at all. Certain needs become necessary and cant be skipped. To meet their physical and social demands, people start to sell their assets which they made in a long run.

### e) Migration

Unemployment makes people want to seek opportunities in other countries where conditions are a ~~bad~~ bit better than their own. They seek education or job opportunities in other countries and leave. According to ~~Besa~~ Bureau of Immigration, around 765000 people migrated from Pakistan in 2022. In long term, this causes brain drain.

### f) protests

Due to price hike, in electrical industry, these ~~will~~ <sup>are</sup> be direct impacts on electricity bills or gas bills. The abrupt increase in bills and low purchasing capacity of people lead them to protest against price hike. Violent tactics are used normally like burning bills during the protests. Thus it creates aggressiveness.

### g) Political parties

Price hike is an issue which originated ~~on~~ <sup>at</sup> a global level, the politicians don't have any authority to solve this problem especially ~~on~~ overnight. So during elections, the political leaders can't even claim to end these issues hence lacking in manifestos to go out in public for.

## Recommendations

- a) Even though Pakistan has the potential, it is marked as an import-based economy. If the industries work efficiently, especially agricultural industry, we can at least keep a balance in import to export ratio of the country.
- b) Hydrocarbons are imported at a high price. We must work to find and utilize alternatives so we can save up from this side.
- c) Promotion of bio-fuel industry and making systematic structure to create and use bio-energy is dire need of Pakistan today.