

Current Affairs

DATE: ___/___/___

Q3

Ans:

Explicating the Balance of Payment Crisis.

Two economic problems have always been a headache for the economic prosperity of Pakistan. Budget deficit is surely the major problem, but the impacts of Balance of payment crisis haunts Pakistan too. The BOP crisis occurs when there is a dollar or shortage of dollar, which in turn causes current account to be in strain. 'The difference between all the money entering and exiting a country over a defined period of time; let's say a quarter or a year.' Now, when money exiting a country outweighs the the money entering, it germinates into BOP crisis. In this way a country is unable to pay for the imports of goods, or services which it has to pay. This means country faces two kind of problems: current account deficit, country's transaction, and capital account, reserves.

Impacts of BOP Crisis

The deficit in BOP means, the country's imports are more than exports. Such crisis have significant impacts on the economy of a country:

Devaluation of currency:

Devaluation of currency or currency depreciation occurs for very simple reason that is when a country imports or services its debt more the export or in other way, when a country sends more dollars (trade based currency) in other countries than to earn it through export or remittances.

①

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Q 8

Ans:

Factors which determine strength and weakness of an organisation and application in case of SAARC are given below.

① Efficient structure of Organisation: Efficient strength organisation's process and structures enable good decisions and their implementation.

Strength: SAARC has different and specific structure to follow. It has technical committees and secretariat.

Weakness: Yet these structures are unable to make decision correctly and do it under the influence of other countries.

② ~~Financially~~ Financially stable: An organisation works correctly until it gets finance support; otherwise, it will be doomed.

SAARC's Strength: SAARC has finance mechanism to ^{implement} ~~follow~~ the activities. ~~used~~

SAARC's Weakness:- Major contributors influence the organisation and not timely financial resources also hinder its workability.

③ Interaction with disputes: Every organisation has certain framework to meet with disputes and resolve them.

Strength: SAARC has its framework to deal with these disputes and also development fund it has.

Weakness: Yet it fails to do away with these difficulties because of the way other member countries react.

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④ Geo-political Impacts: The war has led to the rise of, yet again, the blocks, i.e. the Western Bloc and Russia cum China Bloc. Pakistan is tilted toward one world jeopardising its relation with other.

Options for Pakistan.

- ① Trade with both countries, so as to reduce food insecurity and energy shortage in Pakistan.
- ② Pakistan should hold ties with Russia to get military equipment, procurement, and technology as well.
- ③ Pakistan needs to have balanced approach in its relation with both fighting countries.
- ④ Engage in multilateral, organisation, bilaterally so as to provide a peace deal to reduce the conflict, that is to say, facilitate dialogue.

⑤

Q2

Ans:

The ongoing war has tremendous implications on Pakistan, even though Pakistan has maintained its neutral stance, yet it faces due to global impacts it have. Following are the implications of War in Ukraine on Pakistan.

① Economic Implications:

Ukraine and Russia are the major source of oil and food products. The war impacts their balanced provision, such as LNG, wheat and others. Pakistan being faced with economic stagnation at home, along with major global rise in price of oil and food product has added more problems. Strengthening the ties with Russia might reduce the impacts, as it would directly be getting products from Russia, yet it might affect its neutral stance and may jeopardise its relation with western countries.

② Security concerns: The war in Ukraine has potential to destabilize the region, which might have direct impacts on Pakistan. Instability causes refugee crisis, free-flow of arms, separatist movements, and drugs trafficking are yet another repercussions Pakistan might face.

③ Image of Pakistan: Pakistan's stance on Ukraine war can shape its image respectively. Pakistan might be in danger by its perception of getting closer to Russia and have financial impacts as well.

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② Communication: Every organisation has mechanism to communicate and share information.

Strength: SAARC has ways to communicate in summits, councils and conferences, and also provide chances to states member to meet on sidelines of the meeting.

Weakness: Even though it has mechanism to implement the communicate, yet egoistic nature of member state's leaders to not to cooperate is one other hurdle.

③ Public to Public interaction: Almost every organisation try to make it easy to go to other member state for its people.

Strength: - SAARC, surely promotes the people to people contact, and promote culture and social differentials.

Weakness: SAARC has mechanism to implement this, yet disputes between India and Pakistan are major obstruction to achieve this objective.

④ The most important: Governance and Institutional Framework: This ascertain its decision-making, policy-making and other effective measures.

Strength: - SAARC has this framework that allows its members to engage in discussions and decision-making, negotiations, dialogue, and consensus-building, among member states.

Weakness: Such decision-making process are slow, dialogue, negotiation and consensus-building are impossible to achieve due to isolationist policy of most member states.

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Thirdly, the rapprochement has brought yet another source of getting oil, Iran. Earlier, Pakistan was critical of trading with Iran due to KSA conflict of interest. But now that vicious cycle has been converted in virtuous cycle, this will bring economic prospects for Pakistan.

Lastly, less conflictual and more cooperative environment in Afghanistan may created by this deal, and brings economic and development prospects there. Pakistan too has interests in Afghanistan and this ~~for~~ rapprochement may increase the likelihood of achieving it.

Recommendation for Islamabad to follow.

- ① Remain neutral:- Pakistan should remain neutral in this deal.
- ② Ease cooperation between the two: It should try to facilitate more engagement between the KSA and Iran.
- ③ Mention the sectarian divide it faces:
- ④ Facilitate cooperation to safeguard the security problems.
- ⑤ Strengthen Energy cooperation and benefit from it.

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Implication of KSA-Iran Reapproachement

① On Middle East:

Firstly, As Saudi Arabia and Iran are major producer and exporter of oil, the reapproachement may lead to cooperation in the energy sector which in turn stabilize the oil price across the world.

Secondly, Both countries represent two major sects of Islam, Sunni and Shia. The sectarian divide has always been a source of conflict ~~and war~~ which now would be reduced drastically.

Thirdly, The balance of power equation between these two countries might now reduce. Both have major stakes in M. East, but this reapproachement may turn into cooperation which earlier was in conflict.

Lastly, Regional stability would be one of the important repercussions of this reapproachement. Years of conflict led to the security issues by proxies and also destabilized the region, but now the tide of conflict subsides.

② On Pakistan

Firstly, both these countries have been supporting their respective sect in Pakistan, and Pakistan became a playing field for these two. But now this deal may stabilize the sectarian divide in Pakistan.

Secondly, Pakistan has been wary of the KSA anger as Pakistan wanted relations with Iran. This deal would now help Pakistan to freely engage with Iran and also complete I.P. project.

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Q5

Ans:

Chinese led mediation ~ rapprochement between Saudi Arabia and Iran.

Years of crisis in Yemen and Gulf region due to support governments and militia led to instability the whole region. Even resulted in the competition between Iran and KSA for hegemony in the middle east. For years, it had impacted not only the Middle East, but whole of Asia as well. China took the ~~task~~ task for itself to make peace between these arch rivals and even succeeded. This will bring prosperity not only in Gulf region, but countries like Pakistan and Afghanistan and others. This rapprochement may not be welcomed by Israel, USA and the west, but it is correctly, truly and readily celebrated in the neighboring countries. Both the countries, now might stop competition and start collaborate for the enhancement and development of the regions as civilian war in Yemen now lessen the tensions in Gulf region. Officials from most Gulf countries appraised the deal. A senior Qatari official has said that it is 'positive first step', but KSA needs to gain trust in Iran.

The success of the deal depends on the support different countries have in domestic affairs of countries. KSA on the other hand, is still wary of the Iranian support for militia. These determinants ~~will~~ will have tremendous impact on the rapprochement.

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Follow-up Policy for Pakistan:

As it seems, Pakistan might not get the remaining \$2 Bn from IMF, now it has to look the other way. One of the options Pakistan has is to get support from China, UAE, Saudi Arabia and other bilateral and multi-lateral sources. As the import of fuel is a major concern for Pakistan, it needs to look for other options i.e. Russia, Iran and Saudi Arabia. It should complete 2P-pipeline project no matter what America thinks. As Noor Alam Khan puts it, Pakistan should do what is best for its interest. It should complete TAPI project. Increase the workability of CPEC project and utilize this as an miracle to uphold the unstable economy.

One of the ways to get out of the current economic stagnation is to impose tax, especially on non-filers, and rise the levy on petrol, cause it can generate a lot of revenue. Almost every country sells its petrol by imposing more than 50% levy on it; India 31%; UK 59% and Bangladesh, 48%.

Agriculture, has one of the sectors, which has not been taxed. About 25% tax is imposed on the agriculture. As it contributes to 20% of the GDP, not taxing it would further exacerbate the current situation.

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IMF Bailout Package ~ A lost dream:

IMF has been a source of balancing the trade and budget for almost every developing under-
developing country. Pakistan too has been the one
which have acquired loans in the past. 22 times
Pakistan has turned toward IMF. Most recent
was being in 2019, which extended by the former
finance minister Miftah Ismail, upto June 2023
and amount to \$6.5 Bn. Pakistan has yet to receive
\$2 Bn dollar from the IMF, which seems unlikely.
due to the harsh yet needed terms and condition-
alities by IMF.

Conditionalities of IMF

- ① The Global lender wants from Pakistan to ensure the money it needs to pay for obligations.
- ② It wants Pakistan to acquire at least \$6 Bn from the bilateral sources.
- ③ It wants Pakistan to let the dollar be judged by the market; free-float of dollar.
- ④ It wants Pakistan to impose more taxes, remove subsidies and levying the petroleum products.

Prospect of getting IMF Loan:

It is highly unlikely to achieve remaining \$2 Bn from IMF bailout package. Harsh conditions put forward by IMF are unlikely to be met by Pakistan. As of current situations in Pakistan, it seem the ruling coalition are more bent toward securing votes rather than taking corrective measures. The recent budget, as it seems, is not been checked from the IMF and is dubbed as popular budget whose implementation is imperceptible.

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it means the dollar are exiting more and it causes the national currency to depreciate. In this way, currency depreciation makes import even more expensive and leads to inflation.

Foreign exchange Reserves

Foreign exchange reserves are the currency other than its own national currency that the central bank holds. Now that we have understood the concept of BoP crisis, we can simply define what impacts it has on Foreign exchange reserves? The depletion of country's reserves, as it has to pay for imports and obligations, causes speculation of currency and which is very haunting for the economy of any country.

Trade Imbalance

It is one of the main reason for BoP crisis, as imports outweigh the export. Thus, it reduces country's capability to produce goods for export at competitive level. And the demand for product, which are not produced in a country causes the trade imbalance which results into BoP crisis.

Leads to more acquisition of Debt.

All above impacts lead to the acquisition of debt. A country's inability to meet its ~~debt~~ obligation and trade imbalance further leads to acquire more loan, which destabilize the country's economy. And debt cycle are then the repercussions of this haunting effect.