

# Current Affairs

48 mins

Balance of payment crisis has become increasingly severe that has adverse implications on the economy of Pakistan. Critically evaluate the chances of a bailout deal with IMF. Also recommend other policy for Islamabad to follow.

## Introduction

Pakistan is caught in a severe balance of payments crisis. It has paralyzed the state's economy and may lead to a default. At this juncture, Islamabad utterly needs a bailout package from the International Monetary Fund (IMF); however, the latter is not willing to offer any such program. The crisis



plus the trade response of the IMF reassure that Pakistan needs to take serious measures towards economic recovery which may, however, be hard in the beginning.

## Severity of the Crisis and its implications on the Economy

### (i) Depleting dollar reserves

The dollar reserves in the current account are depleting fast. In 2018 January 2022, Pakistan had around 28 billion dollars which decreased its level of 10 billion dollars, over the next twelve months. This is a result of the scarcity of



dollar, Pakistan's purchasing capacity is fast declining.

## (2) Devaluation of Rupee

Because Pakistan faces both trade deficit and current account deficit, the Rupee is facing a historical devaluation.

In 2021-22, Pakistan exported goods of 36 billion dollars

while she imported goods of 80 billion dollars. As a result,

most of dollar stock goes for import payments. Because dollar promises Rupee's stability, lack of it directly impedes the value of the later.

## (3) Inflation in the country

As already stated, Pakistan's imports overwhelmingly



outweigh her exports. This means that the government pays for imports in dollars while it sales it in Rupee which is highly devalued to dollar. This gap automatically results in severing of the market with a price-hike.

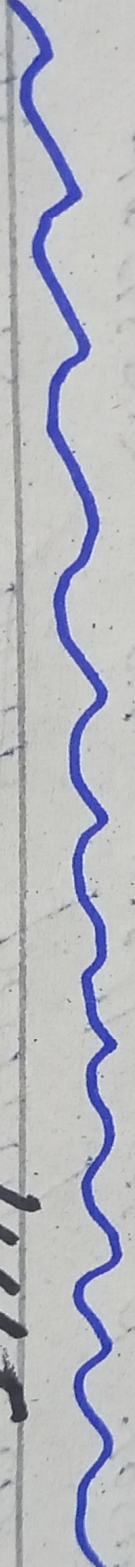
#### (4) Dollar over/ight

The current economic crisis is both partly both a reason as well as a result of the dollar over/ight. As a reason, investors have lack of trust in the economy, so they are pulling money out. As a result, the smuggling of dollars to other countries, especially Afghanistan and Turkmenistan, are creating an artificial balance of pay-



payment crisis.

Critical Evaluation  
of the Chances of a  
Bailout Deal with the  
IMF



(1) IMF's Demands from the  
government

IMF is forcing the  
government to take more se-  
vere steps. The institution requires  
substantial decrease in the  
subsidies which government of-  
fers in various sectors, most impor-



tantly in agriculture and energy sectors. Moreover, IMF demand that government must increase tax targets which will outrightly affect the common man since lack of proper documentation and digitalization.

## (2) Political aspect of the dilemma

The state is going through an election year. It means that the IMF's demands are not smooth for the political interests of the government. As a result, there is a stalemate between both the sides made more severe by the annual budget of 2023.



## Policies for Islamabad to follow

### (1) Short term policies

In the short run, the government must try to secure a bailout either from IMF or friendly governments. Another option is that government must encourage Pakistani diaspora to send home more remittances than usual (31 billion in 2022).

### (2) Long run policies

In the long run, the government must take revolutionary steps. It must encourage local production and increase exports. Moreover, the government must substitute



hydrocarbons with renewable energy sources to secure expense in the largest sector of imports. Lastly, government must take steps to encourage foreign investment by creating opportunities.

## Conclusion

Pakistan is going through one of the harshest balance of payment crisis. It is further strained by the unwillingness of IMF to bail Pakistan out. This is a reminder call for the state to stand for a more self-sufficient future framework.



Question no 5  
(47 minutes)

The increasing Rapprochement between Saudi Arabia and Iran, its implications on Middle East and Pakistan and Future Recommendations for Islamabad

## Introduction

China's diplomatic statecraft has marked a milestone: the so-called China's diplomatic coop. Experts see the development as a part of the renewing world order. Though China cares regional peace and stability for her economic and energy needs, the development will have far more effects over the troubling region. Pakistan, traditionally caught



between the Saudi Arabia and Iran will be more easy in interacting with either. Overall, the rapprochement is a blessing for the region and Muslim world.

## Analyzing the Rapprochement between Saudi Arabia and Iran

(i) A Chinese diplomatic

China has proved that she is a trusted and credible emerging power. Though regional stability serves Chinese economic and political interests, she has tried to convince the world that China's rise is peace and she cares more than conflict.



## 2) Restoring regional stability

For more than a decade, the MENA region has remained an unstable hot-spot. Both Saudi Arabia and Iran have had a key role in the regional instability. Thus, the rapprochement will help the region back to normalcy. An instance is the invitation to Bashar al Asad in the Arab League Summit after long 14 years.

## 3) Part of the renewing world order

The Chinese move is not a side-step rather it is an attempt of the larger great game. China is working on the Mao's policy: "Where



the West retreats, China pursues." China is filling the vacuum left by the United States.

## Implications on the Middle East and Pakistan

1) Peace and stability  
The development will facilitate peace and stability in the region. Since the execution of Shia cleric Nimr-al-Baqir in 2016, the world has witnessed a looming threat to peace between both the nations. Though they didn't clash directly, proxies have ravaged the regional states. Thus, the rapprochement is a ray of hope for future peace.



## (2) Discouraging sectarian violence

Sectarian violence has dominated most of the Middle Eastern conflicts. The after-shocks of the proxy campaigns have been felt in Pakistan too. The rapprochement between the two religious centers will be of immense importance in eliminating the sectarian curse.

## (3) Strengthening of the Muslim unity

At a time, when the world is witness hatred against Islam, disunity in the Ummah further feeds the crisis. More importantly, the prominent Muslim front, Organization of Islamic Cooperation, has failed



to represent the voice of the Ummah. The rapprochement will end one of the major barriers in the progress of the forum.

## Future Recommendations for Islamabad

1) Utilizing the opportunity for sectarian integration

Pakistan must cash on the opportunity to end the sectarian divide in the country. Scholars from both the sects will play a key role during the process.

2) Regionalization of the CPEC

The China Pakistan Economic Corridor (CPEC) is an



opportunity to connect the region economically and infra-structurally. After the Saudi-Iran rapprochement, Pakistan can further its plan of integrating Chabahar with Gwadar.

(3) Mediating to further melt the ice between Iran and Saudi Arabia

Pakistan can further boost ties between the two brotherly nations. It can use forums like the OIC to get the two brotherly states closer. Issues like that of Yemen and Syria may be an opportunity for Pakistan's diplomatic venture.

## Conclusion

The Saudi-Iran rap-



broachment is a positive  
development both for the  
region and the Muslim world.  
It provides Pakistan a good  
opportunity to extend ties  
with both and even further  
get them closer.