

Current Affairs Mock

Q3) 1) Introduction : IMF: the undisputed saviour of Pakistan's economy

Pakistan, after its inception, inherited a very fragile economy from India. The country's geo political and security issues only contributed to the economic plight. In a bid to save the country from facing economic ~~high~~ default, the government invariably turns to IMF for bailout packages. With such heavy reliance on IMF to reinvigorate the deteriorating economic conditions, Pakistan being the largest IMF borrower, securing funds for a total of 23 times since 1958, should come as no surprise. However, such a mammoth amount of loans do not come without any drawbacks, as we will see in this answer.

2) What is IMF?

IMF is an international organisation that was established to regulate and promote international trade and also assist developing countries financially and administratively to solidify their economies. However, along with assisting financially,

IMF also holds the prerogative to set forth conditions which are aimed at altering the fiscal and monetary policy to ensure the smooth recovery of loans. This is known as structural Adjustment Program (SAP) and the policies/ conditions encompass ameliorating the Balance of payment Deficit.

### 3) Role of IMF in the Fiscal, monetary, and foreign policy making of Pakistan

As aforementioned, the huge IMF plans and bailout packages do not come without any drawbacks. Being the largest lender to the country, IMF wields influence over the country's fiscal, monetary and foreign policy making.

### 3.1) IMF's Role in fiscal policy making of Pakistan:

Fiscal Policy involves government actions related to taxation and spending. The country currently suffers from a Fiscal Deficit. Fiscal Deficit refers to the difference between total revenue and

total expenditure of the country. The Fiscal Deficit of Pakistan stood at 4.6% of GDP amounting to Rs 3,929.3 billion, during Jul-Apr FY 2023 [ESP, 2023].

### 3.1.2) Government Spending:

In order to curb the growing Fiscal debt, IMF can instruct the government to implement austerity measures, which can cut government spending. IMF can also recommend changes in the budget priorities and Fiscal changes.

### 3.1.3) Taxation:

IMF can also propose taxation reforms as a part of fiscal consolidation efforts. These recommendations might include changes in tax rates, broadening the tax base, or improving tax administration.

#### Example:

Following IMF deal, the government had to increase the price of electricity upto 5.75 rupee in August 2023. The massive surge in electricity prices cause nation -

wide protests, but did not result in reversal of prices.

### 3.2) Monetary Policies:

#### 3.2.1) Interest Rates:

As a condition for providing financial loans, IMF can recommend changes in the country's interest rates. Such measures might induce pervasive inflation.

#### 3.2.2) Exchange Rates:

The IMF can also recommend adjusting the exchange rate policies. This can reduce the currency value of a country, making it more volatile. Consequently, Pakistan's currency value has plummeted to historic low, standing at 1 US dollar worth 303.4 Pakistani Rupees in open market.

### 3.3) Foreign Policy

#### 3.3.1) Economic Reforms:

IMF assistance often come with conditions related to economic reforms. These reforms, however, extend beyond the areas of economy, spanning the domains of foreign policy. IMF conditions can have a profound bearing on how a country conducts trade, potentially affecting its trade policies related to other countries and thereby its relations with them.

### 3.3.2) Debt Management:

IMF can also make recommendations regarding a country's Debt sustainability. This can influence the foreign policy by affecting how the country engages with international creditors and addresses its debt obligations.

### 3.3.3) Securing loans might depend on a country's relations with other countries.

Another underlying factor of influencing a country's foreign policy is by compelling it to amend its relations with other nations. This can be

discerned by the fact that Pakistan had to struggle for 9-months in 2022 to secure a bail out package of mere \$1.3 bn. This might be due to the tense relations b/w Pakistan and USA, IMF's largest fund provider.

4) Conclusion:

There remains no ambivalence that loans from IMF comes at the cost of influencing a country's policy making. Being the largest borrower from IMF, its influence in Pakistan's policy formulation is profound. This is a high time for country to introduce reforms that target the economic plight at the grass roots level and solidify the financial structures.

Q) What is "One China Two Systems policy"?  
 How US Policy towards Taiwan is hurting it. What could be its possible implications?  
 Give recommendations.

### 1) Introduction:

Taiwan has long been a bone of contention between the US and China. Over the course of history, the US has changed its policy towards Taiwan many times, however the recent visit of Nancy Pelosi, speaker of House of Representatives of US, to Taiwan has once again brought this issue to attention.

### 2) Background:

China has drawn 9 dash lines over the South and East China sea. These lines are imaginary lines and the Chinese claim all the territories and islands within these lines as their territory. According to China these areas were once a part of the great Chinese empire and therefore should be considered a part of China. Taiwan is an island which happens to be situated within these 9 dash lines, and this is where the issue stemmed from.

### 3) One country two system policy:

China, in a bid to unify these territories under mainland China, propounded a One Country

two system policy, which was soon established with Taiwan. The policy stipulated that China composed of two parts, Mainland China, which would be governed by the communist party. The other part, Democratic Republic of China aka Taiwan. Under this system, Taiwan was granted complete internal autonomy including their own paramilitary, currency, economy and their desired form of government system i.e democracy, on the condition that Taiwan would endorse China's supremacy and its claims over the island. The agreement also stipulated that the defense and foreign policy of Taiwan would be supervised by main land China.

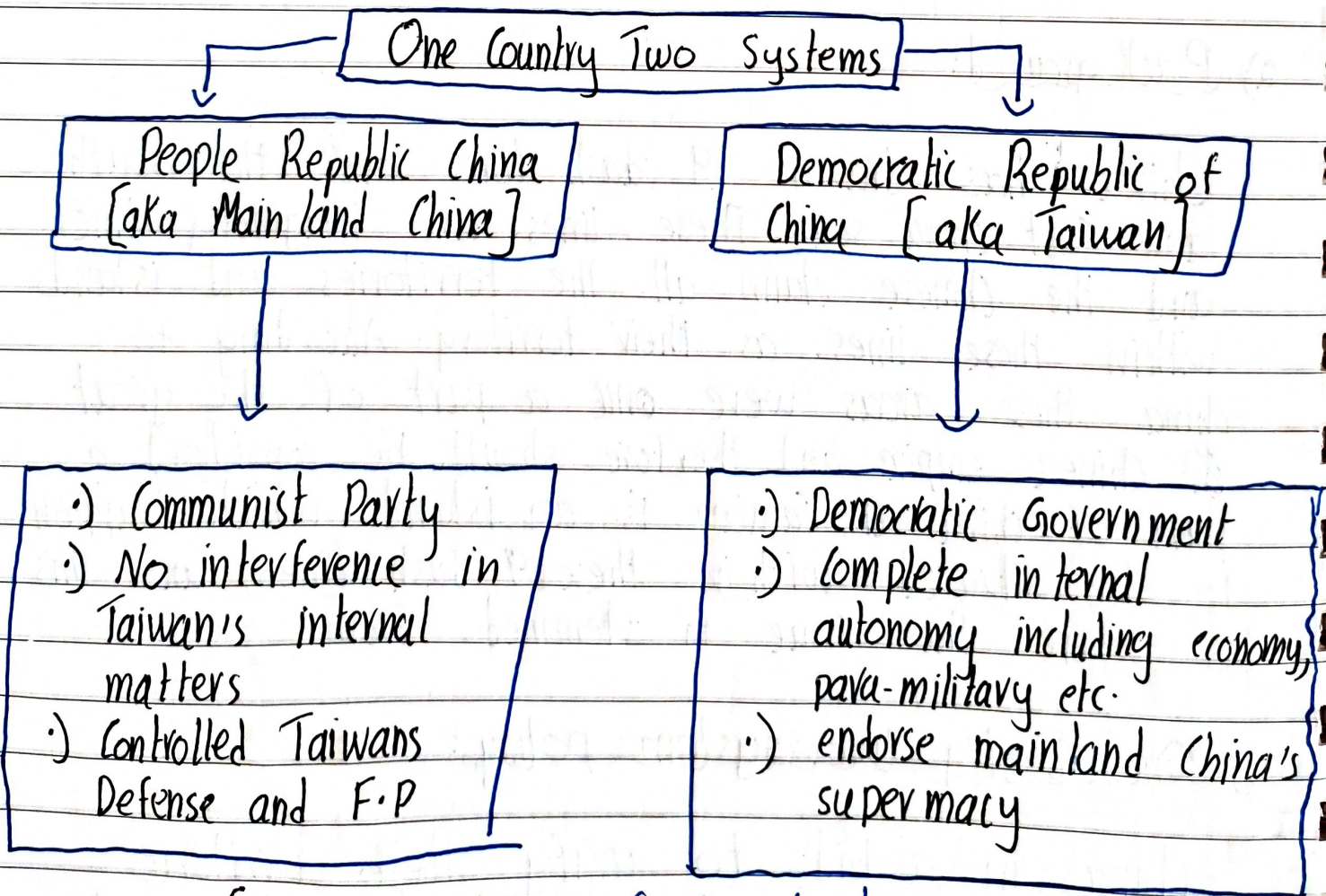


Figure: Overview of one country - two system policy



#### 4) US stance over Taiwan:

In 1952, USA established a clear policy pertaining to Taiwan, where in it clearly stated that ~~the~~ it would defend Taiwan from any aggression. This was made apparent when US conceived the SEATO [Southeast Asia Treaty Organization] agreement, in an attempt to contain China. However, in 1970's the USA altered its policies towards China. This is because Henry Kissinger, Secretary of the state, was of the view that engaging China was imperative to containing USSR. In 1979, USA also endorsed Taiwan as a breakaway of China, and thereafter China devised the One Country two system policy and vowed not to initiate unprovoked attack on Taiwan. The policy on Taiwan of USA, became ambiguous once the threat of USSR was dealt with, however, in recent times, USA has once again adopted its 1950's policy relating Taiwan, which is evident from Nancy Pelosi's visit to Taiwan, despite China's apprehensions. This visit has once again brought the two nuclear states at logger heads.

#### 5) How USA's policies are sabotaging China's Policies:

##### 5.1) Nancy Pelosi's visit:

The detrimental impact of US ~~police~~ policies on ~~the~~ that of China's can be discerned by Nancy Pelosi's ~~to~~ visit, which not only reignited a dwindling conflict but has resulted in severe consequence for Taiwan is the shape of China's reprisal. Pelosi's visit despite China's grievance,

albeit termed as a personal visit by White House, ~~it~~ indicates USA's change in stance from the 1979 Policy.

### 5.2) Defense Deals:

In 2019, ~~the~~ erstwhile president of USA, Donald Trump ~~is~~ signed a \$19 bn deal with Taiwan, whereby the USA sold weapons to Taiwan worth the stated amount. This was a clear violation of the One Country two system Policy, where in China reserved the right to supervise the defense of Taiwan.

### 5.3) Strategic ambiguity to strategic clarity:

There has been a swift change in USA's policy from strategic ambiguity to strategic clarity. US has commenced direct deals ~~and~~ with Taiwan, previously conducted through Beijing. This has raised concerns in China, who expects foreign deals with Taiwan conducted through itself.

### 5.4) Invitation to Taiwan for participating in democratic conference:

To the dismay of Beijing, Taiwanese president has been invited to attend a ~~a~~ virtual democratic conference by the USA. These growing ties of Taiwan with the west is a source of agitation for China, who deem such

actions as a threat; to China's sovereignty.

### 5.5) Biden's stance on defending Taiwan:

Biden's remarks when asked about Taiwan's defense in a 60 minutes interview, were akin to that of adding fuel to the fire. Biden clarified America's stance, wherein he asserted that US would defend Taiwan in an unprovoked attack from China. This clear stance indicates that US is challenging China's supremacy over Taiwan.

### 6) Implications:

These actions did not go unnoticed by the Chinese government, who have retaliated in an aggressive manner.

#### 6.1) Massive Military Deployment:

China has commenced a massive military deployment around Taiwan, surrounding it. This includes full naval fleet consisting of aircraft carriers, submarines, warships. Beijing has also conducted military drills in which Chinese jets have entered Taiwan's air space. Moreover, there have also been tests done sea to sea missiles have been fired over Taiwan.

### 6.2) Assertion of Traditional stance:

China has reinforced its traditional stance on the 9-dash lines, making it clear to the US that territories within these lines belong to China including Taiwan. The heavy military deployment indicates that anyone who challenges the claims would be met by coercive military might of the People's liberation army. It also implies that Beijing is willing to go to any length to protect its sovereignty.

### 6.3) Possibility of a war:

There is a possibility that a war breaks out between the two countries. Taiwan is of great significance to both the countries since its economy is interlinked with both countries. ~~There~~ There is a slim chance that the situation can exacerbate to the point where both countries engage in ~~direct~~ direct confrontation. This will not only have dire impacts on the two states but for all the region.

### 6.4) China's stance on Taiwan:

China has strengthened and clarified its stance on Taiwan, ~~at~~ warning the US about China's retaliation if provoked. The aggressive stance

that China has opted for can be discerned from a statement issued by the foreign minister of China, wherein he stated that the US is playing with fire.

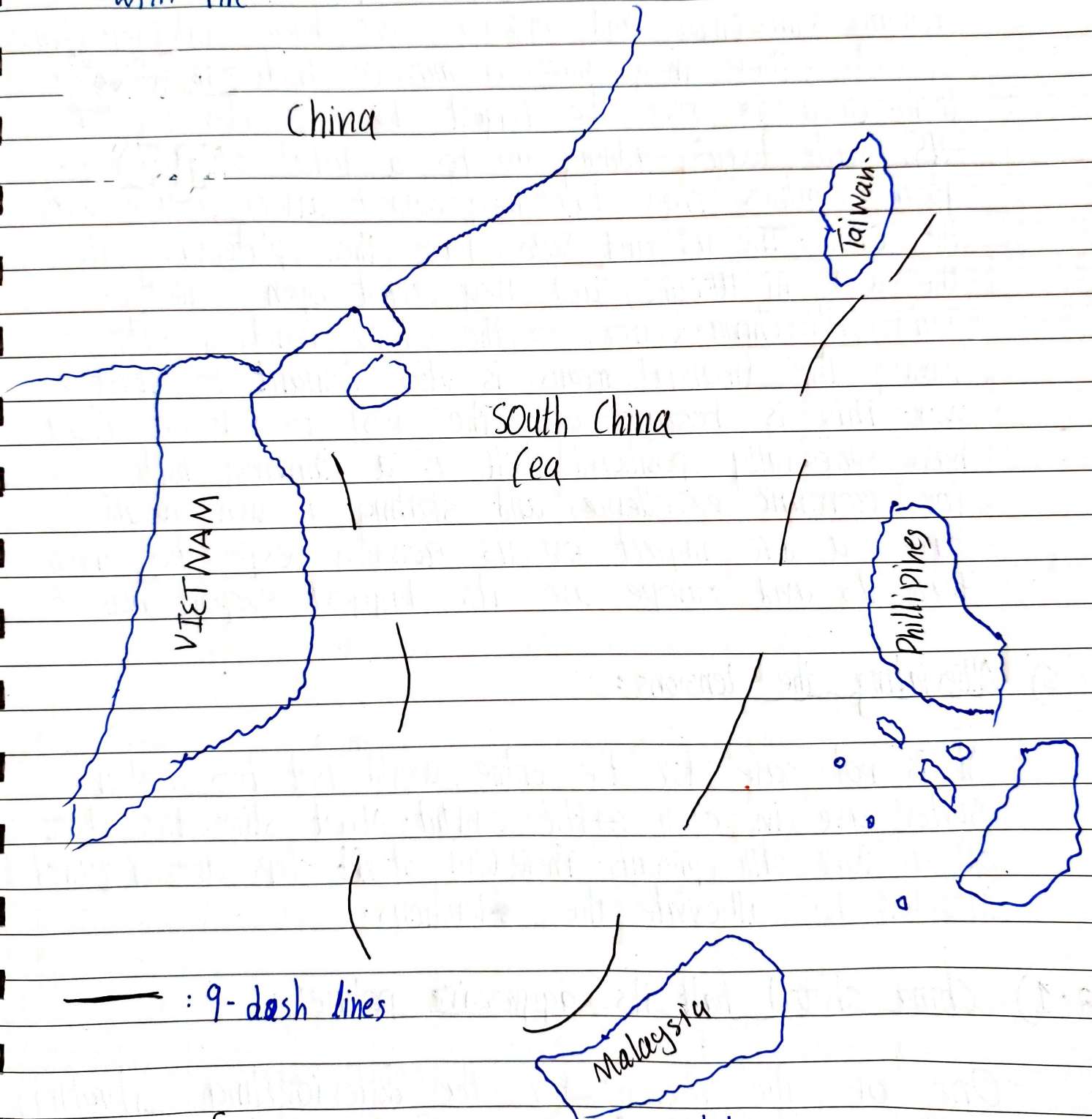


Figure: Overview of 9-dash lines in South China Sea.

## 7) Analysis:

Although both the nuclear armed countries are at daggers drawn, chances of a full-fledged war remain slim. China and America have huge interdependencies on each other. They have a massive trade ~~is~~ between them. China is also the largest loan provider to the US, with loans adding up to a total of \$1.5 trn. Both countries know that they cannot afford a war with the other. The US and Nato have their plate full with the war in Ukraine, and they cannot start another war with China. China, on the other hand, despite having the financial means, is also hesitant to start a war. This is because over the past two decades China has successfully positioned itself as a thriving hub for economic excellence, and starting a war would have a dire impact on its economy, especially given that US and Europe are its biggest export market.

## 8) Allieviating the tensions:

It is not safe for the entire world that two nuclear states are in open ~~conflict~~ conflict. Albeit slim, the chance of a war still prevails. Therefore swift steps are required in order to allieviate the tensions.

### 8.1) China should halt its aggressive policies:

One of the reasons for the deteriorating situation is the aggressive policies of Beijing. In the recent

years there has been a sudden change in china's policies. China is, albeit not publically ~~ann~~ announced, trying to nullify its two system one country policy and persueing a move of a ~~#~~ one country one system, which is evident from the situation in HongKong. If peace is to prevail, china must stop this transition in their policies and adhere by the agreed form government in Taiwan

### 8.2) US intervention must stop:

The US intervention has only exarrevbated the crisis. China being a military and economic might, reserves the right to have its sovereignty respected, just like any other country. US intervention in china's internal matters should be stopped and US should uphold its policy of 1979.

### 8.3) Taiwan should limit its relations with US:

Taiwan, being a the major stakeholder, should be cognisant about how its growing ties with US are upending its relationship with china. Taiwan should avoid being part of conferencies and defense deals, in a bid to keep china's aggression at bay.

### 8.4) Continuation of One Country two systems:

All the stakeholders should follow the

One country two system policy. This policy was adhered by for many years and helped to maintain peace and prosperity, therefore the logical conclusion is to uphold this policy ~~to~~ in order to secure a peaceful future.

9) Conclusion:

The exacerbating situation relating to Taiwan bring risk of global destruction. The situation is multifaceted and requires all the stakeholders to indulge in negotiations, if the situation is to be kept from deteriorating. The solutions mentioned ~~we~~ above have the potential to steer the countries out of this crisis, therefore should be pondered over.



Mock - Sept 2023

Q8) 1) Introduction:

"The enemy of my enemy is my friend". The widely used proverb accentuates the significance of proactive politics. Little did anyone know that it be practiced at a ~~wider~~ broader scale such as that of regional dynamics and international politics. USA, in a bid to contain China, is employing the aforementioned proverb and leveraging the historically tense ties between China and India to ~~maintain~~ maintain its global hegemony.

2) Pakistan's deteriorating ties with US:

In the wake of the hasty, impromptu withdrawal from Afghanistan and the growing relations between Pakistan and China, USA has revisited its foreign policy and taken a tilt towards India. Pakistan, initially did not give much heed to this new development, for it was premised to be aimed at containing China, but much to

the dismay of Pakistan, this latest development involve dire repercussions for Islamabad.

3) How US-India strategy to contain China is hurting Pakistan:

3.1) India appeasement Policy followed by US:

§ USA's new strategic partner, India, holds much significance for USA's hegemonic supremacy. China, who is considered to be a genuine contender for global superpower, poses a serious threat to US. Since USA ~~can~~ cannot engage in full and direct military confrontation with China, for such an event can induce widescale devastation never witnessed before, it has to recourse to India to do its bidding. USA is aware that India holds primary for its interests. That is why USA is ~~the~~ adopting policies to appease India. Since Kashmir is the bone of contention between Pakistan and India, USA's support to India in this matter would

give the country an edge over Pakistan. Furthermore, India - Pakistan rivalry is no surprise to anyone, and this would only provide an impetus to USA for establishing anti-Pakistan policies. A recent statement reflects the turn in US-Pakistan relations, where the president of US Joe Biden said: "it (Pakistan) maybe the ~~most~~ one of the most dangerous nations in the world". The statement sent shockwaves throughout Pakistan's political landscape, for it unveiled the changing foreign policy of US.

### 3.2) Sanctions on China can hurt Islamabad.

Sanctions imposed on China can have repercussions for Pakistan. Pakistan's fragile economy relies heavily on China for sustenance. Hence sanctions on China can leave the economy of Pakistan in predicament. There are primarily two ways how this can impact Pakistan. Firstly, if US ~~imop~~ imposes direct sanctions on China, the latter's economy will take

a toll and it might not remain in a position to generously help Pakistan. Secondly, if not only on China but US imposes sanctions on its main trading partners as well, it will beget devastating ramifications for the already teetering economy of the country.

### 3.3) Trouble will IMF bailout packages:

There remains no ambivalence that US wields a strong influence on IMF. In retrospect, the assistance of USA has been ~~an~~ indispensable for ~~to~~ securing the much needed loan agreements b/w Pakistan and IMF. Without the role of USA, these bailout packages would be hard to obtain. This was also seen in the last year where the country had to struggle for more than a year to secure a staff-level agreement for a mere \$ 1 bn loan. This is obviously a major challenge and can be ignored only at great peril to the country.

3.4) GSP+ status hangs in the balance:

Pakistan has been endowed with GSP+ status from European ~~EU~~ Union since 2014. This fruitful incentive lets Pakistan sell its merchandise in European market ~~with~~ while also avoiding much of the taxes. Since USA wields influence over EU, it can persuade the Europeans to withdraw this incentive. This would be a massive blow to the precarious economic conditions of the country.

4) What can Pakistan do to circumvent these challenges:

4.1) Engage in Diplomacy with USA:

In recent times, especially after withdrawal from Afghanistan, Pak-US relations have been on a downward spiral. Pakistan did not dispell American's belief of the former supporting Afghans during the war against terror. Such ~~a~~ widely held notions

have taken a toll of their relations. It is high time for Pakistan to engage in diplomacy with US, not only to dispell the misconceptions, but also to foster cordial relations.

#### 4.2) Ameliorate ties with India:

Another major obstacle challenging Pakistan is the historically hostile relations between Pakistan and India. Pakistan should take the first step and approach India for the normalization of ties. This is a rather daunting task that will need much time, but this single development can pave the way for a stable Pakistan.

#### 4.3) Ensure CPEC faces no challenge:

CPEC, argumentatively the panacea for most of the country's woes, should be the center of attention ~~for~~ of the government. Albeit Pakistan should engage India and US in diplomacy in a bid to improve ties, it should apprise China, largest stakeholder

Day / Date

of CPEC, that the continuation of this project will suffer from no disruptions. Maintaining the cordial and friendly ties with China should always take precedence over ties with others.

5) Conclusion:

There remains no ambivalence that this new development has left Pakistan in a stew. However, with meticulously planned strategies and adopting robust measures, this challenge can be surmounted. The solutions embodied in this answer have the capacity to steer the shipwrecked country to safer shores.

Maxim.....

Q3) 1) Introduction : Thriving Power Sector; The Backbone of any Flourishing Nation

There remains no ambiguity that the power sector of Pakistan is in disarray. Consequently, the energy related issues have engulfed the teetering country. The emaciated sector is unable to meet the power demands of the country, therefore yielding dire repercussions that span economic, political and social dimensions.

2) What are the current energy related issues of Pakistan.

The energy related issues do not involve scarcity of energy but rather encompass ~~the~~ price of the energy produced, particularly price of electricity. The troubled power sector is able to produce adequate electricity that is sufficient to meet the energy demands, but it is the price of the electricity that puts burden on the consumers. Currently Pakistan produces the most expensive electricity in the region, costing more than that of some of the less-developed



countries of the region such as Afghanistan.

### 3) Implications of expensive electricity on the economic, social, and political landscape of the country

Economic implications:

#### 3.1) Cost of Production:

The cost of production is directly affected by the price of electricity. Expensive electricity means that the cost of production will also increase. This can negatively affect businesses, particularly at an international level as they cannot compete with ~~the~~ market players.

#### 3.2) Investment climate:

High electricity costs can deter foreign and domestic investment. Investors are like to explore conducive environments elsewhere. Lower investment can take a toll on the country's economic landscape.

## Social Implications:

### 3.3) Impact on Households:

Expensive electricity burdens households, affecting their disposable income. This can lead to challenges in meeting basic needs, particularly for lower-income groups.

### 3.4) Quality of life:

An consistent power supply affects daily life, impacting education, healthcare, and overall well-being. The social fabric of communities can be strained due to disruptions caused by electricity issues.

## Political Implications

### 3.5) Public Dissatisfaction:

Citizens may express dissatisfaction with the government due to power-related problems. This can ensue in political instability if the government's support is withdrawn.