

**Question # 7**

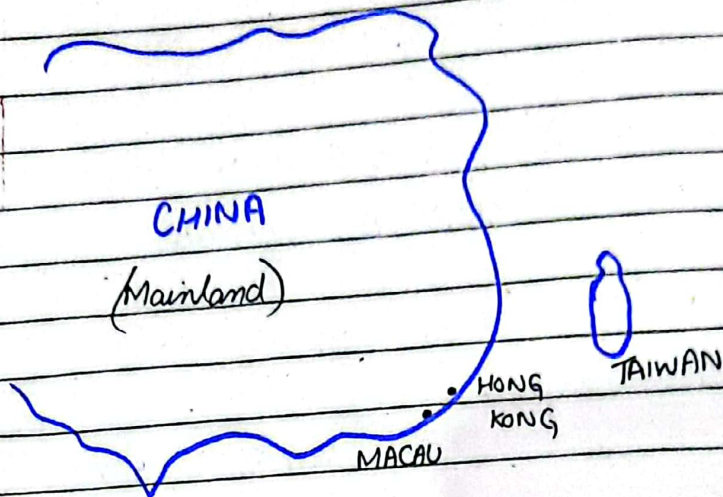
One China Two Systems Policy?  
US Policy towards Taiwan and  
its possible implications?

**1) INTRODUCTION: THE  
TERRITORIAL CONFLICTS**

China has been propagating the "One China Two Systems" Policy since 1971 in relations to the territorial conflicts that are internal to China. This policy is relevant to Taiwan, Hong Kong and Macau. With the involvement of US in the Taiwan crisis, it has escalated to a conflict between the great powers. While China considers Taiwan an internal matter, US supports the independent Taiwan. Such a rivalry uncovers the Pacific vulnerability of both China and US who consider Taiwanese island as crucial in the Pacific dominion. This will have serious implications on the world in case of any violent encounter. Before this conflict stumbles down the road to war, the world must use all available platforms to find an amicable resolution to the dispute.

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## 2) ONE CHINA TWO SYSTEMS POLICY: THE NATIONAL INTEREST OF CHINA



There are three regions in <sup>China</sup> which were historically disputed and were not fully integrated into the mainland: Taiwan, Hong Kong and Macau.

In 1971, China announced this policy of two system. According to it:

(a) Political autonomy: the regions were granted political autonomy to make their own government system.

(b) Legislative unity: The regions will still be a part of mainland China and will ultimately be integrated into it.

Thus, the authority lies with China and it will decide when to integrate.

the regions:



"One China Two Systems" Policy gives legitimacy to the Taiwan's separate government. Hence, the political independence of Taiwan, HK and Macau is part of this 1971 policy.

### 3) US POLICY TOWARDS TAIWAN: A THREAT TO CHINA

US Policy towards Taiwan stands as the anti-thesis of "One China Two Systems" Policy. The salient features of this policy and its impact on China are given below:

#### a) INDEPENDENCE OF TAIWAN:

The recent visit of US SOS Nancy Pelosi and several speeches of US President Joe Biden indicate US stance that they support an independent Taiwan. This will end the claim of China on the region.

#### b) MILITARY INTERVENTION:

When asked about the question of

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Spillover  
on other

US military involvement in Taiwan in case of Chinese action, Joe Biden gave a very direct and clear answer: "Yes, US will intervene." This will threaten the economic interests of China, as Taiwan is the 6<sup>th</sup> largest trading partner of China.

a)

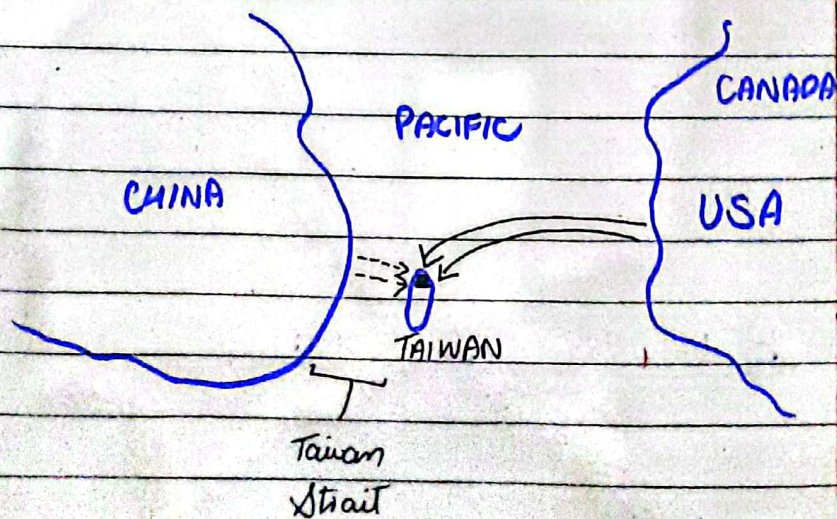
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c) POLITICAL AFFILIATIONS:

US has developed strong political alignments with Taiwanese government. The pro-West sentiments have been since the recognition of Taiwan as representative of China in UNSC membership in 1949 with the US lobby. This goes against Chinese stance that Taiwan is the land of Han, the descendants of Han Dynasty of China.

d) MILITARY PRESENCE:

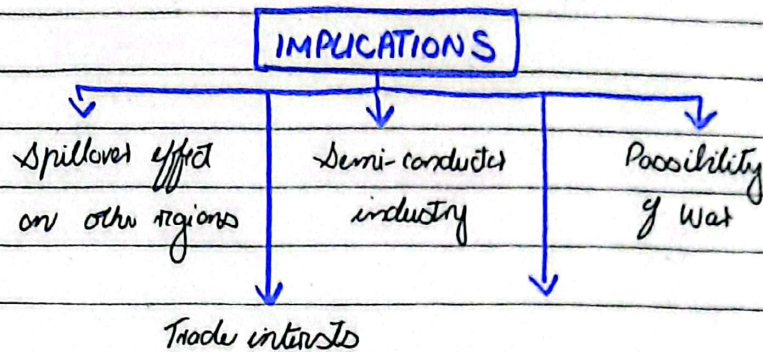
US has an active military post in Taiwan island which provides them a close access to Chinese land and strategic presence in Pacific. This presence threatens the Chinese interests in the ocean.



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#### 4) IMPLICATIONS OF SINO-US CONFLICT ON TAIWAN



##### a) SPOILOVER ON MACAU AND HK:

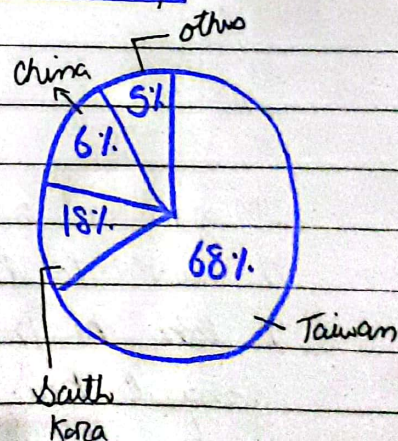
In case of US-backed Taiwan independence, the blow to "One China" policy will be fatal. This would encourage HK and Macau to push for the same privilege of a full independence.

##### b) TRADE INTERESTS:

The Taiwan Strait is the strategically located region for global trade. About 25% of the global trade passes through Taiwan (WTO). This will face restrictions in case of an active conflict or war.

##### c) SEMI-CONDUCTOR INDUSTRY:

Taiwan is the world center of best semi-conductor industry, as it produces 68% of total production. This is necessary for the



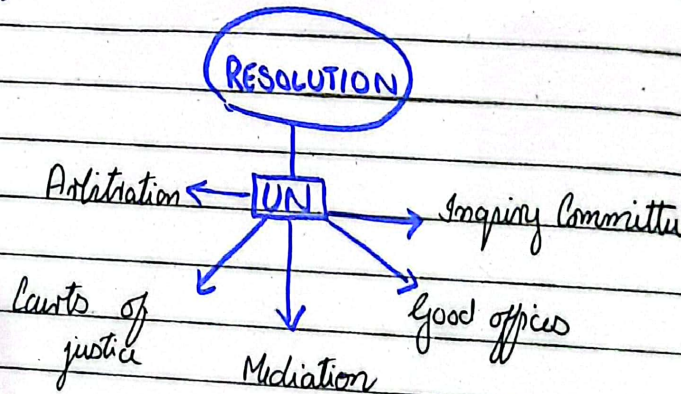
smooth running of electronic industry

#### d) NUCLEAR FLASH POINT:

Being located in the strategic location of Pacific across Taiwan is the cause of strain in Sino-US relation, the two powers with nuclear weapons and the largest economies to sustain war.

#### s) RECOMMENDATIONS FOR TAIWAN CRISIS: DISPUTE RESOLUTION

In order to avoid war, the following platforms must be used:



UN is the most rightly suited platform that should be used to discuss the issue of Taiwan. As Dag Hammarskjöld, the former UN Secretary General, once said:

"UN was not created to take the world to heaven, but to take the world from going to hell."

War in Taiwan that is an avoidable hell and it can be resolved by the UN Charter Article 33 which suggests the following:

a) ICA and ICJ:

The International Arbitration Court (ICA) and International Court of Justice (ICJ) can be used to legally decide the future of Taiwan.

b) Mediation:

The non-involved global powers like Russia, Turkey, France etc could act as third-parties in the conflict to find ways towards discussion.

c) Good Offices:

If the countries cannot act as third-parties, then the provision of this good offices can lead to healthy discussion in the conflict. As in the Ukraine War, the PM of UK Rishi Sunak agreed:

"~~What~~ Whatever the consequence of war, the resolution of conflict will only come from table talk."

d) INQUIRY COMMITTEE:

Just like the Palestine conflict, the inquiry committee of UN can be formed on Taiwan crisis which will help in fact-finding missions in resolving the crisis.

## 6) ANALYSIS: WAR IS THE CONTINUATION OF POLITICS

The Taiwan conflict is the right description of the famous quote of Ma Michianlli

"War is the continuation of politics by other means."

In case of Taiwan, while China wants to protect its national and economic interests in the Pacific; the US is aiming to achieve the "containment of China" policy by facing Taiwan's independence.

## 7) CONCLUSION: THE EVITABLE WAR

Although the Ukraine war could not be averted or stopped by the international community, the mistakes should not be repeated in Taiwan crisis. US and China must voice their concerns through diplomatic means and not words international law. The economic and the political condition of the world is evidence enough to claim that the world cannot survive another war as it would lead to bloc-politics and the possible return of Cold war.



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### Question #3

Role of IMF in the fiscal, monetary and foreign policy making of Pakistan?

#### 1) INTRODUCTION: OVER-RELIANCE ON IMF

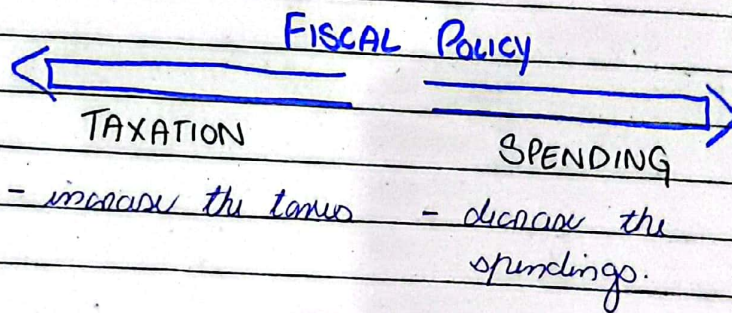
Pakistan is experiencing severe economic woes as it has to depend on lock-to-lock IMF programs to find a way out of the liquidity issues. The IMF debts are keeping the economy afloat as the country stands on the verge of default. Pakistan has a long-standing history with IMF since 1958 and this relationship has made IMF an important part of economic policies directly and foreign policies indirectly. While IMF has helped Pakistan in economic stabilisation in the short-term, the long-term reliance has made the economy unable to grow naturally. The debt and loans are at best the ventilators for the economy that provide a breath for the structural reforms. Hence, the role of IMF in Pakistan has been a two-edged sword that cuts both ways.

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## 2) ROLE OF IMF IN PAKISTAN IN FISCAL POLICY

IMF Programs directly impact the fiscal policy of Pakistan in the conditionalities.



### a) LEVY TAXES ON GOVERNMENT SERVICES

IMF Programs and bailouts only get approved if the government provides the national budget with tax increase. It increases the following:

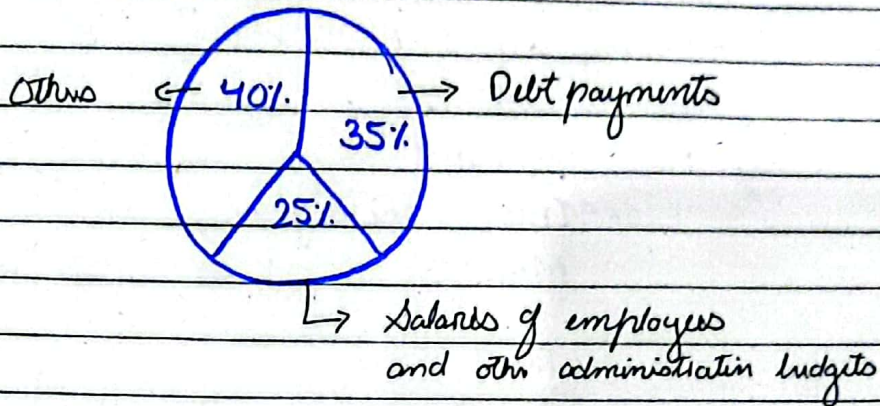
- 1) Increase in electricity price as the losses are transferred to consumers.
- 2) Increase in fuel prices as the subsidies are removed.
- 3) Due to these measures, inflation rises at a fast rate.

The IMF conditions do not state the targeted areas of taxation which is left

to the discretion of the government.

### (b) CUT THE EXPEDITURES:

The expenditures pool of Pakistan is follows:



As there is no space left to reduce the expenditures, IMF policies strike the "Other" category:

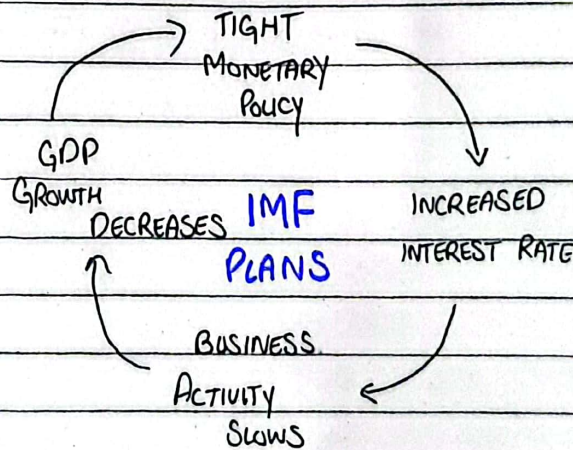
- (1) To end all subsidies by government on fuel, electricity, etc
- (2) Development budgets is brought down to a bare minimum. This ends all activities linked to social security and welfare.

As Atif Mian, the Pakistani economist and Princeton University Professor once described the over-reliance on IMF as:

"If an airplane took off several times only to come crashing down each time, the only

logical conclusion would be that it needs a fundamental redesign. Pakistan's economy like the airplane has crashed 23 times since 1958 everytime requiring an IMF bailout."

### 3) ROLE OF IMF IN MONETARY POLICY-MAKING:



Due to the Monetary interventions of IMF, the economy stand down and the growth of prospects becomes bleak.

The impacts of economic tightening:

#### a) TACKLE SKYROCKETING INFLATION

In the recent crisis, Pakistan's inflation went to all-time high of 30% which had to be stopped. The IMF suggests and imposes the measure

in interest rate to control this.

### b) CENTRAL BANK INTEREST RATE:

As the central bank interest rate increases, the economic activity slows down as the incentives of investing in businesses are less than the bank rates.

### c) GDP GROWTH REDUCTION:

Unlike the popular expansionist policies that increase growth, IMF policies slow it down. This policy is aimed at stabilizing the economy in the short term.

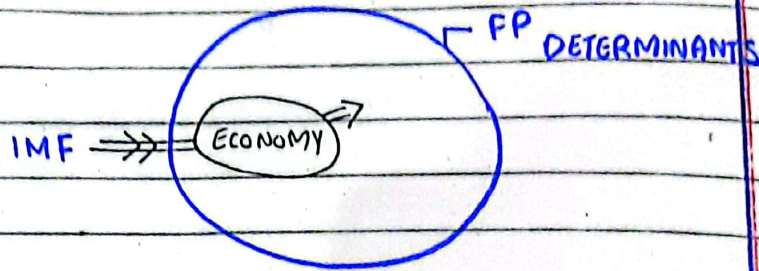
	GDP Growth	
2022	= 6.1%	(Expansionary)
	[BOOM]	
2023	= 0.29%	(Tight policy) (IMF)
	[BUST]	

As Sohbat Hussain wrote in the economy chapter of "Governing the Un-governable":

"The economic history of Pakistan is replete with cycles of boom and bust, achievements and disappointments, resilience and crises. This is due to internal issues as well as external shocks."

## 4) ROLE OF IMF IN FOREIGN POLICY MAKING

As IMF is inherently tied with the Pakistan's economy, it indirectly impacts the Foreign policy process.



### a) ECONOMY AS FP DETERMINANT

Economy serves as an important and crucial determinant of Foreign Policy process. Due to IMF dependence, Pakistan is unable to realise the full potential of its economy. Even being ranked as the 5<sup>th</sup> largest population in the world, it is at the 40<sup>th</sup> position in economic numbers.

### b) RELATIONS WITH OTHER COUNTRIES

Due to IMF dependence, Pakistan is not seen as a viable option for economic partnerships. As IMF's approval is needed for big projects and development budgets, it reduces the government's power to negotiate trade and economic deals.

### c) INVESTMENT OUTLOOK

Due to IMF programs, the international agencies like Moody's reduce the ranking of Pakistan. This makes it difficult to attract foreign investment from other countries.

### s) IMF: THE DOUBLE-EDGED SWORD

IMF bailouts serve as the double-edged sword for any economy, including Pakistan. Although in the short-term it helps stabilize the economy, in the long run debt and loan pressure the economy.

As John Perkins wrote inside account in his book "Confessions of An Economic Hitman" about the inner workings of International Financial Institutions like IMF. He wrote:

"Debt and loans provided by IFIs are unrealistic as countries are never to pay them back. They ultimately are used to pressure the governments on international issues."

## 6) CONCLUSION: SUSTAINABLE GROWTH

Instead of moving in the cycle of boom-and-bust, Pakistan must follow a sustainable growth policy. This is only possible if Pakistan frees itself from the reliance of IMF loans and debt. The time bought through bailout should be used to carry out the much-needed structural reforms that can put the country on the track towards economic stability.

### Question # 5

Negative implications on economy, social and political life of para sector.

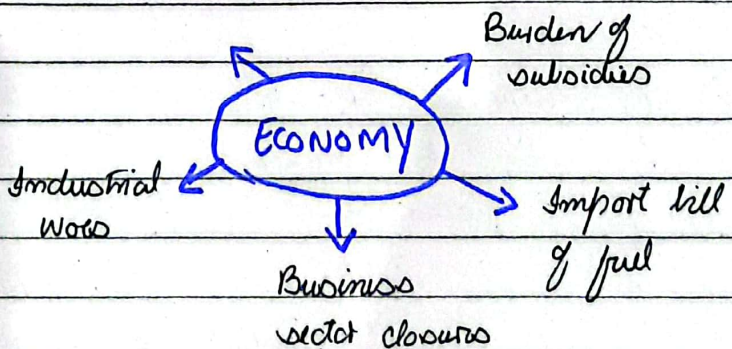
## 1) INTRODUCTION: MOST EXPENSIVE ELECTRICITY

Pakistan has been facing a debilitating condition in the electricity sector because of the infrastructural as well as managerial inefficiency. This has led to the country producing the most expensive electricity in the world (at about 30-35 Rs/unit). Such mismanagement has created an impossible



situation where price is being paid by the economic, political and social sectors of state as well as individual life. This current crisis of electricity which led to inflated bills is the result of decades of negligence since 1990s. Therefore, the solutions would require a holistic approach that can tackle the crisis in the long run as well as provide respite to the ailing situation in the short-term.

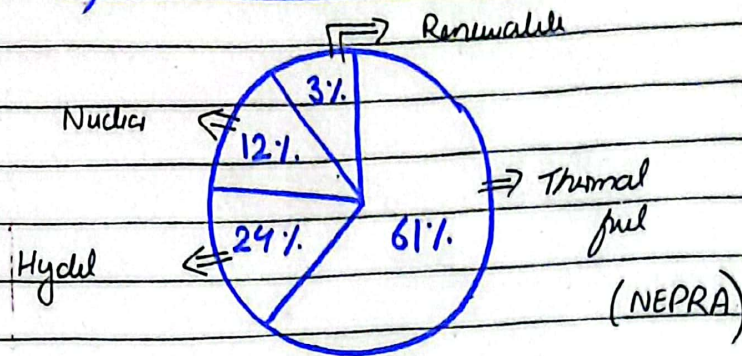
## 2) IMPLICATIONS OF EXPENSIVE ELECTRICITY: ECONOMIC LIFE



### a) BURDEN OF SUBSIDIES

The economy of the country suffers due to expensive electricity. As the consumer is unable to pay the losses, the government pitches-in to subsidise the price. Ultimately, the 80% of total subsidies are allotted to the energy sector. (IMF, 2022)

## b) IMPORT BILL OF FUEL



Out of the total energy, 63% of the total electricity is produced by imported fuel. Recently, the fuel price increased by Rs 30-35/litre across the categories. This has increased the import bill on economy that is cash-strapped.

## c) INDUSTRIAL SECTOR:

Industries are the primary consumers of electricity as it is needed to run the machines and factories. With increase in prices, the product cost has increased which has made Pakistani-products less competitive in the international market.

## d) BUSINESS CLOSURES:

Businesses are finding it difficult to sustain the electricity cost. The only viable option is to either close the business or mass-lay-offs.

### 3) IMPLICATIONS ON POLITICAL LIFE OF COUNTRY:

Overall impact of energy crisis is the instability in political sector.

#### a) PUBLIC UNREST AND PROTESTS:

As the consumers are unable to pay the electricity bills, protests and strikes are organised to demand governmental subsidies and crackdown on electricity theft. Shutdown strikes by business community leads to closure of economic activity, putting a pressure on government.

#### b) RENEGIATIONS WITH IPPs:

The government is forced to open renegotiation of contract with Independent Power Producers (IPPs). The failure of IPPs to solve the problem is used as an excuse to pressure government into taking unilateral action.

#### c) MANAGERIAL ISSUES:

The system of electricity distribution in Pakistan is extremely inefficient.

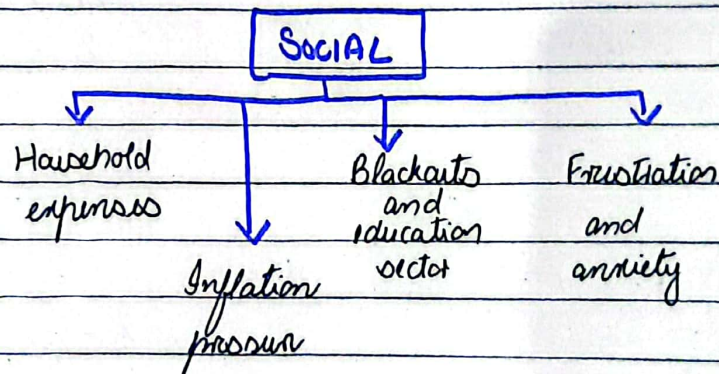
18% = line losses during distribution

20% = power theft and unaccounted bills

### d) FRICTION WITH GOVERNMENT EMPLOYEES:

With the frustration of private citizens, the electricity incentives to the government employees come under scrutiny. People demand the end of all incentives and the government is unable to find a middle-ground.

### 4) IMPLICATIONS ON SOCIAL LIFE OF COUNTRY



### a) HOUSEHOLD EXPENSES:

With the inflated bills, most of the household expense is going towards electricity alone, leaving no space for the savings. About 30% - 50% average increase in electricity bills happened in 2023 (Samra report).

### b) Inflation and Unemployment:

The problem becomes compounded with the all-time high inflation, of 30% and loss of employment.

c) FREQUENT BLACKOUTS:

With the electricity shortfall of over 7000 MW, there are frequent shut-downs, leaving the common man unable to do any work. According to the consulting agency FIVERR, due to the 2022 blackout, Pakistani producers were at a disadvantage of 80% on the platform.

d) MENTAL FRUSTRATION AND ANXIETY:

The financial and economic factors are affecting the mental peace of people. The hot summers in Pakistan are generally vulnerable to high violence rates and lack of electricity only exacerbates the problems.

e) RECOMMENDATIONS FOR IMPROVEMENT:

LONG-TERM MEASURES ← **SOLUTIONS** ⇒ SHORT-TERM MEASURES

- |                               |                           |
|-------------------------------|---------------------------|
| - local reserves              | - crackdown on defaulters |
| - renewable energy            | - end of                  |
| - transmission infrastructure | - categorised subsidy     |
|                               | - IPP contracts revised   |
|                               | - energy metro            |

### a) SHORT-TERM: (2-3 year)

In order to relieve immediate pressure from consumers, the following measures must be taken:

- 1) The crackdown on electricity theft and unpaid bills to increase the efficiency and reduce losses.
- 2) Energy meters: upgrade the metering system to limit occurrence of the bills.
- 3) Targeted subsidies: subsidies should be targeted to the poor sector who is unable to afford the basic necessities.
- 4) IPP contracts must be revised to reduce the governmental assurances in case of fuel unavailability. This will significantly reduce the production cost.

### b) LONG-TERM: (4-5 year)

In order to solve the electricity problem and generate affordable electricity, the following measures must be taken:

1) Instead of depending on imported fuel, the country should explore the local reserves. As ADB 2019 pointed that:

"Pakistan's local reserves, especially than coal, has the potential to end the shortfall of electricity entirely."

(2) Renewable energy: With the production of renewable sources like solar, wind, nuclear, the cost of electricity can be brought down to less than Rs 10/unit from the current Rs 35/unit.

(3) The transmission lines of the country are outdated and are causing 20% loss of total produced electricity. By upgrading the system, the country can save millions and even billions of dollars that need to be borrowed.

## 6) CONCLUSION: CASE OF IGNORED INFRASTRUCTURE

The problems in the power sector of Pakistan are endemic because of the

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negligence shown to this sector for decades. This has created an impossible situation for the country. The current scenario of electricity is evident that the question is not whether to reform, the question is when to reform the sector. The situation is urgent and must be tackled with a holistic approach rather than the knee-jerk reactions shown in the past.

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