

Tuesday

MOCK Exam: 4

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Batch No #: 59

## CURRENT AFFAIR

### PART-II

Q No. 2: Increasing Capacity payment to IPPs has made electricity hyper expensive. Critically evaluate the statement and give recommendations.

#### Introduction:

Capacity payments are financial incentives provided to IPPs to ensure they are available to supply electricity when demanded peaks. These payments are designed to maintain a reliable power supply, even during times when electricity generation might be low.

The increase in capacity payments has been associated with a rise in electricity prices. This evaluation will explore whether these payments are the sole factor contributing to high electricity costs and assess their broader economic implications.

"Capacity payments have been rising in many regions due to increased investment requirements and regulatory changes."

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# Analysis of Capacity Payments:

I.

## 1. Purpose and Justification for Capacity Payments:

i. Ensuring Reliability:

Capacity payments are intended to ensure that there is a sufficient generating capacity to meet peak demand. This is critical for avoiding power shortages and blackouts.

ii. Investment Incentives:

They encourage investment in power generation infrastructure by providing a stable revenue stream for IPPs.

"Investment incentives are not about subsidies but about creating a framework that ensures long-term sustainable growth" (Paul Polman)

## 2. Impact on Electricity Prices:

a. Cost Transmission:

The increase in capacity payments directly impacts the overall cost structure of electricity. These payments are typically passed on to consumers, raising electricity prices.

### 1b. Economic Burden:

Higher electricity prices can lead to increased costs for businesses and households, potentially affecting economic growth and consumer welfare.

## 3. Contributing Factors to High Electricity Prices:

### i. Fuel Costs:

Rising fuel prices (e.g. oil, gas) can significantly impact electricity prices.

"Fuel prices are not just a market factor, they are a reflection of geopolitical stability, resource availability and technological advancement" (Fatih Birol)

### ii. Operational Inefficiencies:

Inefficiencies in power generation and transmission infrastructure can increase high costs.

### iii. Regulatory and Policy Factors:

Changes in energy policy and regulation can also influence electricity prices.

## II. Evaluation of the Statement :

### 1. Evidence of Correlation :

Analyzing data from regions with increased capacity payment can provide insight into their impact on electricity prices. Studies may show a direct correlation between higher payments and increased costs.

Comparing regions with varying level of capacity payments can help assess the extent to which these payments influence electricity prices.

In Pakistan, increased capacity payments to IPPs have been linked to a significant rise in electricity tariffs. For instance, the NEPRA reported that capacity payments contributed to a 25% increase in electricity prices.

### 2. Broader Economic Impact :

Higher electricity prices can lead to financial strain on households, reducing disposable income and affecting overall quality of life.

Increased electricity costs can impact the competitiveness of industries, particularly those with high energy consumption.

### III. Recommendations:

#### 1. Re-evaluating Capacity Payment Structures:

##### i. Performance-Based Payments:

Considers restructuring capacity payments to be based on performance and reliability rather than a flat rate, encouraging more efficient and responsive power generation.

"Rewarding performance, not just effort is a key to unlocking potential and driving innovation" - Jack Welch

##### ii. Gradual Adjustments:

To implement gradual increases in capacity payments to allow time for adaptation and to mitigate sudden price spikes.

#### 2. Enhanced Efficiency and Reduced Costs:

##### a. Invest in Technology:

Promote investment in more efficient and cost-effective technologies for power generation and transmission.

##### b. Reduced Fuel Dependency:

To explore alternative energy sources (eg: renewable energy) to reduce dependency on a volatile fuel markets.

### 3. Implement Regulatory Reforms :

#### i- Transparent Pricing :

To ensure transparency in how capacity payments and other costs are reflected in electricity prices.

Transparency is pricing builds trust with customers and trust is the foundation of a long-term relationship  
(Howard Schultz)

#### ii- Policy Adjustment :

Review and adjust energy policies to balance the need for reliable power with affordability for consumers.

### Conclusion :

Increasing capacity payments to IPPs has indeed contributed to higher electricity prices. Though it is not the sole factor, a comprehensive approach, including re-evaluating payment structures, enhancing efficiency and implementing regulatory reforms is necessary to address the issue and ensure that electricity remains affordable while maintaining reliability.

Q No 3: Students protestors ended the long rule of autocratic Sheikh Hasina. Critically evaluate the political earthquake in Bangladesh. Also analyze its possible fallouts.

### Introduction:

Sheikh Hasina, the leader of the Awami League, had governed Bangladesh for over a decade with a style often criticized as increasingly autocratic. Her administration has been marked by allegations of corruption, suppression of dissent and electoral manipulation. The emergence of widespread student protests, leading to the end of her rule, represents a pivotal moment in Bangladesh's political landscape.

Sheikh Hasina has been remarkable leader in driving economic progress, but the erosion of democratic norms under her rule is deeply concerning" (Amartya Sen)

# I. The Political Earthquake in Bangladesh:

## 1. Causes of the Uprising:

### i. Autocratic Governance:

Sheikh Hasina's rule was characterized by centralization of power, undermining democratic institutions and stifling opposition. These actions created widespread discontent.

Since 2009, Sheikh Hasina has consolidated power through amendments to the constitution, most notably the 15<sup>th</sup> Amendment in 2011.

### ii. Economic Disparities:

Despite economic growth, income inequality and unemployment among youth contributed to frustration, particularly within the student population.

### iii. Corruption and Mismanagement:

High-profile corruption cases and mismanagement in various sectors including education, field public angles.



## 2. The Role of Student Protests:

### a. Organized Movements:

Students are often at the forefront of political change in Bangladesh, organized mass protests demanding democratic reforms and an end to autocratic practices.

Thousands of students, mostly from high schools and universities, took to the streets across Bangladesh, demanding for education scholarship 7<sup>th</sup> and safer roads and stricter traffic regulations.

### b. Social media Influence:

The use of social media amplified their messages, mobilizing larger crowds and gaining international attention.

## 3. Government Response:

### i- Suppression Tactics:

The government initially attempted to suppress the protests through arrests, censorship and violence which only intensified public anger.

ii- Concessions and Collapse:

By facing maintain pressure, Sheikh Hossain's government may have offered concessions, but ultimately the sustained protest led to the collapse of her regime.

"Concessions made out of fear are often too late, true change comes when the people lead and governments listen"  
(Aung San Suu Kyi)  
(Political leader)

Political Instability

Impact on Democracy

Social and Cultural Effects

Analysis of Possible  
[Outlook]

Economic Consequences

Regional and International Implications

# Analysis of Possible Fallout:

## i- Power Vacuum:

The sudden end of Sheikh Hasina's rule could create a power vacuum, leading to a period of political instability, as various fact/factions for control.

## ii- Emergence of New Leaders:

This event may pave the way for new political leaders, potentially from the student movement or opposition parties, to rise to power.

## iii- Renewed Democratic Efforts:

The downfall of an autocratic leader might renew efforts to strengthen democratic institutions, promote free and fair elections and ensure government accountability.

"Democracy is not just about elections; it is about true participation and it requires constant renewal and vigilance" (Barack Obama)

iv. Short-term Disruption:

The political upheaval could lead to economic disruption, including a decline in investor confidence, and potential capital flight, which slows growth.

v. Long-term Reforms:

In the long term, if the new government focuses on economic reforms and transparency, Bangladesh could see more sustainable and equitable economic growth.

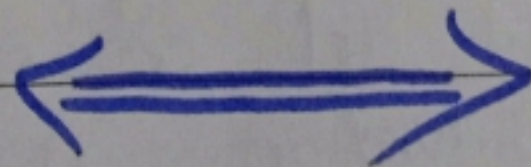
vi. Empowerment of Youth:

The success of student protests could inspire greater political engagement among the youth and civil society, leading to a more vibrant and participatory democracy.

"One child, one teacher, one pen, and one book can change the world"  
(Malala Yousafzai)

## Conclusion :

The end of Sheikh Hasina's autocratic rule due to student protests marks a significant turning point in Bangladesh's political history. While the political earthquake could lead to renewed democratic governance and social empowerment, it also poses risks of instability, economic challenges and potential authoritarian resurgence. The outcomes will depend on how the political landscape is shaped and whether the demands for justice, transparency and democratic reforms are effectively addressed.



Q No 7: Iran - Israel tension has tremendously increased after the killing of Ismael Haniya. Critically evaluate the evolving situation in the Middle East. How the tension could be reduced?

### Introduction:

The killing of Ismail Haniyeh, a prominent leader of Hamas, has significantly escalated tensions between Iran and Israel. Haniyeh's death, attributed to Israeli operations, has intensified the already volatile dynamics of the Middle East, with Iran a major supporter of Hamas. Condemning the act and threatening repercussions, this situation adds to the complex geopolitical landscape of the region.

## I. Critically Evaluation of the Evolving Situation:

### i. Immediate Impact of Haniyeh's Killing:

#### a. Iran - Israel Relations:

Iran has strongly condemned Haniyeh's killing, viewing it as an act of aggression against Palestinian resistance. Iran has called for increased support to Hamas and other militant groups in the region.

Israel has defended the operation as a necessary action against terrorism, aiming to weaken Hamas' capabilities and ensure security for its citizens.

b. Palestinian Territories:

The killing has fuelled protests and violence in Gaza and the West Bank. Hamas has vowed revenge, leading to increased rocket fire into Israeli territory.

"Peace will not come until the Palestinian people are able to live with dignity and self-determination"

(Mahmoud Abbas)

c. Arab World:

Several Arab nations have expressed concerns over the rising of tensions, with some calling for restraint and other offering support to the Palestinian cause.

## 2. Broader Geopolitical Dynamics :

a. Support for Militant Groups :  
 Iran continues to provide financial and military support to Hamas and other groups opposed to Israel. This support includes funding weapons, and training.

b. Proxy Conflict :  
 The tension has led to increased proxy conflicts, with Iran ramping up support for Hezbollah in Lebanon and other group hostile to Israel. Hezbollah, a key Iranian proxy in Lebanon is estimated to have over 100,000 rockets and missiles.

## 3. Impact of the Middle East :

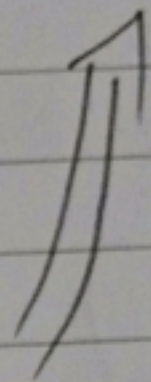
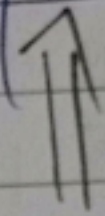
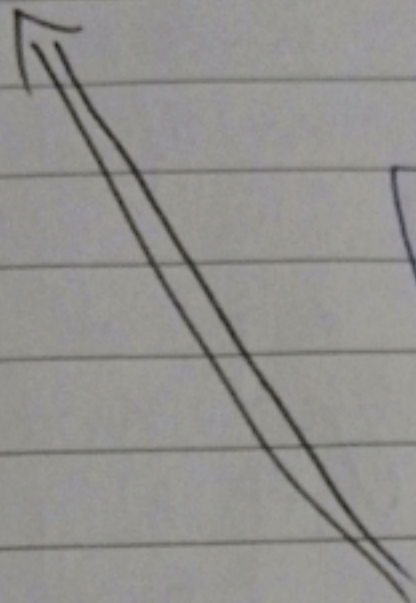
The increased tension exacerbates regional instability, affecting neighboring countries and complicating ongoing conflicts in Syria and Lebanon. Lebanon has faced severe economic instability, with its currency losing 90% of its value since 2019.



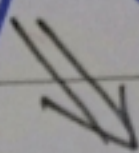
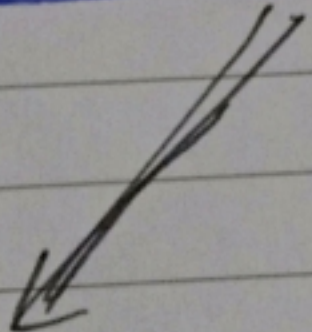
Diplomatic Engagement

Arab League  
Role

Pressure on Extremist  
Groups



Recommendations  
For Reducing Tensions

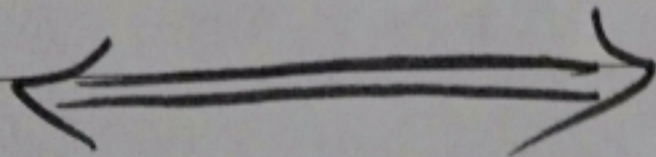


United Nations  
Involvement

International Pressure and  
Mediation

## Conclusion:

The killing of Ismail Haniyeh has intensified the already strained relations between Iran and Israel, contributing to a broader regional instability. Addressing this tension requires a multifaceted approach, including renewed diplomatic efforts, international mediation and regional cooperation. By focusing on dialogue and addressing underlying issues, it is possible to reduce tensions and work towards a more stable and peaceful Middle East.



Q No 5: US-China rivalry is shaping into increasing currency war, where US wants the continuation of dollarization of international trade while China wants to de-dollarize, if Analyze.

### Introduction:

The growing competition between the United States and China is affecting the global economy, especially in terms of currency. The US wants the US dollar to keep being the main currency used in international trade, while China aims to reduce the world's reliance on the dollar. This clash over currency has major effects on global trade, economic stability and international power dynamics.

### I. Historical Context of US-China Rivalry:

#### 1. US Dollar's Dominance:

Post world war II, the Bretton Woods Agreement established the US dollar as the primary global reserve currency, facilitating its dominance in international trade and finance.

The US dollar remains the world's dominant reserve currency, reflecting confidence in the United States" (Janet Yellen)

## 2. China's Economic Rise:

China's rapid economic growth and increasing global influence have motivated it to challenge the dollar's supremacy, seeking to enhance the international role of the Chinese Yuan.

"China has become the factory of the world but it is also become the banker of the world" (Fareed Zakaria)

## II. The US Perspective:

### i. Promotion of Dollarization:

The US benefits from dollarization through lower borrowing costs, significant control over international financial systems, and the ability to exert economic leverage.

Approximately 88% of global trade transaction involve the US dollar.

### ii. Economic and Geopolitical Leverage:

The dollar's dominance allows the US to influence global economic policies and apply sanctions more effectively against countries that challenge its interests.

"The US has influenced over the SWIFT financial messaging system, used in 11,000 institutions worldwide, enhancing its geopolitical leverage."

### III. The Chinese Perspective :

#### i- Drive for De-Dollarization :

China advocates for a multipolar currency system to reduce its dependence on the US dollar and mitigate vulnerabilities associated with dollar fluctuations and US economic policies.

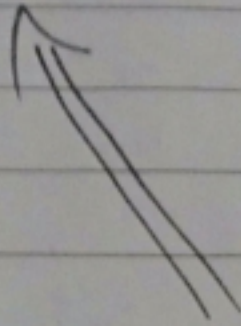
"De-dollarization is essential for China to safeguard its economic sovereignty"  
(Wang Yi)  
(Chinese Foreign Minister)

#### ii- Strategic Initiatives :

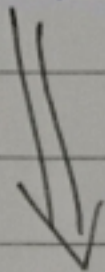
China has promoted the Yuan through various initiatives, such as establishing the Asian Infrastructure Investment Bank (AIIB) and negotiating bilateral trade agreements using the Yuan.

"The Asian Infrastructure Investment Bank (AIIB) has over 100 member countries, with \$100 billion in capital, promoting the Yuan in infrastructure financing."

Impact on Trade Relationship



Implications for Global Trade



Currency Exchange Risks

IV. Economic and Financial Stability:

A. Potential Shifts in Financial Markets:

Increased use of the yuan could impact financial markets, potentially leading to shifts in investment flows and altering the dynamics of global financial stability.

"A shift towards the yuan could redefine global investment flows and financial stability"

(Christine Lagarde  
ECB President)

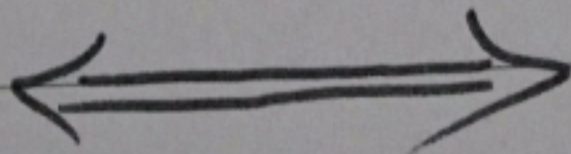
## B Challenges to Dollar Dominance:

The transition towards a more diversified currency system could challenge the stability of the global financial system, necessitating adjustments in international financial regulations.

## Conclusion:

The US-China currency war represents a critical juncture in global financial history, with far-reaching implications for international trade, economic stability, and geopolitical power.

The evolution of the rivalry will likely continue to shape global economic policies and financial systems, influencing how nations navigate the complexities of a multipolar currency world.



THE END