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Q.3:

a) Burden of state owned enterprises:

State owned enterprises have been a huge and persistent burden on the budgetary economy of Pakistan. According to finance minister of Pakistan, every day as much as 52 billion rupees loss is incurred by the national exchequer in 2024. These loss making entities have contributed to spiraling amounts of circular debt.

In 2023, Pakistani economy was on the verge of defaulting. It was bailed by 25<sup>th</sup> IMF program since its inception. With external and internal pressure mounting on Pakistan, subsequent governments have announced privatization initiatives. An exploration of the factors leading to this decision is given below.

b) Rationale behind privatization of state owned enterprises:

1) Privatization as part of larger decentralization initiatives:

In the public policy discourse, privatization of state owned enterprises is not an isolated initiative. It is viewed as a larger shift from centralized state to decentralized states. This decentralization manifests itself in the form of local government or other forms of political and administrative decentralization. State owned enterprises are privatized to fulfil the promise of devolution and decentralization.

2) From Government to Governance:

Globally, after WWII, states embarked on a journey of development. In Pakistan this period from 1947-1990 was characterized by a rapid growth of economy. As a result, state services expanded and the footprint of state owned enterprises increased. By 1970s

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the world was already moving away from government to the private sector. This was evident from the rise in 'entrepreneurial' bureaucracies in the west. In Pakistan however, Zulfikar Ali Bhutto nationalized a lot of key industries. These entities have become a burden as of now.

The recent trend in development is that of the rise of "Governance". Governance is a view different from government. In governance, the government is just one of the actors in the policy making process. In Pakistan, there is a critical need to decrease government's footprint and increase governance characterized by participatory conditions of forms of development.

Privitization hence represents a shift from government to governance.

3) To prevent state owned enterprises from becoming vehicles of political patronage:

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Another reason behind privatization initiatives is the fact that these entities have become a means for politicians to reward their client relationships. It is characterized by distribution of jobs to supporters. This leads to nepotism and makes the state owned enterprise uncompetitive.

4) To increase efficiency :

Another reason for privatization is that the private sector's profit making priority allows it to focus on achieving high levels of efficiency. Private sector is made of skilled individuals who are well versed in technology. Their operation of state owned enterprises would make it more efficient, and would also bring revenue and improve public service delivery.

## 5) Donor Conditions ::

Another reason for privatizing SOEs is that the donor agencies like IMF and world bank attach this as a conditionality in the structural adjustment program or SAP. In order to prevent its economy from defaulting, Pakistan needed the support of IMF and as a result have to fulfill the conditions attached.

## (c) How to privatize :

### 1) Principles for successful privatization

According to the strategic council that oversaw the privatization process in UK in 1999, there are some good practices that must be followed in order for privatization to yield desired results. Pakistan needs to adopt these principles if it wants to successfully implement its decentralization initiatives.

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- (i) Transparency in the privatization process and public availability of all information.
- (ii) Formation of clearly articulated rules easily understandable by all interested parties.
- (iii) Balanced risk sharing mechanism to prevent one actor from taking majority of the risk.
- (iv) Innovation is key to address project specific challenges.

(2) Types of privatization: Which way to go?

Privatization is an umbrella term comprising a vast number of initiatives. There is the very popular, public-private partnership method but PPP by itself comprises of various forms of contracts and risk sharing mechanisms.

The right approach would depend upon a form of contract which alleviates risk from the public sector.

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and place plenty of opportunities for the private sector to make profit.

(3) Privatization as an iterative process:

Instead of making one time decisions, policy makers in Pakistan should rely on an iterative approach where the successful solution is gradually arrived at instead of adopting theoretical best practices.

Pakistan's government should sign contracts that allow it to modify errors once project goals are not being reached or deviated from.

Keeping these details in view, the government can utilize the public-private partnership framework to prevent state owned enterprises from incurring heavy losses to the national economy.

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# Q: 4

## Introduction:

From 1990 signifying the end of USSR to 2017, the world was dominated by United States as the sole global hegemon.

This unipolar moment allowed United States to shape the world and its rules according to its will and while proxy conflicts waged in various parts of the world, the tensions of great power politics were largely absent.

### Rise of China:

In 2024, this dynamic is long gone now and the era of great power politics is back.

China, with a GDP of roughly \$19 trillion dollars is a competitor of the United States in all areas. When a rising power threatens an established power, conflict is unavoidable and the world order is at risk of being superseded by a new one.

existing



# Exploration of Russia-China

## collaboration :

Initially Russia-China collaboration was weak because China was more inclined to build its economy and stayed away from its ideological ally the USSR or Russia. But with astronomical growth in the past 3 decades China is posing a direct challenge to the United States.

## → United States' Containment policy:

From Barack Obama onwards, US presidents have sought to contain China in one or another. Obama developed defence ties with India to act as a counter balance to China. Trump initiated a trade war and Biden intensified this process by developing defence ties with the Pacific countries Japan, Australia and even Taiwan although that isn't formally announced. This containment policy has pushed China to the Russian orbit as both found mutual interest in collaboration increasing.

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Russia-Ukraine war and deepening of economic, strategic and geopolitical collaboration.

With the U.S pursuing its policy of containing china, the announcement by NATO that china is the "decisive enabler" of russia ukraine war come as no surprise. This means that U.S and its european allies now see china in the same light as russia, which historically hasn't been the case.

This decision to regard China as a decisive enabler of Russia-Ukraine war has brought Beijing and Moscow closer than ever before.

How Russia-China collaboration manifests itself against the established world order.

(i) Insurgent Russia and China's south-south diplomacy:

While russia is waging war to prevent NATO expansion upto its borders, china has

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bolstered its relationship with countries of the global south through its BRI project and through multilateral diplomatic platforms such as BRICS and SCO.

This has allowed China and Russia to develop greater legitimacy in the eyes of the world because the duplicitous response of the US led order on the Palestine genocide has shown the weaknesses of the existing order and the need for south-south collaboration led by China.

(ii) Multilateral diplomacy challenged Bretton Woods institutions:

The rise of BRICS and the interest of countries of the global south is a sign of rising order. Russia's ~~conduct~~ hosting of 16th BRICS summit in Kazan was a power show that sent a signal to the west that Russia has allies. Institutions like BRICS challenge the rules and regulations

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institutionalized after WWII -  
 countries from Africa, Asia  
 and Europe want to join  
 BRICS so they can promote  
 more inclusive institutions and  
 Russia and China are central  
 to this movement.

China

U.S., Russia, Iran, North-Korea:

Common victims of US aggression:

China has traditionally tried to  
 distance itself from Iran,  
 North Korea and even Russia but  
 U.S. aggression has created  
 increasing collaboration among  
 the so called "axis of resistance".

The more sanctions the U.S. threatens  
 China with the closer Russia  
 and China are going to get  
 and the more they  
 going threaten the established  
 world order. In conclusion, the  
 world order is already under  
 threat and the Trump  
 presidency will be decisive  
 in this regard.

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Q: 7

Winners and Losers in the ongoing middle eastern conflicts.

a) Actors in the middle eastern conflicts and their key interests

It is important to briefly ~~over~~view the different actors engaged actively in the middle eastern conflicts and their core interests so that winning and losing players can be objectively identified.

Actor	Core Interest
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(i)	U.S	Create stability in the region and prevent direct U.S involvement
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(ii)	Israel	Create instability in the region; create greater Israel and actively involve the united states.
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(iii) Iran Resist Israel's expansion and support Palestinian cause through its proxy groups. Protection of its proxy groups is another priority. Stay influential in the region.

(iv) Hamas and Hezbollah Prevent Israeli expansion by military means.

(v) Gulf states and Saudi Arabia Prevent the normalization of their relations with Israel from making them weak players in the region.

## Losers

(1) United States of America:

As a global superpower, engaged indirectly in Ukraine, United States' key interest is to stabilize the middle eastern region by being more assertive on Israel to stop its genocide and create lasting ceasefire between all parties.

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Instead, U.S. foreign policy has been hijacked by Israeli designs in the region. Increased military deployment in the region means that U.S. is on the brink of being dragged into a war with Iran. Israel's final aim in the region is force regime change in Iran and it wants the U.S. to do it for Israel cannot fight Iran alone as it can spread to other parts of the world.

(2) Iran: Iran's influence in the middle east was through its proxy groups. After the fall of Syria, Iran is now a weakened player. The ill-planned October 7 attacks provided much needed pretext for Israel to do what it has always been wanting to do in the region, create a greater Israel.

(3) Saudi Arabia and GCC countries:

The weak response of the Muslim nations has meant virtual impunity for Israel to do what

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it wants in the region. Their quest to normalize relations with Israel would permanently institutionalize U.S. dominance in the region. Saudi Arabia, UAE and the rest of Gulf states have emerged as weak players because they have become party to the plans of U.S. and Israel in the region.

(iv) Hamas and Hezbollah: After Oct 7, Hamas and Hezbollah have been systematically weakened by the brute force of IDF forces. They are now diminished players because Israel has conducted a genocide at their expense and their top leadership has been persecuted and eliminated one by one.

## Winners:

(1) Israel: While Israel's strategy is fundamentally flawed and will ultimately result in further attacks on its soil, its main objective of involving or ensuring the participation of United States in its wars has been



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successful. U.S. foreign policy has never been this irrational. It has lost legitimacy in the eyes of the global south. It has caused U.N to become irrelevant. So, Israel has achieved some of its objectives at the expense of U.S.

(2) Russia and China: The destabilized middle east represents prevents U.S. from focusing on Russia and China who are the main challengers to the U.S. led world order.

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Q: 8:

a) Reasons for slowing down of CPEC projects:

1) Worsening security situation in Pakistan:

In 2024, Pakistan <sup>has</sup> lost <sup>at least</sup> a thousand lives until now due to rising terrorist attacks. Moreover,

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most of these threats have forgotten security personnel in a troubling turn of affairs. This is happening in conjunction with attacks on Chinese workers and businessmen working in Pakistan.

## 2) Attacks on Chinese personnel:

After the bomb blast near Karachi airport, there was a visible shift in Chinese response. Before they never publicly criticize Pakistan for such events as it was already understood that Pakistan is doing everything it can to protect Chinese nationals working in Pakistan. The response by Chinese envoy showed that China is nearing its tolerance for such security lapses on Pakistan's end. The intensity in such attacks have steadily been rising.

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3) Political and economic Instability in Pakistan:

China has become a little cautious about further investment in CPEC as Pakistan's inability to service its current debts are frustrating private investors in China. Furthermore, political instability has created a highly charged domestic atmosphere where uncertainty is the norm. Under such volatile circumstances, China cannot risk getting involved further in Pakistan. This doesn't mean China has backed away, it means that China will wait for the political and economic situation to improve in Pakistan before making further commitments.

4) Strict conditionalities of the IMF program:

The IMF program that Pakistan is currently a part of places stringent conditions on the government expenditure. This prevents Pakistan from making much needed domestic investment in CPEC projects. The program

seeks to stabilize the macro-economic indicators of Pakistan but would make growth highly unlikely. This program was necessary for Pakistan's survival so it was agreed upon under a crisis. This precarious outlook of Pakistan has caused China to become a little cautious about its further commitments.

## b) Options to reinvigorate CPEC phase II :

1) Pakistan should get its own house in order :

Pakistan needs to improve its governance, stabilize its economy, diffuse its political tensions and gear the nation onto a new trajectory of growth. This will make Pakistan a serious partner in the eyes of Beijing. These improvements need to occur as quickly as possible so that CPEC can profit Pakistan and China.

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2) Security situation need to be improved by mutual collaboration:

The main source of insurgency in Pakistan is Afghanistan government led by Taliban.

This has emboldened TTP, ISK and others to target Pakistan's security establishment and harm its interests.

Pakistan has repeatedly conveyed to Afghan government to stop TTP from operating from its soil. In this regard, Pakistan has used coercive and diplomatic methods but to no avail.

China should use its influence to pressure Afghan government into respecting Pakistan's sovereignty. China needs to own CPEC as much as Pakistan. Increased collaboration in the security arena is must for success of CPEC II initiative.

### 3) Transparency in CPEC finances:

It is important to adopt transparent approach in finances because transparency generates legitimacy and it leads to build-up of national consensus. In order to ensure national consensus on CPEC, it is vital to adopt a transparent approach and to take Pakistani people into confidence about the future of the project. This would also lead to greater ownership and decrease in security related incidents.

### 4) Attracting foreign investment from

multiple sources:

ensuring  
In addition to greater involvement of the private sector, both sides should also try to diversify the sources of investment to prevent one partner from bearing majority of the risk.

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These measures coupled with good governance reforms in Pakistan would increase the probability of CPEC 2.0 to be a great success.

