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2<sup>nd</sup> Mock Exam

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## Current Affairs :

### Subjective Part-II

Q2: SIFC is expecting huge foreign direct investment in Pakistan from the Middle East and China. How do you see the chance of investment in Pakistan?

#### Introduction :

Pakistan's economic landscape is poised for potential transformation with anticipation of significant foreign direct investment (FDI) from the Middle East and China. Some investments hold the promise of revitalizing Pakistan's economy, fostering infrastructural development and bolstering various sectors crucial for sustained growth. However, the realization of these prospects hinges upon a myriad of factors ranging from economic stability and political environment to sector-specific opportunities and global economic trends.



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In this analysis, we delve into these factors to assess the likelihood of substantial investment inflows into Pakistan from the Middle East and China.

"Pakistan, UAE agree to enhance trade, economic cooperation" (Express Tribune)

The potential for foreign direct investment (FDI) in Pakistan from Middle East and China indeed appears promising, but several factors need consideration to gauge the likelihood of significant investment.

## Several Reasons of SIFC

### 1. Economic Stability and Reforms:

Pakistan's economic stability and the implementation of structural reforms play a vital role in attracting FDI. Reforms aimed at improving ease of doing business



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tax incentives, and trade policies can enhance the investment of climate. The ongoing China-Pakistan Economic Corridor (CPEC) projects demonstrate China's commitment to investing in Pakistan infrastructure and economic development.

"Pakistan wooes Middle East investors in bid to revive economy"  
(Arab News)

## 2. Political Environment:

Political stability is crucial for foreign investors as it ensures continuity of policies and reduces investment risks. Any sign of political instability can deter potential investors. Recent efforts by the Pakistani government to improve relations with neighboring countries and maintain internal stability and positive signals for investors.



### 3. Security Situation :

The security situation in Pakistan has improved in recent years, but challenges persist, particularly regarding terrorism and regional tensions.

A stable security environment is essential for attracting foreign investors, especially from regions like the Middle East and China, which prioritize security consideration in their investment decisions.

"Our only security is our ability to change"  
(John Lilly)

### Sector-specific Opportunities :

Pakistan offers investment opportunities across various sectors such as energy, infrastructure, agriculture, technology and manufacturing. The alignment of these sectors with the priorities and capabilities of investors from the Middle East and China can significantly enhance the chances of investment.



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For instance, Chinese investment in energy projects under CPIC and Middle Eastern investment in real estate and hospitality sectors showcase sector-specific opportunities.

### 5. Bilateral Agreements and Partnerships:

Bilateral agreements and partnerships between Pakistan and countries in the Middle East and China can facilitate investment flows by providing a framework for cooperation, protecting investors' rights and resolving disputes.

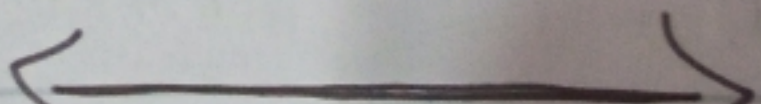
The signing of Memorandums of Understanding (MOUs) and Free Trade Agreements (FTAs) between Pakistan and these regions, the commitment to strengthen economic ties and promote investment.



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## Conclusion:

In conclusion, the outlook for substantial foreign direct investment in Pakistan from the Middle East and China appears promising (albeit contingent upon various factors). The alignment of economic policies, reforms, and incentives with the interests of political investors. As Pakistan continues its endeavors to bolster its economy and attract foreign investment, proactive measures and strategic collaboration will be pivotal in translating these expectations into tangible outcomes, fostering sustainable economic growth and prosperity for the nation.





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## Question: 3

Q: Critically evaluate the reasons why the Pakistani economy is unable to survive without the support of IMF. Also analyze the implication of bailout packages. Give recommendations.

### Introduction:

The dependency of Pakistani economy on the International Monetary Fund (IMF) is rooted in a complex interplay of factors. Firstly, structural issues within Pakistan's economy, such as chronically low tax base, inefficient public sector enterprises and a reliance on imports for essential commodities, have perpetuated fiscal imbalances and external vulnerabilities. According to IMF, "Pakistan's tax revenue to GDP ratio stands the lowest globally, indicating a significant shortage in domestic resource mobilization".

(IMF Fiscal Monitor  
(2021))



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The chronic revenue shortfall exacerbates fiscal deficit, forcing the government to seek external financing, often from the IMF, to plug the gaps in its budgetary requirements.

## Structural Weakness of IMF:

### 1. Tax Revenue Constraints:

The Pakistani economy faces significant challenging in generating sufficient tax revenue, with the tax to GDP ratio among the lowest globally.

This chronic shortfall limits the government's ability to finance its expenditure independently.

(IMF Fiscal Monitor)  
(2021)

### 2. External Sector Imbalance:

Pakistan's economy is characterized by a heavy import bill for energy and machinery, coupled with limited export diversification. This trade imbalance contributes to a persistent current account deficit and necessitating external financing.



Governance Issue

(A) Political Instability:

Pakistan's history of political instability has hindered the implementation of structural reforms necessary for economic stability. The lack of policy continuity erodes investors confidence, leading to capital flight with resilience on short-term external financial.

(World Bank Report 2020)

(B) Governance Reforms:

Weak governance mechanisms contribute to influences in public sector enterprises and hinders the implementation of fiscal and monetary policies.

Without effective governance reforms, the economy struggles to attract sustainable foreign investment and foster long-term growth.

(World Bank Governance Indicators Report 2020)



## Implications of IMF Bailout Package :

### (A) Short-term Relief :

IMF bailout package provides immediate financial assistance, stabilizing the economy during crises and averting potential default scenarios.

"No one wants a default, or to slam the doors in the IMF's face"

### (B) Stringent Conditions :

However, these packages often come with stringent conditions, including austerity measures and structural reforms. While these conditions aim to address underlying economic weaknesses, they can exacerbate socio-economic disparities and hinder long-term development.

(IMF, Pakistan Staff Report, October 2021)



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## Recommendations of IMF faced:

### i- Tax Reforms:

To prioritize comprehensive tax reforms to broaden the tax base, enhance revenue collection efficiency, and reduce dependency on external financing.

(World Bank Pakistan Economic  
2021)

### ii- Export Diversification:

To promote export diversification and the value addition to address external vulnerabilities and reduce reliance on imports.

(IMF Pakistan Country Report,  
June, 2021)

### iii- Pakistan Stability:

To foster Pakistan stability and continuity in policy implementation to restore investor confidence and attract sustainable foreign direct investment.

(Asian Development Bank  
Report, June 2021)



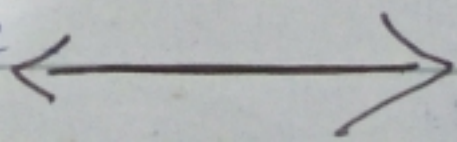
iv. Governance Strengthening :

To implement governance reforms to enhance transparency, accountability, and efficiency in public sectors institutions, fostering an environment conducive to economic growth

(World Bank Governance Indicators Report, 2020)

Conclusion :

In conclusion, Pakistan reliance on the IMF stems from structural weaknesses, governance issues and external sectors imbalances. While IMF bailout packages provide short-term relief, they come with stringent conditions that may exacerbate socio-economic disparities. To reduce dependency on external financing, Pakistan must prioritize tax reforms, export diversification, political instability and governance strengthening. These measures are essential for achieving sustainable economic growth and resilience





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## Question: 6

Q: What are the factors needed for an organization to become a success story? Apply those on BRICS and find out reasons why this organization has bright future, in spite of numerous hurdles.

### Introduction:

Success in the realm of organizations often hinges on a combination of visionary leadership, adaptability, collaboration, economic stability, resilience and adherence of core values. This holds true for both private enterprises and international conditions. The BRICS (Brazil, Russia, India, China, South Africa) organization established in 2006, epitomizes this blends of factors. Despite facing various challenges, BRICS has emerged as a significant player in the global arena showcasing its potential for continued success.



# Key Elements of BRICS:

## 1. Vision and Leadership:

Successful organizations often have a clear vision and strong leadership. In the case of BRICS, the member countries have demonstrated leadership in global economic governance, advocating for more equitable international order. Leaders from these countries have shown commitment to cooperation and have spearheaded initiatives like the New Development Bank.

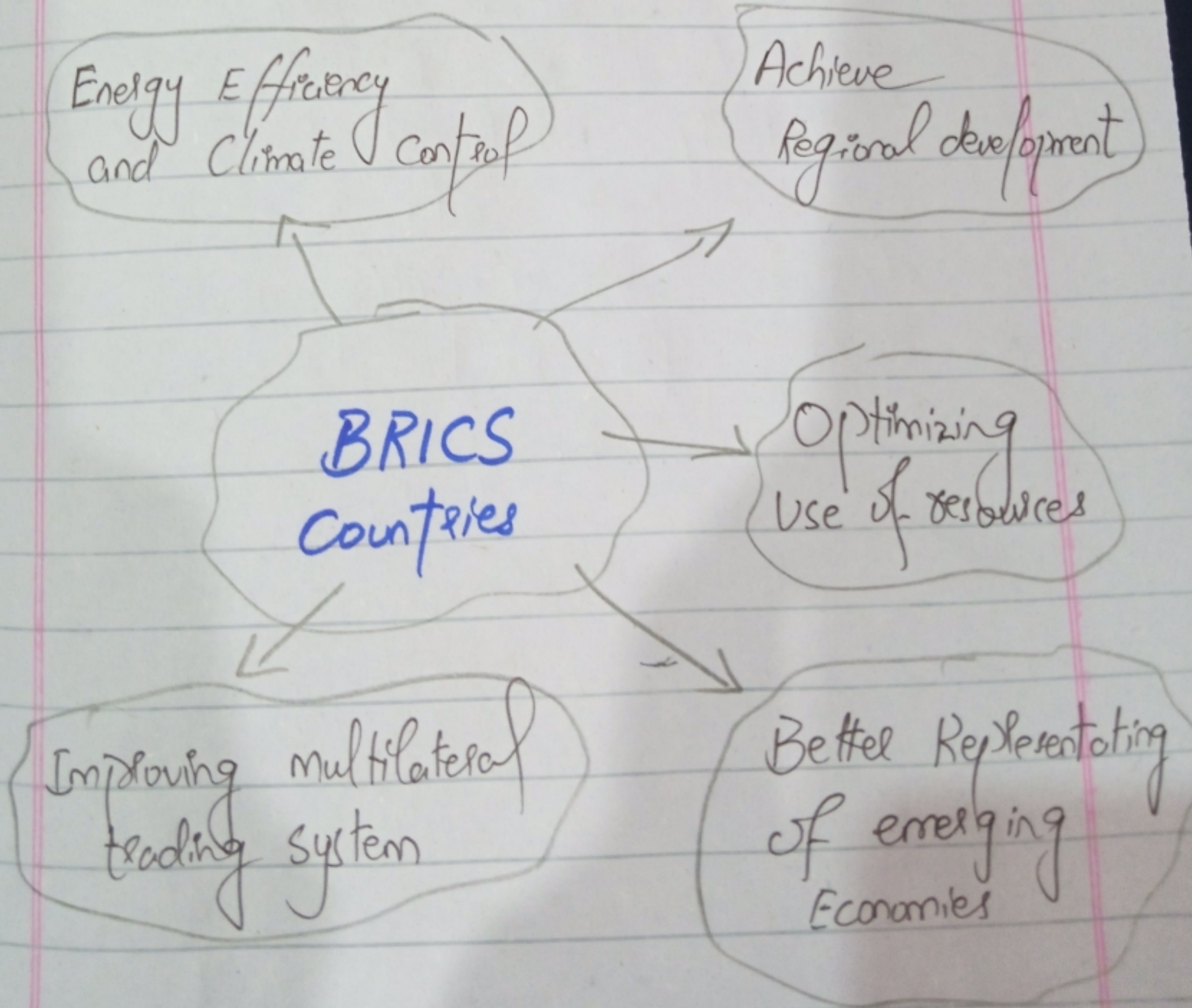
## 2. Innovation and Adaptability:

Adaptability to changing circumstances and innovation are crucial for success. BRICS nations have demonstrated innovation in various sectors, from technology (China's advancement in AI and India IT sector) to finance (Brazil banking innovations).



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Additionally, the BRICS Countries have adapted to global economic shifts, leveraging their collective strength in trade and investment.





### 3. Economic Stability and Growth:

Economic Stability and sustained growth are fundamental for success. Despite this, facing Challenging like inflation, political instability, and external pressures, BRICS countries have collectively maintained robust economic growth rates. Their large and dynamic economies offer vast opportunities for investments and development.

### 4. Collaboration and Synergy:

Collaboration among members and Synergy in policies and projects enhance the prospects of success. BRICS nations have collaborated on various fronts, including trade agreements, infrastructure development and joint research initiatives. The establishment of **New Development Banks** and Contingent Reserve Arrangements are the examples of collaborative efforts aimed at fostering economic development and stability.



"We need to work for more inclusive and resilient economic growth"

(President Xi Jinping)

5. Resilience and Persistence :

Successful organizations exhibit resilience in the face of challenges and persistence in pursuing their goals. Despite facing obstacles such as geopolitical tensions, trade disputes and socioeconomic disparities, BRICS countries have remained committed to their collective agenda of promoting inclusive growth and multipolar world order.

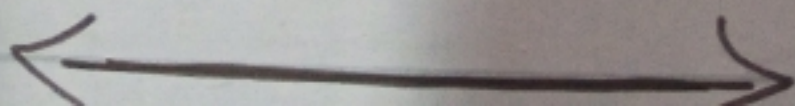
"The establishment of the New Development Bank by BRICS countries in 2014 exemplifies their commitment to economic resilience and persistence"

(New Development Bank)  
NDB 2014



## Summary of the Ideas Presented :

Despite facing numerous hurdles, including geopolitical tensions, economic disparities and global uncertainties, BRICS holds a bright future due to its collective strengths and strategic advantages. The diversity and complementarity of a member countries' economies provides a solid foundation for mutual cooperation and growth. Additionally, the continued commitment of BRICS leaders to foster collaboration, innovation and inclusive development bodies for the organization's prospects.





## Question: 7

Q: Critically evaluate the reasons for the revival of insurgency in Pakistan. How Pakistan-Afghanistan relations are affected by this? Find out ways.

### Introduction:

The revival of insurgency in Pakistan has been a significant challenge for the country with various internal and external factors contributing to its resurgence. This aims to critically evaluate the reasons behind this resurgence and analyze its impact on Pakistan-Afghanistan relations.

The insurgency in Pakistan is not only a threat to internal stability but also has implications for regional security dynamics, particularly in the context of Pakistan's complex relationship with Afghanistan.



## Reasons for the revival of insurgency in Pakistan:

Several factors have contributed to the resurgence of insurgency in Pakistan.

### 1. Historical Grievance:

Ethnic and regional grievances, particularly among marginalized groups, such as the Balochis and Pashtuns, have fueled insurgency movements. These groups perceive discrimination and neglect by the central government, leading to discontent and armed resistance.

"Long-standing grievance among ethnic minorities, such as Baloch and Pashtuns, have fuelled insurgency movement due to perceived marginalized and economic deprivation by the central government". (Rashid, Ahmad 2009)



## 2. Proxy Warfare and Foreign Support:

Pakistan history of supporting militant groups for strategic purposes, coupled with external support from certain state and non-state actors, has perpetuated the cycle of violence. Despite efforts to curb these groups, their presence continue to destabilize the country.

## 3. Socio-economic Factors:

Economic disparities, poverty, and lack of development in certain regions create fertile ground for insurgency. Youth unemployment and lack of educational opportunities exacerbate feeling for alienation and disenchantment driving some individuals towards the extremist ideologies.

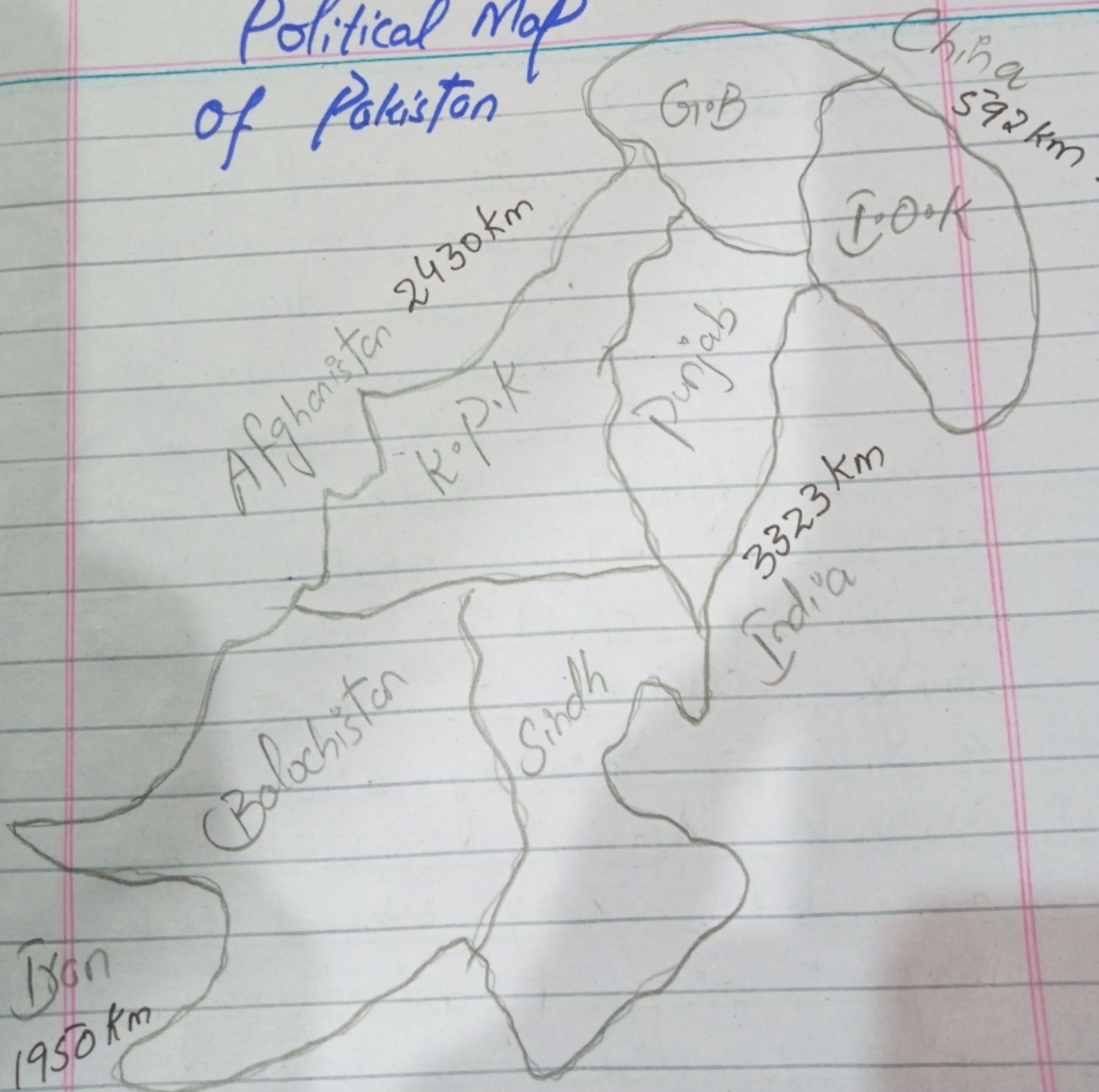
"Development is about transforming the lives of people, not just transforming economies"

(Joseph E. Stiglitz)



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# Political Map of Pakistan





4. Regional Dynamics :

The instability in neighboring Afghanistan has had a spill-over-effects on Pakistan. Cross-border movement of militants, porous borders and the presence of insurgent groups in Afghanistan contribute to Pakistan's security challenges. Sanctions for

5. Military Operation :

While military operations have been conducted to root out militant elements, they have sometimes resulted in civilian casualties and collateral damage, alienating local population and breeding further resentment.

6. Political Instability :

Pakistan's political landscape, characterized by corruption, weak governance, and the lack of consensus, undermines efforts to address the root causes of insurgency and provide effective governance in conflict-affected regions.



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## Impacts of Pakistan - Afghanistan Relation :

The revival of insurgency in Pakistan has profound implications for its relationship with Afghanistan.

### (A) Cross-border Militancy :

Insurgent groups operating in Pakistan often find sanctuary across the border in Afghanistan, leading to accusation and tensions between the two countries. This exacerbates mutual distrust and complicates efforts to address the insurgency.

### (B) Border Management Issues :

The porous border between Pakistan and Afghanistan facilitates the movement of militants and weapons, posing security challenges for both countries. Efforts to enhance border security are hindered by mutual suspicious and geopolitical rivalries.



(C) Proxy Dynamics :

Both countries accuse each other of supporting proxy forces to advance their respective interests, further complicating bilateral relations and regional stability.

(D) Refugees Crisis :

The presence of Afghan refugees in Pakistan adds another dimension to bilateral relations, Pakistan faces socio-economic challenges associated with hosting refugees, while Afghanistan accuse Pakistan of using refugees as leverage.



## Conclusion :

In conclusion, the survival of insurgency in Pakistan is a multifaceted phenomenon driven by a combination of internal and external factors. Its impact on Pakistan-Afghanistan relations is significant, exacerbating mutual distrust and complicating efforts to address shared security challenges. To mitigate the resurgence of insurgency and improve bilateral relations, concerted efforts are needed, including enhanced border management, dialogue and diplomacy, regional cooperation, socio-economic development, Counter-terrorism Cooperation and political reconciliation. Only through collaboration and inclusive approaches can Pakistan and Afghanistan effectively tackle the root causes of insurgency and promote peace and stability in the region.

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