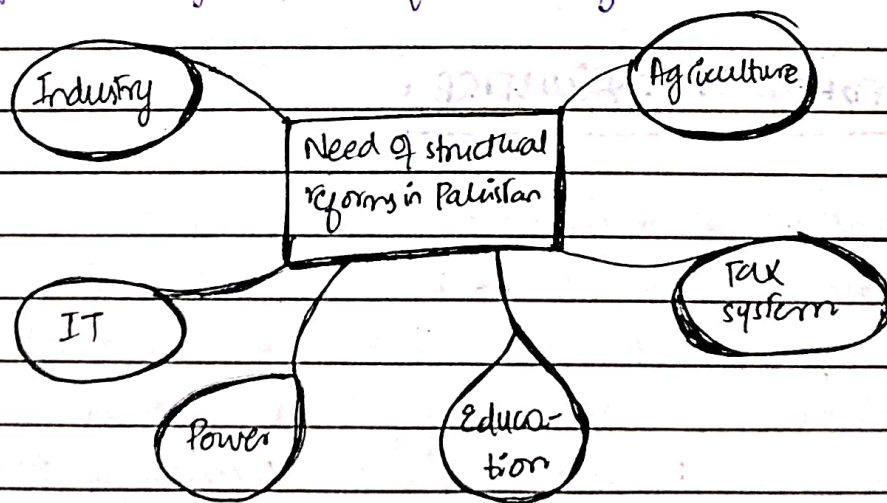


## CURRENT AFFAIRS

### QUESTION NO. 04

#### Dependency of Pakistan's economy :

The statement that Pakistan's economy turnaround is not possible without comprehensive structural reforms reflects a growing consensus among economists and policy makers. The economy of Pakistan depends on various sectors like industry, agriculture, IT, power sector and tax system. But over the past few decades, these factors are facing <sup>significant &</sup> consistent challenges including stagnant growth, high inflation, and fiscal deficits. To achieve sustainable economic growth and to improve the living standards of its citizens, Pakistan must implement comprehensive reforms in key sectors.



#### 1- Reforms in Industrial Sector:

Pakistan's industrial sector is largely dominated by textiles, which account for significant portion of

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exports. However, reliance on a single sector makes the economy vulnerable to global market fluctuations. According to the Pakistan Business Council, for sustained economic growth, it is essential to diversify our industrial base beyond textiles and invest in sectors like pharmaceuticals, automotive and electronics. Therefore, comprehensive reforms are needed to diversify the industrial base and enhance competitiveness.

### • Implementation of Technology:

A report by McKinsey & Co. highlighted that countries that invest in technology and innovation in their manufacturing sectors tend to experience higher productivity and economic growth. Therefore embracing modern technologies and improving productivity through automation can enhance competitiveness. Investing in research and development (R&D) is crucial to foster innovation.

### 2- REFORMS IN AGRICULTURE:

Agriculture sector employs nearly 40% of Pakistan's workforce and accounts for about 20% of GDP. Yet, productivity in this sector remains low compared to regional peers with yield gaps in key crops like rice and wheat. According to Pakistan Bureau of Statistics, about 36% of population is food insecure, indicating urgent need of reforms to enhance agricultural productivity and resilience against climate changes.

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### • Modern Farming Techniques:

In rural areas, there is no advanced tech and equipment for farmers therefore government must implement adopt modern farming techniques and improve the supply chain to ensure food security and increase farmer's incomes.

### • Investment in Agro-based Industries:

Developing agro-based industries can create jobs and enhance value addition in the agricultural sector. This involves establishing food processing units and promoting agro-technology. The Food and Agriculture Organization (FAO) emphasizes that investing in agro-industries can significantly contribute to rural development and poverty alleviation.

## 3. Reforms in IT Sector:

The Information Technology (IT) sector has shown promise in recent years, with an estimated growth rate of 47% in 2020-2021. However, it only contributes around 1.5% of to GDP as of 2023, suggesting significant untapped potential. The Pakistan Software Export Board (PSEB) reported that the IT industry aims to achieve \$5B in exports by 2025, necessitating reforms in education and infrastructure to foster its growth.

- **Broadband Access:** Improving broadband penetration is essential. As of 2023, only around 37% of the population has internet access, particularly in urban areas. Expanding it to rural areas is crucial for economic growth.

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## Investment in Technology:

Encouraging private and public sector investment in technology infrastructure can improve connectivity and service delivery.

### E-commerce Growth:

This sector in Pakistan is growing rapidly, with estimates projecting it to reach \$10 B by 2025. Implementing e-governance, digital payment gateways, supporting logistics and regulatory frameworks will facilitate this growth.

## 4. REFORMS IN POWER SECTOR:

Pakistan faces an energy shortfall of around 5000 MW with over 30% population still lacking access to reliable electricity, which hinders industrial growth and disrupts daily life. According to International Monetary Fund, addressing the energy crisis through reforms in pricing, governance and investment is crucial for enhancing economic growth.

### Transition to Renewable Energy:

Investment in renewable energy sources like solar and wind can reduce dependency on imported fuels, lower electricity costs and mitigate economic growth. The Sustainable Development Policy Institute (SDPI) reports that transitioning to renewable energy can help Pakistan meet its energy demands sustainably and create jobs in the green economy.

## 5. REFORMS IN TAX SYSTEM:

The well-known economist Dr. Hafiz Pasha noted, A robust tax reform is vital for increasing

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public revenues which can then be invested in social and development projects. Streamlining the tax system to make it more efficient and user-friendly is essential for encouraging voluntary compliance among taxpayers. According to World Bank which suggests that simplifying tax codes and improving the efficiency of tax administration can lead to higher tax compliance and revenue generation.

### • Digitization of Tax Records:

Implementing digital systems for tax collection and record-keeping can streamline the processes, reduce corruption and improve compliance. The FBR is in the process of digitizing its systems but further investment is needed.

### • Tax Exemptions and Incentives:

Streamlining tax exemptions and incentives to avoid abuse and ensure that they serve intended purposes can enhance fairness, transparency & accountability.

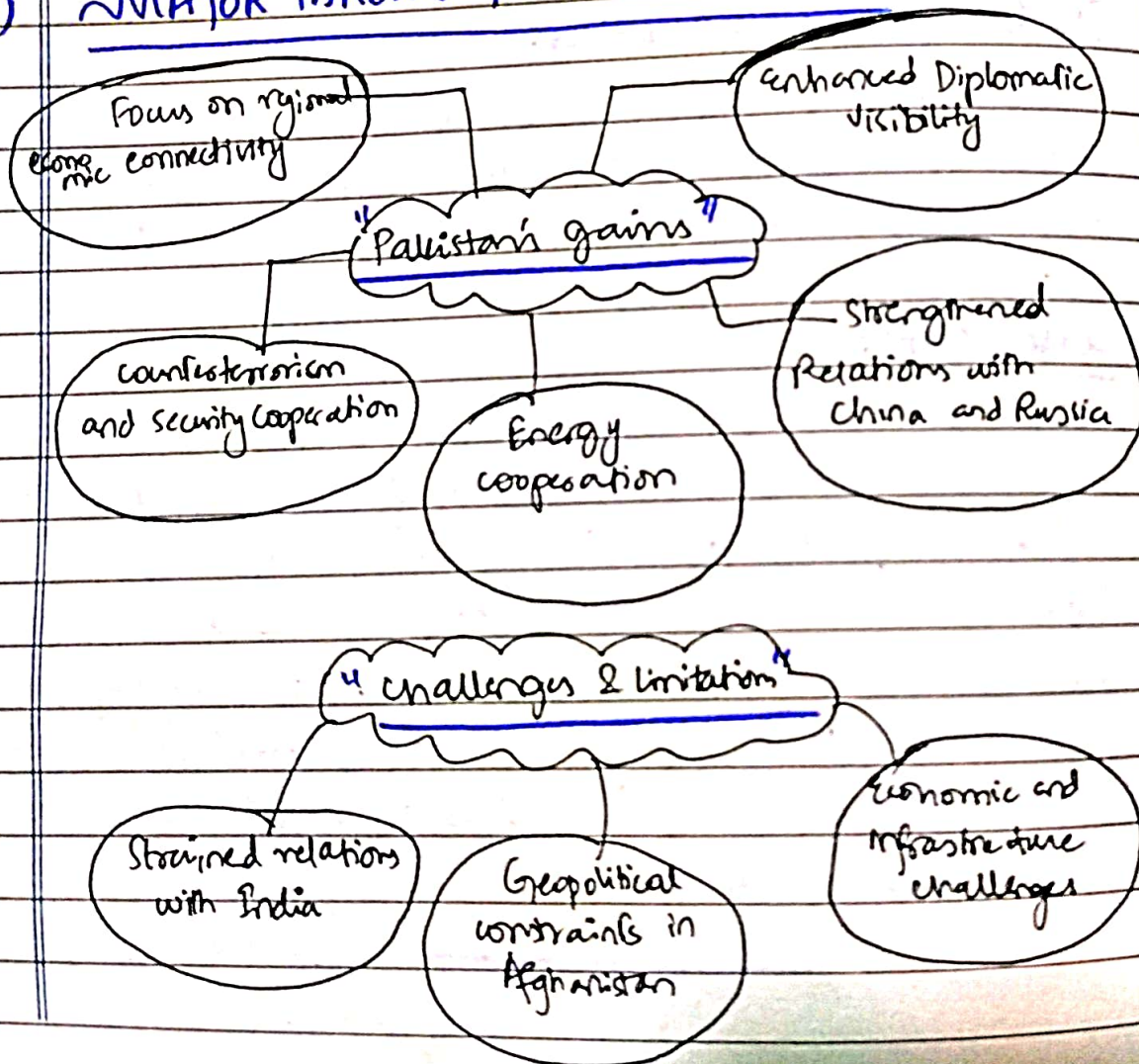
### CONCLUSION:

Reforming the industrial, agricultural, IT, power and tax system of Pakistan is imperative for achieving sustainable economic growth, enhancing revenue generation and promoting social equity. These reforms will not only help stabilize the economy but also ensure that all citizens contribute their fair share towards national development.

## QUESTION NO. 05

Pakistan's successful hosting of Shanghai Cooperation Organization (SCO) conference in Islamabad on Oct 16, 2024 has yielded multiple benefits, from showcasing diplomatic agility to reinforcing regional alliances. This event provided Pakistan with the opportunity to reinforce its geopolitical significance and economic potential in Central and South Asia. Key takeaways highlight both Pakistan's diplomatic gains and the challenges it faces in leveraging SCO for economic and security advancement.

### (A) MAJOR TAKEAWAYS FOR PAKISTAN :



(i) GAINS FOR PAKISTAN:1- Enhanced Diplomatic Visibility:

Hosting the SCO conference has given Pakistan a platform to reinforce its commitment to regional stability and multilateralism. The conference allowed Pakistan to engage directly with neighboring countries and SCO members on matters of shared interest, including security, economic development, and counter-terrorism. As former Pakistani diplomat Aziz Ahmad Chaudhary noted, the SCO provides Pakistan with an important avenue to build alliances and reduce diplomatic isolation in the region. This engagement is especially significant given Pakistan's complex relations with India, also a member of SCO.

2- Focus on Regional Economic Connectivity:

The conference underscored the importance of regional economic connectivity, particularly in light of the China-Pakistan Economic Corridor (CPEC), a flagship project of China's Belt and Road Initiative (BRI). Pakistan reiterated its strategic role as a transit hub, connecting central Asia to the Arabian Sea. The SCO members expressed interest in projects that would facilitate trade and logistics across the region, bolstering Pakistan's vision of becoming a regional trade corridor.

3. Counterterrorism and Security Cooperation:

Security and counterterrorism remained the top priorities during SCO conference, with Pakistan highlighting its experiences in fighting terrorism and seeking

collaborative mechanisms to curb extremism and cross-border terrorism. Pakistan's participation in the SCO's Regional Anti-Terrorist Structure (RATS) aligns with its goal to bolster counterterrorism strategies through intelligence-sharing and joint training exercises.

According to analyst Zahid Hussain, Pakistan's inclusion in the SCO's security framework enhances its capacity to deal with security challenges on both its eastern and western borders.

#### 4- Energy Cooperation:

Energy cooperation emerged as another focus area, with Pakistan exploring possibilities of energy trade with central Asian countries through projects like the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline and Central Asia-South Asia (CASA-1000) power project. These projects align with Pakistan's goals to diversify energy resources and reduce dependency on traditional power sources. The World Bank has noted that regional energy projects under the SCO umbrella could help Pakistan meet its growing energy needs and mitigate supply shortages.

#### 5- Strengthened Relations with China & Russia:

The SCO conference solidified Pakistan's partnerships with China and Russia. Pakistan has been actively engaging with these major powers within the SCO, seeking their support on economic and security issues. China, in particular, reaffirmed its commitment to Pakistan's economic stability through continued CPEC investment.

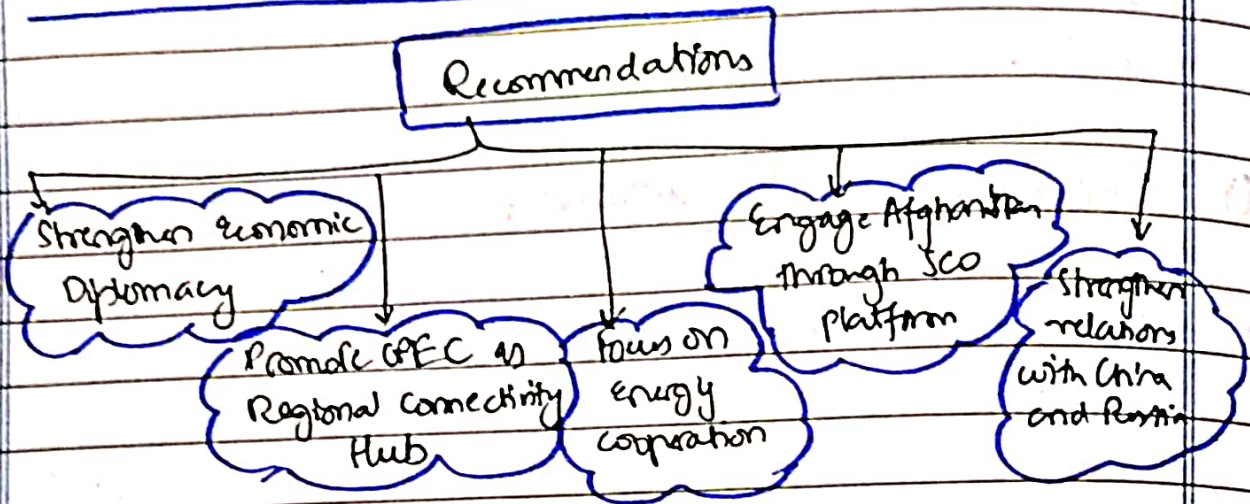


Russian reps also expressed an interest in expanding trade and defense cooperation with Pakistan, recognizing the strategic significance of South Asia in Russia's foreign policy.

## (ii) CHALLENGES & LIMITATIONS:

- 1- **Strained Relations with India:** The presence of India within the SCO poses a diplomatic challenge for Pakistan as both nations have longstanding territorial and political disputes. Although SCO's platform encourages cooperation, it may limit the extent to which Pakistan can leverage the SCO to resolve bilateral issues with India, given that the SCO does not mitigate individual disputes.
- 2- **Geopolitical constraints in Afghanistan:** Stability in Afghanistan is crucial for Pakistan's plans for regional connectivity and security. The SCO conference emphasized regional stability, but the lack of concrete resolution for Afghanistan remains a challenge.
- 3- **Economic and Infrastructure Challenges:** While Pakistan's connectivity initiatives are promising, domestic economic constraints such as inflation and fiscal deficits, limit its capacity to fully capitalize on regional projects. The lack of developed infrastructure, especially in border areas, also affects its ability to maximize benefits from regional trade and energy projects.

## (b) RECOMMENDATIONS FOR ISLAMABAD:



### (i) Strengthen Economic Diplomacy within SCO:

Islamabad should seek and prioritize economic diplomacy within SCO by actively pursuing bilateral and multi-lateral trade agreements with Central Asian states and China. By creating a ~~favorable~~ favorable trade environment and encouraging foreign investment, Pakistan can better position itself for trade between Central Asia and South Asia.

### (ii) Promote CPEC as Regional Connectivity Hub:

As CPEC remains central to Pakistan's economic and regional strategy, Islamabad should highlight CPEC's potential to link Central Asia to South Asian markets and attract SCO investments in infrastructure thus enhancing trade, logistics & infrastructure connectivity.

### (iii) Focus on Energy Cooperation:

Islamabad should also seek technical and financial assistance from SCO members for developing renewable energy projects. This will not only help meet

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domestic energy demands but also diversify our energy sources, reducing its dependence on hydrocarbons. As the Asian Development Bank noted, Regional cooperation for energy can be a game-changer for Pakistan's energy sector, improving supply while reducing costs.

#### (iv) Engage Afghanistan through SCO Platform:

Dr. Maleeha Lodhi, a former Pakistan's representative to the UN stated; A stable Afghanistan is key to Pakistan's security and regional connectivity goals, making engagement through SCO crucial. Therefore to address Afghanistan's challenges, Pakistan could leverage SCO's platform to promote dialogue between Afghan stakeholders, aiming for a collective strategy for stability.

#### (v) Relations strengthen with China and Russia:

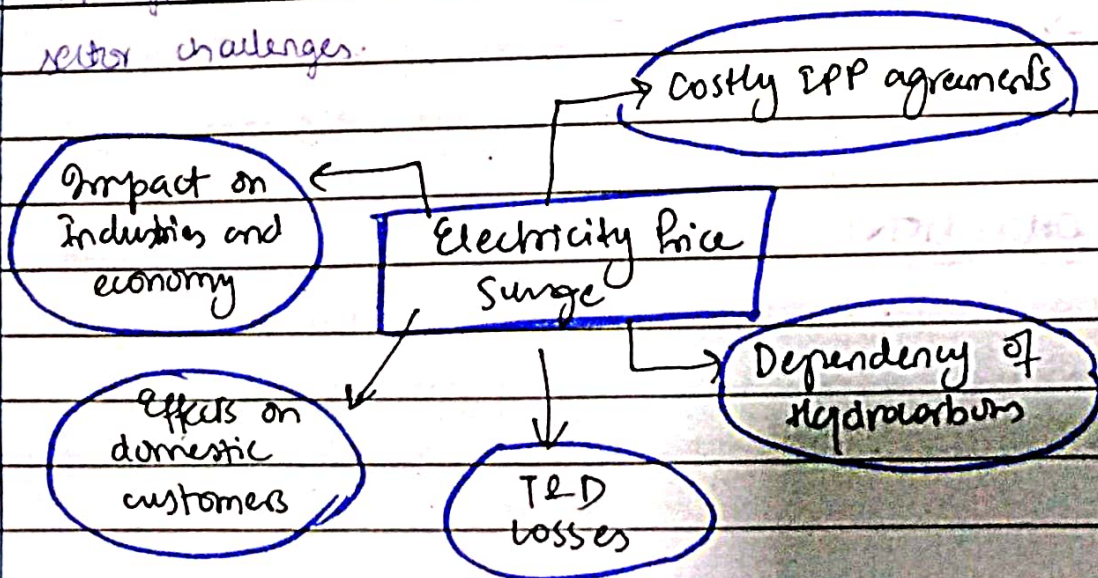
Islamabad should proactively engage with countries like China and Russia to cultivate its alliances, seeking economic, defense and technological partnerships that reinforce Pakistan's regional role. Continued engagement with these countries would solidify Pakistan's role within SCO and bolster its economic resilience.

**CONCLUSION:** The SCO conference in Islamabad provided Pakistan with an invaluable opportunity to strengthen its regional influence, enhance security cooperation and promote economic connectivity. While challenges remain, Islamabad's proactive

Engagement within the SCO framework can contribute to both national & regional stability. By fostering economic diplomacy, promoting the energy cooperation and strengthening its alliances, Pakistan can maximize the benefits of its SCO membership. However, achieving these goals will require sustained commitment, diplomatic acumen and strategic investments.

### QUESTION NO-06

The surge in electricity prices in Pakistan, driven by costly agreements with Independent Power Producers (IPPs), heavy reliance on hydrocarbons based power generation and inefficiencies in the transmission and distribution sector, has profound implications for a country's economy. High electricity costs have not only burdened domestic consumers but also severely impacted Pakistan's industrial competitiveness, and economic growth. Following text discusses and analyzes the current electricity price surge and gives recommendations to alleviate the power sector challenges.



### 1- Costly IPP Agreements:

On 1990s and early 2000s, Pakistan signed several agreements with IPPs to address power shortages, but the terms were heavily skewed in favor of IPPs, often including dollar-indexed pricing and take-or-pay clauses. This meant that the government is obliged to pay IPPs even if power is not utilized. The dollar indexation has become a financial strain due to the rupee's depreciation, inflating the cost of power purchases. According to the Pakistan Institute of Development Economics (PIDE), the pricing and terms with the IPPs have created an unsustainable financial burden on power sector.

### 2- Dependency on Hydrocarbons:

A significant portion of Pakistan's electricity - over 60% - comes from oil and gas-fired power plants. The dependency on imported hydrocarbons exposes Pakistan to international market fluctuations, which affect fuel prices and electricity costs. A recent report by the World Bank stated that Pakistan's over-reliance on thermal generation has made its energy sector vulnerable to global oil price volatility. Hydrocarbon-based generation also contributes to pollution, making it unsustainable for the environment and financially draining for the economy.

### 3- Transmission and Distribution (T&D) losses:

Pakistan's power sector is plagued by high T&D losses, which stand at over 17%, as per the

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The National Electric Power Regulatory Authority (NEPRA) these losses result from outdated infrastructure, theft, and inefficiencies in distribution networks, all of which lead to higher per-unit costs. The International Monetary Fund (IMF) pointed out that Pakistan's power sector loses billions annually due to inefficiencies and leakages in its distribution network. This directly contributes to tariff increases for consumers, placing an additional burden on industry and households alike.

#### 4- Impact on Industries and Economy:

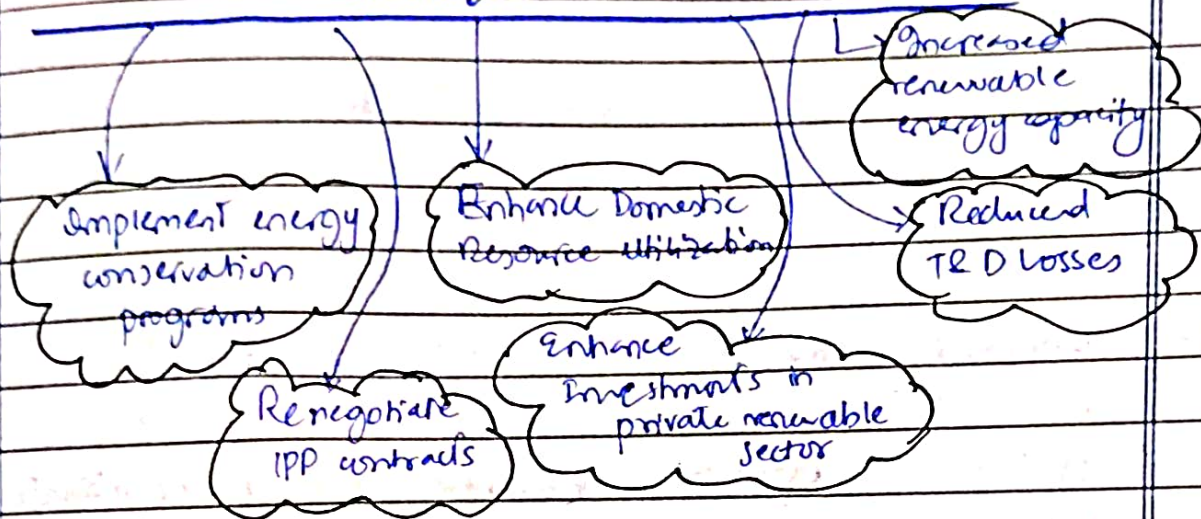
High electricity prices directly impact Pakistan's manufacturing sector, which relies on energy-intensive operations. Key industries like textiles, steel, and cement face higher operational costs, reducing their global competitiveness. A recent study by the Lahore School of Economics noted that energy costs now constitute up to 30% of total production costs in some sectors, diminishing their ability to compete in global market.

#### 5- Effects on Domestic Consumers:

The surge in electricity prices has hit domestic consumers hard, particularly lower-income households. Electricity constitutes a significant share of household expenses, leading to increased financial strain. Rising energy bills reduce disposable income, impacting overall consumption and slowing down economic growth.

## RECOMMENDATIONS TO ADDRESS POWER SECTOR

### CHALLENGES:



### 1- Renegotiate IPP contracts :

Revisiting and renegotiating IPP agreements is crucial to reducing the financial burden on Pakistan's economy. In 2020, government successfully negotiated revised agreements with some IPPs to reduce capacity payments, a positive step that could be expanded.

### 2- Increase renewable energy capacity :

As energy expert Anjad Ali stated investing in renewables is key for Pakistan's energy security and affordability. Therefore transitioning to renewable energy sources, such as wind, solar and hydropower, can help dependency on hydrocarbons. Renewable energy not only offers stable prices but also aligns with global sustainability goals. The Alternative Energy Development Board (AEDB) aims to raise the share of renewable energy to 30% by 2030, which would help stabilize prices.

### 3. Reduce T&D losses:

Investing in infrastructure improvements and modernizing the grid could reduce transmission and distribution losses. Technologies such as smart meters and automated grid management systems can help detect and address theft and technical losses more effectively.

### 4. Enhance Domestic Resource Utilization:

In a report, the Pakistan Energy Outlook stated that optimizing indigenous resources can mitigate the volatility in power costs and contribute to energy security. Therefore, developing local energy resources such as their coal and indigenous gas could lessen dependency on imported fuels and stabilize costs. However, such development should be approached with environmental safeguards to minimize carbon emission.

### 5. Implement Energy Conservation Programs:

Energy conservation measures, including peak-hour pricing, efficient appliances, and consumer awareness campaigns could reduce overall energy demand. Programs focused on energy-efficient appliances, lighting and industrial processes can reduce the load on the grid, ultimately lowering the costs. The Pakistan Council of Renewable Energy Technologies (PCRET) has emphasized that a concerted effort towards conservation can reduce national energy consumption by up to 20%.



## 6. Encourage Investment in Private Renewable Sector:

The World Bank noted that a favorable policy environment would attract up to \$10 Billion in renewable energy investment over the next decade. Streamlining regulatory frameworks and offering incentives for private investment in renewable projects can expand renewable capacity in Pakistan. The government could offer tax breaks, reduce regulatory barriers, and provide financing options for private-sector renewable projects. By facilitating these investments, Pakistan can accelerate its transition to a sustainable energy mix.

## CONCLUSION:

The ongoing hike in electricity prices due to costly IPP contracts, hydrocarbons dependence and transmission losses poses significant challenges for Pakistan's economy, affecting both industrial and domestic sectors. Addressing these issues requires a multifaceted approach - without urgent reforms, high electricity costs will continue to hinder Pakistan's economic growth and undermine the well-being of its citizens.