

## OVERVIEW

### Pakistan – Politics, Economy, Security – 2021-22

2021 was the year of adapting to a new normal after an extraordinary and pandemic-driven 2020. Lockdowns were gradually lifted and life returned to normalcy with a degree of caution, but ripples of 2020 continue to reverberate into 2022. This was in large part due to mass vaccination drives across the world. Resultantly, societies and economies gradually opened up and fewer restrictions were re-imposed when new variants of the coronavirus were discovered. In a way, policy-makers judged that COVID-19 is here to stay, thus, adapting to it was seen as the only solution. And, Pakistan was no exception. Rather here the policy-makers' job was further complicated by intricate domestic issues and economic and security challenges. The change in Kabul, escalating China-United States (US) tensions, and India's continued intransigence, meanwhile, defined the external environment.

This report is an attempt to look at where Pakistan, as a state and society, stands in key areas, relevant to our polity. It brings together essays written by experts on diverse subjects such as the strategic environment, foreign policy, internal security, domestic politics, economy, public health, and energy. A common theme, in all these essays, is that uncertainty in domestic politics and the region is constraining Pakistan's policy choices.

2021 commenced with lockdowns in place, and the government preparing to procure and receive vaccines from China, Europe, and the US. As restrictions were eased, citizens were required to get inoculated. For this, a mass-vaccination drive, supported by an effective communication strategy, was devised and implemented. Being a developing country, Pakistan's vaccination program has been a success and in large part, the government leveraged the pre-existing infrastructure and systems in place for early childhood vaccination campaigns for preventing vaccine-preventable diseases. This way, policy-makers were able to ease restrictions and gradually re-open schools, allow dining at restaurants, and permit travel at full capacity while emphasizing caution. Thus Pakistanis, much like the rest of the world, came to live with the coronavirus as a new normal. Significant progress had been made in containing coronavirus till the emergence of the Omicron variant. It is, however, reassuring that the National Command and Operations Centre (NCOC), the nerve center of COVID monitoring and vaccination drives, has been able to ensure a quick response. Dr. Javed Akram, Vice-Chancellor of the University of Health Sciences has captured these dynamics in his article.

Beyond pandemic, political instability, economic and regional challenges defined 2021 and will continue to shape events in 2022. Strategic and domestic challenges were compounded by the way Pakistan Tehreek-i-Insaf (PTI)-led government and the larger hybrid system sought to run the business of state and governance. A couple of obvious outcomes have been hyperinflation that has been piling pressure on the masses and the revival of the International Monetary Fund (IMF) program. Before analyzing political and economic challenges, it is imperative to delve into the strategic environment in which the country found itself last year.

*We are now entering the third year of COVID-19, but the pandemic has shown no signs of abating. Omicron has spread very rapidly in the country and newer variants are expected. Nearly 1.4 million have been confirmed to have been infected with novel coronavirus since the outbreak of the pandemic, while over 29000 have lost their lives. Vaccines have been available in the country for nearly a year, but over 40% of the eligible population still has to get at least one dose. It, therefore, becomes all the more important for the government to intensify the vaccination campaigns that have proven to be the best protection against the disease.*

*The good news, for the meantime, is that COVID-19 would eventually become an endemic disease, but most probably for that we need to wait for another year while keeping our guard up against it.*

*Pakistan is now close to knocking out polio, another infectious disease caused by a virus. It has completed one polio free year, but we are still far from ultimately becoming polio free. The biggest challenge for health authorities during 2022 would be to get full control of the ongoing low level environmental samples that are still positive in some of the districts. Moreover, polio vaccination campaign will have to be intensified to ensure that every child is reached and protected from the virus despite the ongoing security threat.*

*The country, meanwhile, remains chronically under-prepared to deal with any future epidemics/pandemics although it had fared better than some of the other countries in the region during COVID-19. Therefore, special emphasis needs to be placed on building capacity in terms of disease surveillance, outbreak management, mass vaccination, and contact tracking and tracing.*

*A bigger challenge that has been continuously paid little attention is the growing burden of the epidemic of non-communicable diseases especially diabetes and cardiovascular ailments. Healthy lifestyles need to be encouraged to deal with this problem, which has been overstressing the already heavily burdened healthcare system, besides hindering the attainment of development goals including poverty reduction, human security, economic stability and health equity. Annually 50 per cent of deaths in Pakistan are because of NCDs.*

## FOREIGN AFFAIRS

In 2021, the geo-strategic environment around Pakistan experienced seismic change. Former Foreign Secretary Ambassador Salman Bashir and Former Defence Secretary Lt. Gen (R) Asif Yasin Malik have evaluated in detail the external challenges confronting Pakistan. In February 2021, a surprise thaw in the frosty Pakistan-India relationship was announced when militaries of the two countries recommitted to upholding the 2003 ceasefire arrangement at the Line of Control (LoC) and agreed to address the ‘core issues’ which could undermine peace and security. This development was followed by reports that both sides had been exploring ways to break the logjam on the Kashmir dispute via a high-level backchannel. The immediate impact of the resumption of the ceasefire was the restoration of peace and tranquility along the LoC. The bilateral relationship, however, remained frozen largely because of Delhi’s unabated venomous political rhetoric against Pakistan, inflexibility over normalization, and the continuing human rights abuses in Occupied Kashmir.

Towards the end of the year, Pakistan signaled openness to India’s virtual participation in the summit of the South Asian Association of Regional Cooperation (SAARC), as and when it is held in Islamabad. The proposal was made by Foreign Minister Shah Mahmood Qureshi to overcome the stalemate on Pakistan’s hosting of the Summit of the regional body because of Indian opposition. The offer was soon afterward rejected by India.

It is believed that in the absence of any sudden development or an event, the status quo would continue between Islamabad and New Delhi. Instead of raising diplomatic costs for India for its policy of disengagement and hostility, Pakistan has been offering diplomatic concessions in the vain hope of mollifying Modi’s hardline government. This strategy has, however, not yielded any breakthrough. It is certain that unless Pakistan reimagines its India strategy, using all elements of national power, India will not feel any pressure to engage with Pakistan on an issue that is of its vital national interest. Until then, quiet engagement will focus on managing tensions as a quasi-certainty along Pakistan-India borders and Kashmir, which is expected to spare some bandwidth for Pakistan to pay attention to other pressing challenges.

Conflict in Afghanistan entered a new phase with the departure of foreign troops and the ascendance of the Afghan Taliban to power in Kabul. The impact of the change in Kabul, resulting from the sudden exit of President Ashraf Ghani and the collapse of the US-trained Afghan National Army,

continues to influence not only Afghanistan's domestic politics but the regional security environment as well. While proclaiming a new Islamic Emirate, the Taliban celebrated the 'downfall' of an empire and vowed to usher in a new era of peace and stability. The world and particularly the regional countries are gradually adapting to the shift in power as otherwise a major escalation towards civil war is feared. For now, an uneasy peace prevails while the Taliban administration is seeking diplomatic recognition and economic aid from regional countries, Muslim nations, and the world at large. The international community, however, has pressed the Taliban to take demonstrable actions against various terrorist groups operating on Afghan soil; respect human rights, particularly the rights of women; form an inclusive government with the representation of all political, ethnic, and religious groups, for earning recognition by the world.

Taliban control of the conflict-ridden nation led international donors to suspend most of the development funding, and the US froze Afghan foreign exchange assets worth billions of dollars. This has germinated a new crisis, where a country economically dependent on foreign aid is rapidly spiraling downward and a humanitarian disaster looms large. If it is not addressed on an urgent basis with timely intervention, then, a new wave of migrants can flow towards Pakistan, Iran, Turkey, and onwards to Europe. Pakistan launched a diplomatic campaign to highlight the evolving crisis in Afghanistan and hosted an extraordinary session of the Council of Foreign Ministers of the Organisation of Islamic Cooperation (OIC) in December 2021. Such initiatives would need to continue to ensure that the suffering of Afghans could be alleviated.

Beyond these issues, an increasingly multipolar world is throwing up new challenges for Pakistan. In 2021, the escalating China-US competition for global dominance continued to put Pakistan in a tight spot. Pakistani leadership, both civil and military, however, in line with its commitment of not becoming part of 'camp politics' sought to simultaneously engage with the US and deepen its relationship with China. In practice, it proved difficult. Prime Minister Imran Khan has waited for a conversation with President Biden, ever since he took office at the start of 2021, even though dramatic developments with far-reaching impact happened in Pakistan's neighbourhood. It appears from the way the Biden administration has engaged with Islamabad that for it Pakistan's importance has diminished. Now that Pakistan is seeking a new chapter in its relationship with the US based on trade and investment ties, substantive content, unfortunately, is lacking.



Although the US remains important for Pakistan in the multilateral and regional contexts, the strategic deadlock that we are witnessing is likely to persist in 2022 because in Washington's eyes competition with China is an overriding priority. The longer this situation persists, the more mistrust it would generate. This was on display when Washington invited PM Khan to attend the virtual 'Summit for Democracy' hosted by President Biden in December. After deep reflection, Islamabad politely declined.

Pakistan would, therefore, continue to face foreign policy and economic pressures in 2022 chiefly because of its strained ties with Washington.

Meanwhile, Pakistan's engagement with China deepened as Pakistan's military inducted new Chinese-built tanks, frigates, and air defence systems during 2021. The new year started with the military officially confirming the long-speculated acquisition of the Chinese J-10C fighters. It is said that the first of these jets would reach Pakistan in time to take part in the March 23 Pakistan Day Parade.

Furthermore, Pakistan sought to consolidate gains of the first phase of the China-Pakistan Economic Corridor (CPEC) and maintained high-level coordination with Beijing to keep the relations on track. For Pakistan, the priority needs to be the operationalization of the second phase of CPEC and ensuring a secure and enabling environment for Chinese businesses. Besides, Pakistan needs to enhance high-level coordination and consultation with the Chinese leadership on regional issues, particularly, Afghanistan and the Indo-Pacific.

Similarly, in the Gulf, new dynamics are at play. Gulf states are establishing diplomatic relations with Israel, while Iran and Saudi Arabia are in talks to ease tensions. Even Turkey has re-engaged with the Gulf as it deals with the spiraling economic crisis. Pakistan needs a well-thought-out strategy to attract investments from key Gulf nations, like Saudi Arabia and Qatar, that are known for leveraging their economic clout for diplomatic gains. Meanwhile, coordination with Iran needs to be enhanced, particularly on evolving situation in Afghanistan. Deeper economic cooperation and trade, possibly through barter means, can play a crucial role here. This is in line with the economic security via the geo-economic vision of the newly adopted National Security Policy (NSP) of the PTI government.

In 2022, PTI will focus on the implementation of NSP. It is a commendable effort at putting together a coherent national vision and identifying challenges – traditional and non-traditional – that are

hindering human development and economic growth, besides undermining national cohesion. NSP has described human development and economic security as pivotal for national security. It remains to be seen if the PTI government can take along provincial governments and other stakeholders while striving to realize the lofty goals set in the NSP. The key for advancing economic security is resource redistribution, on which NSP remains silent.

*2022 would not be an easy year for Pakistan's foreign policy. Deteriorating economy, uncertainty in Afghanistan, the rising tide of extremism in India and Delhi's hardline on normalization with Pakistan, extreme repression by Indian troops in Occupied Kashmir, and strategic US-China rivalry would set Islamabad's foreign policy agenda.*

*Islamabad will enhance assistance for Taliban government to alleviate Afghanistan's twin humanitarian and economic crises. Meanwhile, at the political level, Pakistan's leadership would have to proactively manage relationship with Taliban government in Afghanistan though Tehrik-e-Taliban Pakistan's presence there and its expanding ability to conduct attacks across Pakistan will continue to be a major irritant in ties with Kabul's de-facto rulers. Similarly, the border fencing issue will have to be deftly managed, which is expected to be completed this year. There would at the same time be increased pressure for extending diplomatic recognition to the Taliban government, but Islamabad should continue to emphasize collective regional recognition (along with Central Asian neighbours and Iran) instead of taking a solo approach.*

*Pakistan-China relationship remains on a positive trajectory but would require to be handled more adroitly by Islamabad to maintain that course. Strategic communication and coordination on regional issues between the two will intensify during 2022. It is likely that Pakistan and China would, moreover, enhance their cooperation and coordination on Afghanistan. On CPEC, Pakistan would have to improve the security of Chinese citizens working on CPEC projects in view of last year's incidents in which the Chinese were targeted. Besides, one-window facilitation for Chinese investors is likely to be realized during 2022 for buttressing business-to-business relations.*

*Pakistan has continued to avoid bloc politics in the midst of intensifying new cold war in line with its policy of improving relations with Washington, upgrading cooperation with Moscow, and deepening existing strategic and economic engagement with Beijing. This foreign policy direction would be maintained in 2022. For this to materialize, Islamabad would have to delicately balance competing pressures from Washington and Beijing.*

*Tensions with India will continue, though military confrontation between the two countries is unlikely unless some extreme event pushes the two arch-rivals in that direction. A faceoff is the last thing either country needs right now.*

*Border security and the presence of terrorist groups and criminal gangs on either side of the Pak-Iran border would keep testing the resilience of the bilateral relationship.*

## INTERNAL SECURITY

On internal security, the past year witnessed a major resurgence of terrorist violence. Mr. Safdar Sial has examined data and trends impacting the internal security environment. Foremost, this surge is linked to the changing dynamics in neighboring Afghanistan. Banned Tehreek-e-Taliban Pakistan (TTP), Islamic State Khorasan Province (IS-KP), and two Baloch insurgent groups – Balochistan Liberation Army (BLA) and Balochistan Liberation Front (BLF) – were the major perpetrators of violence during the year. According to data compiled by the Pak Institute for Peace Studies (PIPS), these groups perpetrated over 80 percent of the total 207 attacks across the country. These attacks claimed the lives of more than 330 civilians and nearly 270 security personnel, an increase of over 50 percent from 2020. It is feared that the gains made during 2013-17 could be reversed if this upswing in terrorist attacks is not addressed in a timely manner. Pakistan is still dealing with the aftershocks of a terrorist attack on Chinese workers at the Dasu hydropower project site.

Taliban takeover of Afghanistan emboldened TTP, which has also diversified its targets in Pakistan. The failure of the government's peace negotiations with TTP held on Afghan Taliban's prodding and immediate resumption of attacks by the terrorist group after the end of a brief ceasefire leaves little doubt about its planning and the resources at its disposal.

Thus, in 2022, Islamabad needs to show strong political will and determination for sternly dealing with TTP. It is necessary that the gains made during Operation Zarb-e-Azb and its successor Operation Raddul Fasaad are not lost. Afghan Taliban's approach on the issue of TTP fighters in Afghanistan and fencing of the border will directly impact Pakistan's internal security dynamics. The government should, however, handle this matter delicately.

*As no letup is expected in the short term in challenges confronting the Taliban regime in Afghanistan including those linked to governance, economic management, security, and intra-Afghan reconciliation, Pakistan will also continue to feel the heat of evolving Afghan situation including in terms of increased militancy, cross-border terrorism and even border tensions/insecurity.*

*TTP has intensified attacks inside Pakistan. At the same time, Afghan Taliban are also seemingly pushing Pakistan by adding to its border insecurity and not acting against the TTP apparently with a purpose to extract concessions in bilateral and multilateral perspectives. All this does not bode well for Pakistan's internal and border securities. Pakistan's security challenges are, therefore, only to compound in coming months.*

*The insurgent violence is feared to increase in Balochistan too. For one, BLF claimed a major attack on January 26 in Kech that martyred 10 FC soldiers. The emerging situation in Afghanistan, which shares a long border with Balochistan, is also not only adding to insecurity at the border but also encouraging militant groups to be ready to take benefit of it. Nonetheless, the government's high-handed policies have tended to further aggravate the sense of alienation among the Baloch. The issue of missing persons will also continue to be a major point of reference in the center-Baloch relations.*

## CYBER SECURITY

In the realm of cyber security, financial services industry and the Federal Board of Revenue were the prime targets of cyberattacks in Pakistan during the latter part of 2021. There was a significant increase in phishing attacks on end-users resulting in many being deprived of their hard-earned money. Country's leadership too was, reportedly, a target of digital espionage. With the launch of the Electronic Voting Machine, the government announced a bug bounty of a million rupees setting good precedent.

Nevertheless, the government took a leap of faith to approve the National Cybersecurity Policy 2021, which provides a solid foundation for protecting the digital ecosystem in the country.

The Ministry of IT and Telecom conducted a cybersecurity hackathon to pick and acknowledge upcoming cybersecurity talent, which is surely a step in the right direction to build a strong cyber security workforce in the country.

For most of those in the business of cybersecurity and protecting organizations from cyberattacks, it was also perhaps a very active year. The onslaught was unrelenting, and for some organizations, overwhelming.

As stay-at-home orders rippled, we saw office blocks turn into ghost towns virtually overnight. Workers retreated to the comfort of home offices, creating a feeding frenzy for cyber predators spurred on by the windfall of easy access to sensitive data and networks. At the same time, fear, concern and curiosity surrounding COVID-19 provided the perfect cover for a record-setting increase in cyber attacks.

In 2022 supply chain attacks will become even more common . Cybercriminals will realize that these supply chain attacks are an effective way to cause maximum disruption. In 2022, we can expect to see even more cyberattacks due to the increased number of IoT devices. With cyberattacks becoming more prevalent in the healthcare space. Threats will become all too real when an upcoming attack results in disruption and death.

## **ECONOMY**

On the home front, economic mismanagement continues to drive political discontent because rising inflation is making the everyday life of ordinary citizens difficult. Mr. Faran Rizvi has unpacked the economic landscape of the country at a time when the PTI government is moving to revive the IMF program by completing ‘prior actions’, which include constraining public spending, levying new taxes, and withdrawal of exemptions. Economic pressures are, in fact, deepening political strife within the country, besides pushing common people to resort to violence.

Fundamentally, in the short-term, Pakistan’s economic policy managers are faced with a three-pronged challenge: dealing with a difficult regional environment and the economic fallout of change in Afghanistan; arresting depreciation of PKR, and taming inflation driven by rising international oil and commodity prices.

2021 witnessed the PTI government replacing its second Finance Minister Dr. Hafeez Sheikh with Mr. Shaukat Tarin and further empowering Governor State Bank of Pakistan Dr. Reza Baqir. For most of the year, the government hesitated in returning to the IMF on the pretext that it would entail raising rates of essential utilities (gas and electricity) and petroleum levy with direct impact on the cost

of transportation of people and goods across the country and manufacturing. New Finance Minister Shaukat Tarin after taking charge of the finance ministry sought to renegotiate IMF's stringent conditionalities, but, the lender of last resort refused to budge. Mr. Tarin attributed IMF's tough approach to the prevailing geo-strategic environment owing to the Afghan situation.

By the end of the year, the government introduced a mini-budget raising the tax rate on daily use items to 17 percent while withdrawing exemptions. The PTI government, moreover, granted unprecedented autonomy to the State Bank to target inflation and placed new restrictions on the government's borrowing from the Central Bank. Through these actions, the government paved the way for securing the USD 1 billion loan tranche under IMF's Extended Fund Facility that had been stalled since April 2021.

Meanwhile, key economic indicators continue to highlight the economic turmoil that is underway. First, Pakistan's present rate of inflation (12.3 percent) is nearly double that of India (5.59 percent) and around 2-3 percent points higher than that of regional peers -- Sri Lanka and Bangladesh. Second, PKR witnessed steady erosion from 152 rupees to a dollar in May 2021 to 180 rupees to the dollar. This has further exacerbated inflation and significantly increased general price levels. Third, the trade deficit widened by over 100 percent for the first half of FY 2021-22 (July-Dec) crossing the USD 25 billion mark, which compares unfavorably with USD 30 billion at the time when the PTI government took office in 2018. Imports during the July-Dec period touched USD 40 billion while exports stood at USD 15.1 billion. It appears the trade deficit will reach an all-time high by June 2022, when the financial year ends. On the positive side, remittances during the same period witnessed an upward trajectory and touched the USD 15.8 billion mark.

Besides, on PTI's watch, external debt has risen from USD 95 billion in August 2018 to USD 127 billion by the end of 2021. The government claims that it is relying on external borrowing to pay past loans. However, the rise in external debt indicates that foreign borrowing is being used to meet current expenditure. For the year 2021-22, the government raised its current budget by a trillion rupees, a rise that is not tenable.

For the poor segments, the PTI government had introduced the Ehsaas programme, which was widely regarded as a success story. However, rising inflation has eroded any meaningful impact that cash handouts and targeted small-scale subsidies can make. In 2022, inflation is set to further increase, as



government implements a 4 rupee per liter increase in petroleum levy to push it towards 30 rupees per liter from about Rs. 13 at present.

In PTI's thinking, Pakistan's economic challenges can be offset through raising revenues (imposition of new indirect taxes), more borrowing (external and domestic), and lending at low-interest rates to small and medium enterprises with no collateral requirement. These measures, however, exacerbated the economic pain being experienced by the people and contributed to economic mismanagement. As inflation becomes unbearable and the current account deficit increases, it will translate into political discontent, enabling Opposition to target the government more effectively.

*Pakistan's GDP growth continues to remain healthy, supported by improving domestic demand and accommodative monetary stance. Despite the increase in policy rate by 275bps, as SBP removed monetary accommodation owing to high inflationary pressures, the monetary environment continues to stand at negative real interest rates.*

*Pakistan's economy is expected to grow by 4.8% in FY22 as it will continue to benefit from the improvements in the financial viability of the power sector as well as the enhanced efforts for export competitiveness. Despite strong export growth, current account is expected to shoot to USD 15.5bn (4.5% of GDP) as the oil import bill is set to double to approximately USD 20bn.*

*Increase in fuel inflation because of higher oil prices as well as the energy tariff hike for mitigating the circular debt will expectedly keep inflation as high as 11% for the entire FY22. However, the recently passed mini-budget will bring some fiscal consolidation in order to enable Pakistan post a positive primary balance while enabling it hold fiscal deficit at about 7.1% of GDP.*

## ENERGY

Beyond the economy, it is the energy landscape that will consume most of the governance bandwidth during 2022. Dr. Ilyas Fazil has delved into the dynamics of the energy landscape of Pakistan and suggested increased production and consumption of local furnace oil as the key to dealing with the challenges arising due to gas shortages and problems being faced by the local refineries as a result of reduced uptake of the product by the power generation companies. Meanwhile, Arooj Asghar examined issues facing the power sector, particularly, the governance of the distribution companies (DISCOs).

During 2021, the country suffered gas shortages twice (first in early 2021 and later towards the end), as a consequence of the government's failure to timely import RLNG cargoes for meeting peak winter demand. In parallel, lower production from domestic sources aggravated the crisis.

In the gas sector the shortages are projected to grow in 2022. Currently there is a deficit of 1300 mmcf/d. Therefore, reliance on imported LNG is increasing to meet this shortfall especially because of rapidly depleting indigenous reserves that are reportedly declining by 9% annually. The capacity of import infrastructure is limited, which will have to be urgently expanded. The existing two LNG terminals have a cumulative capacity of about 1400 mmcf/d, which can be increased by another about 600 mmcf/d in a relatively shorter time. Two more LNG terminals are planned, besides couple of virtual pipeline projects that have also been approved by OGRA. But regulatory and other bureaucratic approvals have been a major impediment towards the realization of those projects. It may take at least two years for setting up of these terminals after the approvals have been accorded. Sky rocketing prices of LNG in the international market, moreover, made procurement even more difficult making some of the long term suppliers to default on delivery. LNG price last year hit an all-time high of \$56.33/MMBtu in October. The market is likely to soften up this year unless some international crisis or sudden increase in demand once again causes its tightening.

The government has, moreover, expressed its intent to push ahead with domestic exploration. That too would take few years to materialize if new reserves are discovered.

International energy prices remained on the higher end during the past year, because of which fuel cost of power generation from imported coal, LNG, and furnace oil rose by nearly 25 percent by the end of the year and this trend will persist into 2022. An indicator of it is the higher oil import bill, which increased by over 110 percent to USD 10.1 billion during July-December, 2021.

In the power sector, base tariff has consistently gone upwards on account of unprecedented fuel price adjustments and IMF's requirement of 'prior actions' for unfreezing its funding program. In December alone, DISCOs were allowed fuel cost recovery to the tune of Rs. 4.75 per unit, in addition to a host of new taxes, which has raised the cost of per unit electricity in off-peak hours to nearly Rs 22 per unit. This trend is expected to continue throughout 2022, to ensure full cost recovery for base tariffs along with adjusting the impact of the rising cost of imported fuel.

*The Oil Industry bounced back in 2021 showing a growth of 15% over 2020 for Petrol, Diesel, and HOBC. 2022 is promising to be a year of further growth with an expected uptick in the economy.*

*The year is also likely to be a challenging one for the industry amid record-high oil prices and worsening PKR/USD parity. These two factors coupled with increased consumption are expected to strain the working capital of the industry, which operates at a fixed margin. Compared with 2020, these factors have almost trebled the working capital requirements for the industry since prices of MS and HSD alone have more than doubled compared with averages of 2020.*

*The above factors are also like to put immense pressure on the balance of payments for the country. This along with the tax rates on petroleum products that the Government has so far managed to keep at a low level are also likely to come under pressure if the revenue targets are to be met.*

*Growing circular debt, the rising cost of electricity, and inefficient distribution companies would continue to define the power sector during 2022.*

*In the gas sector, the shortages are projected to grow in 2022 from the current deficit of nearly 1300 mmcf/d as a result of which there will be enhanced reliance on LNG imports to meet the shortfall. Therefore, the trends to watch during this year would be the efforts for capacity addition, particularly whether or not the government moves to remove the bureaucratic red tape holding up the establishment of new LNG terminals and gas prices in the international market.*

## DOMESTIC POLITICS

Meanwhile, domestic politics in Pakistan is at a crucial juncture. The hybrid experiment has run its course and is experiencing turbulence as analysed by Raza Rumi in his analysis. All key stakeholders are nervously watching the unfolding events and waiting for the other players to make a move. In November 2022, a new army chief will have to be appointed and the next elections are scheduled for October 2023. Decisions taken in 2022, thus, will set the future trajectory of the political landscape of the country for the next few years.

Though the hybrid experiment had been underperforming for the past three years, it kept propelling forward because of the direct stakes of some of the key functionaries. It was the crucial behind-the-scenes support that enabled Prime Minister Khan to take a vote of confidence after a surprise defeat on the single Islamabad senate seat, whose electoral college was also the National Assembly. By year-

end, the health of the relationship between the government and military was a subject of intense speculation. The systemic shocks triggered by the controversy over the appointment of the new director-general of Inter-Services Intelligence was a moment of realization for the military that time has come to open space for other political actors. The standoff created an impression that two key principals— PM Khan and COAS Gen Bajwa – were no longer on the so-called ‘same page’.

Looking back, it appears, that PM Khan chose the wrong issue to assert his executive authority and that too in a matter that the military views as its exclusive ‘institutional domain’. This intransigence when combined with the failure of PTI to govern effectively has made continued support to PTI a liability for its supporters within the national security elite. Meanwhile, the upcoming decision on the appointment of a new army chief, which is bound to impact the political landscape, is being watched closely by all sides – PTI, opposition parties, and the military itself. Given the way, dynamics unfolded in 2021, uncertainty would mark 2022.

For now, pressures from multiple sources are emanating and taxing the PTI government, particularly, PM Khan. In a telling indicator, during 2021, ten by-elections for national and provincial assemblies seats were held and PTI lost all of them. It appears voters are punishing PTI ticket holders for the economic misery being faced by them. The year ended with PTI suffering a humiliating defeat in the first round of local government elections in its traditional stronghold of KPK. Its rout in KPK raises serious questions about the electoral prospects of PTI in upcoming general elections. Though PM Khan, subsequently, dissolved his party’s provincial structures in a bid to reorganize the party cadres at the grassroots level it may, however, prove to be too little, too late.

Legal troubles of PTI as a party and its leadership are also growing. The Election Commission has moved ahead with a long-stalled foreign funding case against the PTI. An adverse ruling, in that case, can have ripple effects on PTI and its leadership.

Moreover, PTI’s push for the introduction of electronic voting and giving 9 million overseas Pakistanis the right to vote in their constituencies can at some stage precipitate a serious standoff with opposition parties because of their unresolved reservations on these two very crucial matters. Such a situation would add a new layer of instability within the system.

Meanwhile, the political opposition – represented by PML-N, PPP, and JUI-F among others – experienced a roller coaster ride during 2021. The diametrically opposite approaches of PPP and PML-N on the way forward led to PPP quitting the combined opposition alliance of the Pakistan Democratic Movement (PDM) in early summer. Divided opposition, thus, could not present any credible and potent challenge to the government.

As space is gradually opening up for the political opposition, a credible challenge in the shape of a no-confidence vote can be mounted. PDM has announced a long march towards Islamabad by the end-March, while PPP has given a call for end-February. Street agitation would have to be translated into an attempt at in-house change, for it to be meaningful. But, the window is too narrow.

A crucial trend that emerged during 2021 was the resurgence of religious political parties. JUI-F, in particular, appeared as the leading party in KPK following the first phase of the local bodies elections in December. It has also attracted popular support in Balochistan. This has coincided with the ascent of the Afghan Taliban to power in neighboring Afghanistan. Meanwhile, in Punjab, Tehrik-i-Labbaik Pakistan (TLP) emerged stronger after two-week-long protests that paralyzed parts of the main GT Road. The government in its negotiations with TLP allowed it to function as a regular political party. This is bound to strengthen the political standing of TLP and make it a potent force during the next general elections in Punjab and Sindh. A right-wing turn appears to be cementing in Pakistan's political landscape.

The domestic political situation, thus, remains highly unstable. PTI has very little time to get its act right by improving governance and addressing the economic woes of the people. Absent emergency relief, particularly, for the salaried and middle classes, popular support for PTI will only plummet further. Some of the political heavyweights, who are currently part of PTI, could switch parties, particularly, in Punjab and KPK ahead of next year's polls. Will PPP or PML-N be able to put together enough numbers after the 2023 elections for the formation of the next dispensations at the Centre and in Punjab? 2022 will hold the answers about the shape of things to come.

*Uncertainty and upheaval have always been the hallmark of Pakistani politics, but 2022 is set to witness a higher degree of this. It is a year when the country's political chessboard would be reset and its consequences would be felt in the years to come. The most defining event of this year would be the appointment of a new army chief in November. In the lead up to that decision any tensions between two key principals of the hybrid system – PM Khan and COAS Gen Bajwa – are bound to have a ripple effect. All stakeholders are closely watching the events and trends.*

*Moreover, PTI is entering its last full year in office with odds heavily stacked against it. Results of last year's cantonment board elections and local bodies polls in Khyber-Pakhtunkhwa province clearly point to the growing public disillusionment with government's performance because of aggravating economic situation and its failure to deliver on other key promises – accountability being one of them.*

*Prime Minister Imran Khan's narrative of blaming the past government for all ills is rapidly losing traction among the masses due to his administration's failure to address them while in office for all these years. There have, moreover, been voices of dissent from within the party.*

*To make the matters worse, the prime minister has also shown signs of frustration instead of confidence in dealing with the political and economic crises before his government.*

*This provides a conducive situation to the opposition to seek an expansion in its space and visibility, which will invariably lead to continuous uncertainty in the political system. It, however, remains to be seen if the opposition parties, which have so far appeared divided and directionless, would be able to exploit the situation fully or not.*

*Military will, meanwhile, come under increasing pressure to demonstrate visible neutrality.*

*Election Commission's ongoing probe into PTI funds received from abroad is yet another ticking time bomb for the ruling party.*