

Pakistan Outlook

2022

Politics, Economy & Security



Islamabad Policy Institute

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PREFACE

Islamabad Policy Institute is proud to present this year's report Pakistan Outlook 2022 – Politics, Economy & Security. The report assesses the trends that dominated 2021 and charts likely pathways for 2022.

IPI has been publishing these reports in an effort to help the readers unpack events during the previous years and understand how national and international developments could affect the country in the year ahead.

Like last year, this year's edition analyses major policy decisions taken by the government in foreign policy, security, economy, energy, and health sectors. The various issues discussed in this report have been explored through both domestic and international lens by the experts, who have contributed to this report.

Year 2021 has rightly been described as the year of adapting to the pandemic as economies around the globe gradually opened following the lifting of restrictions with policymakers focusing on life under the new normal. Meanwhile, Pakistan's external security environment remained challenging. Decision-makers had to grapple with fast-changing events in Afghanistan, and manage tensions with India. Domestically political polarization and sectarian strife intensified as the political landscape navigated uncertainty.

Meanwhile, a greater focus on expanding trade and economic growth was witnessed, but still the year ended with the government occupied with undertaking prior actions that it had committed for resumption of the suspended program with the International Monetary Fund. Similarly, challenges in the energy sector — gas shortages and the mounting circular debt — kept reminding us of the structural reforms that are yet to be implemented in these sectors.

We would like to acknowledge the contributions by Amb. Salman Bashir, Gen. Asif Yasin Malik, Dr. Javed Akram, Dr. Ilyas Fazil, Mr. Arooj Asghar, Mr. Raza Rumi, Mr. Safdar Sial, and Mr. Faran Rizvi. My special gratitude to Mr. Faisal Ahmed for putting together this report.

Thank you all for your hard work and valued contributions to this report.

Finally, we would like to thank the readers for their interest in the report and we encourage you to continue to send us your invaluable feedback and ideas for further improvements in future editions.

Syed Muhammad Sajjad Shabbir

Executive Director

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 overstretching 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. 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, which can be increased by another about 600 mmcf 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.

PAKISTAN'S EXTERNAL OUTLOOK

Amb. Salman Bashir

In an uncertain global and regional environment, it is difficult to be optimistic about Pakistan's external outlook in 2022.

Unfortunately, the negative trends that have characterized the global situation are likely to amplify and extend indefinitely, multiplying Pakistan's challenges in the domains of security and economy.

Pakistan's ability to transform challenges into opportunities or even to defend its national interests abroad is being compromised by domestic realities, most conspicuously economic vulnerability and governance issues.

For the past several decades, Pakistan's foreign policy apparatus managed to compensate for domestic weaknesses and had successfully maneuvered through the maze of regional and global politics to advance national interests. The Foreign Office's professional competence remains intact. However, acute external economic dependency is now inhibiting the pursuit of national interests in an optimal manner by diplomatic art and finesse alone.

Domestic realities cannot be divorced from foreign policy. It is unrealistic to hope that idealism and sheer 'will' are enough to steer the country away from pressing issues that are immediate and seem overwhelming. For

instance, in the security domain, the chaotic situation in Afghanistan and resurgence of Hindutva terrorism and expansionism in India pose existential threats to Pakistan.

In the economic domain, the burgeoning domestic and external debts, and spiraling inflation are causing political and social instability. The serious governance issues have severely undermined the state's capacity to manage its affairs in a fair, effective, just and equitable manner.

Unfortunately, political discord and bureaucratic paralysis do not lend to creating an atmosphere where the considerable national strengths of some 220 million patriotic Pakistanis could be channelized productively for overcoming the challenges at hand and restoring national confidence and hope for a better future.

If Pakistan is to be safe and prosperous, a new national consensus will have to be evolved on the way forward on all aspects of state affairs. Strategic priorities have to be redefined and the institutions reconfigured with a view to effective delivery of policies and programs.

Pakistan has to opt for making economic and social development its first priority. But a mere declaration of veering towards geo-economics,

as was done last year, is not enough. The major instrument for pursuing a national economic development strategy was the China-Pakistan Economic Corridor (CPEC). However, the pace of CPEC projects seem to have slowed down and false negative narratives about CPEC, if not stopped, could strip this hugely beneficial opportunity of real value.

The inability of the state machinery to operationalise CPEC at the working level and its reliance on outmoded methods have already caused considerable losses in terms of time and value. In short, CPEC should be better understood in terms of concept and implemented expeditiously. CPEC is a label given to various Chinese assisted projects. In reality, it is not a corridor to China. It is an inclusive concept that means that it is open for anyone interested in participating. The United States (US) and European countries as well as Japanese, Korean or any other country or business can take part in these projects.

Pakistan should be working tangible agreements with all neighboring states to build connectivity using CPEC. CPEC PLUS could bring good dividends for Pakistan in terms of development and also eventually progress, prosperity and stability to the region. To begin with, CPEC PLUS must extend to Afghanistan and Iran thus building a circle of stability and building stakes in mutual prosperity. Beginning

conversations, undertaking negotiations and finalizing agreements for such partnerships should be the foremost priority for Pakistan in 2022.

The Central Asia-South Asia link up also needs close attention. This idea was originally proposed by the US and has the support of China. Pakistan needs to work through this bilaterally and through regional cooperation platforms such as Economic Cooperation Organisation (ECO), Shanghai Cooperation Organisation (SCO) and South Asian Association for Regional Cooperation (SAARC). While landlocked Central Asia and its hinterland could get access to the Arabian sea through Pakistani ports, such cooperation can open huge markets for trade in the region. Iran will have to be brought in and the ports of Gwadar and Chabahar could be linked and developed as sister ports.

Pakistan also needs to redouble efforts to revive SAARC. If India continues to block SAARC, alternate platforms/ arrangements for economic cooperation in the wider region with the participation of interested states needs to be contemplated, in consultation with China. It is difficult to predict if Narendra Modi's India will have any interest in reviving SAARC. But if India were to agree, a revived SAARC could bring wholesome dividends to the region as a whole.

Pakistan-India relations remain deadlocked and time to revisit these seems to be ticking away as both countries are likely to get bogged down in domestic elections in the coming months. Indian leadership has used Pakistan bashing as a vote getting exercise, especially with the BJP in power. India faces multiple internal problems. The Hindutva enterprise is getting louder and bolder. The minorities in India especially the Muslims are being targeted.

Kashmir is sizzling with anger against Indian atrocities and usurpation of the rights of the Kashmiri people. The BJP and its ideological patrons, the RSS, are inclined to redouble their high-handed policies of brutal oppression against the Kashmiris and minorities in India.

India has been receiving state of the art weaponry and has acquired weapon systems that will upset the strategic stability vis-a-vis Pakistan, requiring Pakistan to take countermeasures. India has been working on canisterization of nuclear warheads with missiles, anti-ballistic missile systems, MIRV, hyper sonics, weaponized drones, and an augmented sea-based capability. In terms of capability and given the Indian political rhetoric, Pakistan has to be prepared to deal with the immediacy of threats posed by India.

The situation in Afghanistan remains unstable. The Taliban have yet to settle down to the difficult work of governance, while the country

remains under sanctions by the US and west. The humanitarian situation in Afghanistan is of grave concern. It could trigger refugee flows and could be exploited by Daesh and other terrorist organizations to their advantage. Pakistan cannot alone shoulder the burdens of Afghanistan. Some practical and tangible steps need to be taken in cooperation with Iran and China to enable Afghanistan to overcome its humanitarian and economic challenges.

The questions of legality and recognition of the Taliban government can wait. Pakistan needs to be careful and by continued engagement ensure that there are no misunderstandings with the Taliban government. Pakistan needs to pursue a policy of non-interference and non-intervention and build relations with Afghanistan on a principled basis.

Pakistan's relations with Iran should see positive developments in 2022, as the fencing of the Pakistan-Iran border is almost done and there is good cooperation on security issues. The opening of new border markets is also an encouraging development. Pakistan needs to renew efforts in building the Iran-Pakistan Gas Pipeline. For this purpose, it is perhaps necessary to seek exemptions from the US sanctions regime against Iran. This should be a priority issue in 2022.

Pakistan's relations with China are time tested. High level visits to and from China in 2022,

Covid situation permitting, will be good for imparting a new dynamism to the cooperation between the two countries.

Relations with Russia are also likely to grow in the coming years. A visit by President Putin is long overdue. It would be good if this could take place in 2022.

Managing relations with the US is also of immense importance. It is hoped that the Biden Administration will eventually take a dispassionate view of Pakistan and given the very real convergence of interests between Pakistan and the US, the Administration will be amenable to accord due priority to US-Pakistan relations.

Pakistan needs to stay clear of the US-China strategic competition. China has always advised Pakistan to improve its relations with the US. This is not the age of camp politics. A multi-aligned Pakistan, focused primarily on economic development and not heavily invested in geopolitics is the course that is required to pursue.

But all of this will only be possible if the internal situation in terms of national unity, improved governance and economy is given foremost attention.

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THE EXTERNAL SECURITY ENVIRONMENT

Lt. Gen. Asif Yasin Malik (Retd.)

2020 has witnessed an unprecedented uproar on the phenomenon of Climate Change and resultant Global Warming. In fact, it was the most talked about alarm for humanity at all fora and gatherings. In this noise, people failed to notice the heating up of geo-political landscape, which may have immediate effect. This effect is more widespread than believed and more devastating than all other negative vibes being felt around. There are many dimensions of this downturn. The crucial ones being the signs of re-emergence of a multipolar world after over four decades of arrogant dominance by one superpower, unbridled increase of population without corresponding enhancement of livelihood resources and social services, unchecked arms race, weaponization of space, interest-based realignment of nations by compromising on many principles, particularly human rights.

In the backdrop of emergence of voices challenging the unquestioned driving of global policies, the United States (US) suffered its most ignominious defeat since Vietnam when it had to vacate Afghanistan at a few days' notice. This single event was much more embarrassing than anything else that

happened in the past as the mainstream as well as social media was bringing these moments live to every living room and every street around the globe. This embarrassment has brought about a sea change not only in the behavior of US but also in that of its competitors like Russia and China, who are trying to create space for themselves in the new order. Similar change in attitude has been witnessed amongst smaller nations in their dealing with stronger and bigger countries.

- **The Region**

The happenings in Afghanistan have had direct and meaningful consequences for all the regional countries, warranting a change in their foreign policies as well as their security paradigms. Afghanistan is the 'backyard' of all the regional countries and presence of the US led North Atlantic Treaty Organisation (NATO) forces was, therefore, a threat for all of them. Each of these reacted differently through their global as well as regional stances and some of those responses were quite radical in nature. Country wise description is as follows:

- Afghanistan

Present day Afghanistan is like a new country with nearly no legacy structures and policies. The sand castles raised during the last twenty years disappeared much like when the first wave of tide sweeps the beach. Today all systems in the war ravaged country are either absent or dysfunctional. The entire population is faced with absence of governance, closed banking system, crashed social order, ineffective social services, insecure urban centers, stagnant rural landscape and finally non-existent law enforcement mechanism. All this has led the country on a path to definite catastrophe in the shape of scared populace, imminent famine, and epidemics due to harsh winter and collapse of health regime. In this situation, the only horizon for Afghans to look towards is the one across the boundaries with some degree of hope. This environment of total chaos and desperation would create space for all sort of negative forces, both domestic and external.

- India

Of all the countries in region, India

has suffered most on the geo-political and economic matrix. India had been investing heavily since 9/11 in Afghanistan's policy systems, in particular the intelligence apparatus and the military. This was primarily done to create an anti-Pakistan operating capability and trend by presenting Afghanistan's eastern neighbour as its biggest enemy. A well-choreographed and effective narrative was propagated in electronic and print media, as well as, social media to project ISI and Pakistani military as sources of all ills of Afghanistan. As a part of this effort, India invested over USD 2 billion in the social and political infrastructure to establish a definite foothold in the political domain and win the hearts and minds of the ordinary Afghan citizens. In addition, Afghan soil was being used effectively to nurture fissiparous tendencies by allowing them freedom to implement terrorist regime on the western border regions of Pakistan. The strategy was to induce internal instability while creating an

- effective ‘two front threat scenario’ for Pakistan putting its security in an almost untenable state. However, all this effort was lost after the hostile regime in Afghanistan departed on Aug. 15, 2021.
- CARs
The Central Asian States are facing a moment of uncertainty as the policies of the new Afghan regime are yet to be clearly defined, particularly with reference to certain separatist elements belonging to some of these states, who are hitherto thriving in Afghanistan. Moreover, some economic and trade activities have been affected. Other than that, not much is expected on the strategic plane.
 - Iran
Iran has been experiencing the effects of events right from the day the Occupation Forces landed on Afghan soil. It has had a mix bag of gains and losses, which almost ended in a No profit-No loss balance. Iran was on one side engaging the Taliban and on the other side supporting India in helping the erstwhile Afghan regime of Karzai and Ashraf Ghani. On the third plane it was helping the Shiite population of Afghanistan. So, with the departure of Occupation Forces the major benefit that Iran accrued is closure of all US activities of monitoring or influencing happenings in Iran. Finally, with the taking over of Biden Administration the nuclear impasse seems to be breaking following the resumption of the dialogue with the Five-Plus-One group.
 - Russia
Primarily the events of 15th August had threefold implications for Russia. Firstly, it was a moment of *karma* when the US and West were made to retreat from Afghanistan in an even more embarrassing environment than the 1988-89 pull out of erstwhile Soviet Union, the mother state of present-day Russia. Second was the cleanup of the ‘backyard’ from the hostile forces and finally the creation of a power vacuum with space for Russia to assert its influence in a meaningful manner, as has been the case for most part of the history.

○ China

China also benefitted from the events in Afghanistan post 15th August. Firstly the anti-state forces in the shape of ETIM were being funded and nurtured by American (CIA), Indian (R&AW) and Afghan (NDS) intelligence apparatuses. Secondly the eastern flank of CPEC was being constantly threatened by TTP and BLA, using Afghan soil as a base. Finally, the Occupation Forces were not allowing any meaningful Chinese economic and trade activity in Afghanistan. So, now China will be better positioned to deal with ETIM, which may not be as free like before to use Afghan soil, and ensure better security of CPEC with the possibility of extending it to Afghanistan. On the other hand, China will be able to invest freely in developing infrastructure and exploiting the mineral resources of that country. Removal of its arch enemy from the region would be the icing on the cake.

○ Pakistan

Interestingly, Pakistan is the most as well as the least affected by US withdrawal. Least affected because

for the previous four decades it has faced the consequences of the turmoil in Afghanistan, first by the Soviet invasion and then by US occupation. Under both the environments, Afghan dispensations, including the Taliban were at best unfriendly. Everything bad in Afghanistan was conveniently blamed on Pakistan, in particular, on ISI and Army. After each turmoil Pakistan became optimistic about the emerging scenarios and calibrated its policies accordingly, only to be disappointed.

Now how is it most affected? It has the longest border with Afghanistan, which was porous till recently when Pakistan built a fence. Afghan soil has always been used by different hostile agencies in different combinations from time to time. From 1947 to 1989 by KGB-RAW-KHAD, in part of nineties by NDS-RAW and from 2000 to 2021 by CIA-NDS-RAW. Pakistan is most affected because due to ethnic affinity of tribes straddling the border between the two countries the Afghans find it most convenient to cross over at

times of turmoil, and at present there are over three million refugees in Pakistan, both registered and unregistered. These refugees not only played havoc with the economy due to absence of international humanitarian assistance but also provided a secure foothold to hostile elements operating from Afghanistan. Finally, Pakistan has been used as a conduit for drug trafficking during the last two decades when the Afghan ruling elite as well as the occupation forces turned a blind eye towards increased drug production and trade, rather encouraged it to support clandestine activities of various agencies operating in Afghanistan. On the geo-political front Pakistan is facing the wrath of the NATO countries for their ignominious defeat and retreat from Afghanistan. Moreover, in their efforts to avenge their defeat they are punishing the people of Afghanistan by economically squeezing them by putting them in the throes of famine, epidemic, death, and destruction. Whatever little reserves Afghanistan

possessed have been frozen abroad, no banks are being allowed to operate thereby even preventing private remittances, no LCs can be opened for any trade or business, even food and medicines are being traded on a barter like arrangement. All this is creating a looming threat of mass migration towards the East, which will be an unprecedented disaster for the Pakistani economy. This feared scenario is a recipe for socio-economic and security upheaval in Pakistan.

• **EXTERNAL SECURITY** **DIMENSION FOR PAKISTAN**

During the last two decades, the US and Afghan leadership blatantly blamed Pakistan for the consequences of their faulty strategy, incompetence, and corruption. Now that the drop scene has caused them unprecedented humiliation and embarrassment, they are likely to resort to measures to undermine Pakistan's sovereignty. In any such design, India is a more than willing partner to avenge its failure in isolating and encircling Pakistan. This effort is going to be more intense because Russia and China are supportive of Pakistan's policies for resolving the post 8/15 Afghan crisis. Both

these countries are, moreover, challenging the sole superpower status of the United States of America.

As a first step, the multidimensional crisis in Afghanistan is being aggravated by political isolation and economic strangulation of the war-ravaged country. This can cause political unrest as well as humanitarian crisis, which will force a large section of population to resort to violence and migrate to greener pastures. Both these eventualities threaten Pakistan on numerous planes. Internal instability would create governance issues for Afghan people, who would turn to Pakistan even for basic requirements like medicine and food, thereby causing an unbearable stress on its economy and social structure specially in the two western provinces. In case of refugee influx, a greater pressure would develop on economy that is already stretched by existing refugee burden. All this would create space for elements desirous of harming Pakistan during these times of its economic difficulty.

On the eastern front India is facing humiliation after losing military standoff with China and a virtual downgrade in its status as a member of Quad after being left out in the latest anti-China alliance AUKUS. Simultaneously the situation in Indian Occupied Kashmir is aggravating by the day resulting in increased instability and LEAs'

casualties. Moreover, the fissiparous forces in India's eastern provinces are gathering pace. In the face of such external and internal setbacks, India is likely to resort to a false flag operation to distract attention from its problems and avenge its failure in anti-Pakistan campaign from Afghan soil.

The US and its allies are also resorting to measures that are adding to Pakistan's difficulties. Pakistan is being dragged in FATF on flimsy reasons. Similarly, international financial institutions are imposing stringent conditions on routine financial dealings with Pakistan. Simultaneously the US State Department has been maligning us on issues like treatment of women or other perceived cultural negativities in the country. On the military front, India is being armed to its teeth on the pretext of containing China, knowing fully well that India is and will never be in a position to challenge China on any plane. Consequently, the conventional military balance is tilting exponentially against Pakistan which in its turn must take measures to counter this imbalance.

To conclude, Pakistan has been and will be made a scape goat by US and its allies for all that has happened in Afghanistan and their failures there. Despite, Afghan media being critical of Pakistan's efforts, Islamabad went out of the way to help Afghanistan by hosting

an extra-ordinary session of OIC foreign ministers. Pakistan must be relentless in its efforts in this direction, irrespective of any or all efforts of its detractors against its mission of helping the people of Afghanistan in their hour of need, consequently establishing a durable peace in the region.

Lt. Gen. Asif Yasin Malik (Retd.) is a former Defense Secretary. He is a retired infantry officer with diverse experience of command and staff assignments. He has headed Peshawar based 11 corps, which spearheaded counter-terrorism operations in Khyber-Pakhtoonkhwa province and erstwhile FATA.

THE INTERNAL SECURITY CHALLENGE

Safdar Sial¹

1. Introduction

The year 2021 was significant for Pakistan's security and militant landscape in many ways. First, the Afghan Taliban took power in Kabul that many believe will only embolden the religious-ideological movements and militant groups operating in the region, including Pakistan. Secondly, episodes of violent protests by Tehreek-e-Labbaik Pakistan (TLP), and the way the government eventually surrendered to the group leaders' demands, as well as continuing incidence of faith-based individual and mob violence once again highlighted the persisting threat of violent and nonviolent shades of religious extremism in the country - in one of such incidents, a Sri Lankan national was lynched to death in Sialkot on the allegation of blasphemy. Thirdly, for the first time since 2013, the number of reported terrorist attacks in 2021 has posted an upsurge which was a reversal of the gradually declining trend witnessed over the past few years.

According to the Pak Institute for Peace Studies' (PIPS) annual security review of 2021, different religiously inspired, nationalist insurgent and violent sectarian groups perpetrated as many as 207 reported attacks in Pakistan in the year, which marked an increase of 42 percent from the year before. These attacks claimed 335 lives – an increase of 52 percent from those killed in such attacks in 2020 – and injured another 555 people. As many as 66 percent of the total attacks recorded in 2021 targeted personnel, vehicles, and posts of security forces and law enforcement agencies across Pakistan.²

As the situation across the border in Afghanistan is not getting stabilized, Pakistani militant groups would certainly try to take its benefit and flex their muscles on the Pakistani side of border. Experts have been highlighting the cross-border terrorist threats for a long time, which they believe has exacerbated after the fall of Kabul to the Afghan Taliban. Pakistan has serious concerns about the Tehreek-e-Taliban Pakistan (TTP) sheltered in

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² Pakistan Annual Security Report 2021 is available at PIPS' website www.pakpips.com

Afghanistan and has expressed hope, time and again, that the new Taliban administration in Kabul will not allow the anti-Pakistan terrorist groups to operate from their soil. At the same time, some reports indicated a growing relocation of Pakistani and other militants sheltered in Afghanistan to Pakistani bordering areas in Khyber Pakhtunkhwa (KPK) and Balochistan. For instance, a media report, in September 2021, quoting intelligence sources claimed that militants of anti-Pakistan terror outfits including the TTP, Baloch insurgent groups and Islamic State Khorasan (IS-K) were already entering Pakistan and many of them were regrouping in Balochistan.³

The article mainly documents and analyses emerging militant and security landscape of the country with a special reference to how it has already started to change after Taliban's takeover of Kabul. Second section briefly discusses key security and militancy-related challenges facing Pakistan and how the country can effectively cope with these.

2. Pakistan's militant landscape in 2021

The Tehreek-e-Taliban Pakistan (TTP), different Baloch insurgent groups as well as

Islamic State Khorasan (IS-K) were the main highlights of Pakistan's militant landscape in 2021. They were believed to be involved in most of the terrorist violence witnessed in the country during the year.

The TTP and affiliates have been constantly increasing their presence and activities in the erstwhile Federally Administered Tribal Areas (FATA) and other parts of Khyber Pakhtunkhwa (KP) from the beginning of the year. Indeed, after being rooted out from its bases in ex-FATA in 2014, the TTP has gradually made a strong comeback in Pakistan and now poses a significant threat to the country. The final phase of its comeback was initiated when, in 2020, the group started to bring many new groups and former splinters into its fold, adding to its operational strength and ability as well as geographical outreach. A media report in March 2021 claimed that while the TTP chief Mufti Noor Wali Mehsud was instrumental in bringing various groups under the TTP umbrella, he also "moved the TTP headquarters from eastern Afghanistan – Kunar and Nangarhar provinces – to the southeast in Paktika province, where the remote Bermal district provide[ed] his men easy access across the border into the former

³ Amjad Bashir Siddiqi, "After escape from Afghanistan: Anti-Pakistan terror outfits regrouping in Balochistan," *The News*, September 27, 2021, [https://www.thenews.com.pk/print/895710-after-](https://www.thenews.com.pk/print/895710-after-escape-from-afghanistan-anti-pakistan-terror-outfits-regrouping-in-balochistan)

[escape-from-afghanistan-anti-pakistan-terror-outfits-regrouping-in-balochistan](https://www.thenews.com.pk/print/895710-after-escape-from-afghanistan-anti-pakistan-terror-outfits-regrouping-in-balochistan)

TTP stronghold of South Waziristan.”⁴ That also highlighted the security implications of the evolving Afghan situation for Pakistan and the wider region.

In July 2021, when the Afghan Taliban emerged as a more critical component in the Afghan power calculus by reportedly extending their control “roughly [over] a third of all 421 districts and district centres in Afghanistan,”⁵ the TTP also started intensifying attacks against Pakistani security and law enforcement personnel. PIPS) monthly security reports for July and August noted that the TTP and affiliates had perpetrated 33 attacks mainly against police and army personnel in Khyber Pakhtunkhwa causing 47 deaths. However, the TTP’s Omer media claimed the group had carried out 58 terrorist attacks in KP districts in July and August, causing 56 deaths in such attacks in July alone.

A July 2021 report by the Analytical Support and Sanctions Monitoring Team, established under a UN Security Council (UNSC) resolution, also warned that the TTP “continue[d] to pose a threat to the region with

the unification of splinter groups and increasing cross-border attacks.”⁶ The report further said that while being based in Afghanistan, the TTP had increased its financial resources from extortion, smuggling and taxes. It validated the concerns expressed by many in Pakistan that as the Afghan Taliban gained ground in Afghanistan, the terrorist threat by the Pakistani Taliban would only grow. A month later, in August to be precise, the TTP chief Noor Wali Mehsud said in his reported interview with the CNN that the TTP had the ability to take [back] control of Pakistani tribal areas if forced to leave Afghanistan. He also categorically said that Pakistan was their major enemy, and they would continue fighting its security forces.⁷

⁴ Daud Khattak, “The Pakistani Taliban is back,” *The Diplomat*, March 9, 2021, <https://thediplomat.com/2021/03/the-pakistani-taliban-is-back/>

⁵ Aljazeera, July 5, 2021, <https://www.aljazeera.com/news/2021/7/4/taliban-seizes-key-districts-in-afghanistan-as-govt-forces-flee>

⁶ Anwar Iqbal, “Al-Qaeda present in 5 Afghan provinces,” *Dawn*, July 26, 2021, <https://www.dawn.com/news/1636932/al-qaeda-present-in-15-afghan-provinces-un>

⁷ Umair Jamal, “The TTP has redefined its goals: Should Pakistan be worried,” *The Diplomat*, August 11, 2021, <https://thediplomat.com/2021/08/the-ttp-has-redefined-its-goals-should-pakistan-be-worried>

The TTP and affiliates, Baloch insurgents and Islamic State Khorasan (IS-K) province were the major actors of violence in Pakistan in 2021.

- The TTP was believed to be involved in 87 terrorist attacks (78 in KP, 5 in Balochistan and 4 in Punjab and Islamabad), which is an increase of about 84 percent from the attacks it perpetrated across Pakistan in the year before. These attacks by the TTP claimed 158 lives.
- Different Baloch insurgent groups carried out 74 terrorist attacks in Pakistan (71 in Balochistan and 3 in Karachi) which claimed 96 lives and injured 151 others. As many as 63, or over 85 percent, of these attacks were carried by the Balochistan Liberation Army (BLA) and Baloch Liberation Front (BLF) alone.
- The IS-K affiliates perpetrated a total of eight terrorist attacks including seven (7) in Khyber Pakhtunkhwa and one in Balochistan. In all, 21 people lost their lives and another four were injured in these attacks.

Another worrisome development of the past year was TTP's increasing focus on Balochistan, especially Quetta, where Islamic State (IS) affiliates and Baloch nationalist insurgents are already active. The TTP claimed responsibility for two suicide attacks in Balochistan in 2021 including the suicide bombing in the parking lot of the city's Serena Hotel on April 21. The attack attracted international attention because the Chinese ambassador was staying at the same hotel though he was not present there at the time of the explosion. Not only Quetta but other

Pashtun-populated areas of Balochistan, mainly the areas along the Afghan border including Zhob and Chaman, are also becoming a new hub of the Taliban militants. Apparently, that is largely linked to the evolving Afghan situation and its fallout for the security of bordering areas of ex-FATA and Balochistan, as noted earlier. Even before the Afghan Taliban's takeover of Kabul on August 15, the TTP men were fleeing from Afghanistan and entering Balochistan. For instance, a group of TTP fighters led by Ainuzaman Akhunzada fleeing from Spin Boldak, Afghanistan, had been regrouping and recruiting for quite some time now in Zhob and Loralai districts of Balochistan.⁸

Not only the TTP, but the militant Islamic State terrorist group's so-called Khorasan chapter or province (IS-K) has also become active in Pakistan, where it carried out multiple attacks in the year under review on Hazara Shias, alleged Afghan Taliban members, and associated religious scholars, as well as political leaders/workers in Balochistan and KP; several of its associates were also arrested from parts of Sindh and Punjab in multiple search operations conducted by law enforcers during the year. For one, the Counter Terrorism

⁸ Amjad Bashir Siddiqi, "After escape from Afghanistan: Anti-Pakistan terror outfits regrouping in Balochistan," *The News*, September 27, 2021, [https://www.thenews.com.pk/print/895710-after-](https://www.thenews.com.pk/print/895710-after-escape-from-afghanistan-anti-pakistan-terror-outfits-regrouping-in-balochistan)

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Department (CTD) arrested Hafiz Mohammed Omar bin Khalid in January 2021 in Karachi, who was a final-year student at the NED University of Engineering and Technology and “[he] was involved in sending money to families of militants linked with the militant IS group in Syria.”⁹ The group claimed the Peshawar killing of an Afghan Taliban commander Nek Muhammad Rahbar in the first issue of its Urdu-language magazine *Yalghar* (Invasion) published a few months before; it also claimed the killing of Hazara coalminers in Bolan (Balochistan) in the magazine. Apart from terrorist attacks perpetrated by the group, security forces also kept entering into sporadic armed clashes with its militants mainly in Balochistan. For instance, in April security forces killed four IS-K militants in an intelligence-based operation carried out in the mountainous Aab-i-Gum area of Bolan district. According to police, the operation foiled a major joint terrorist plot by the banned Lashkar-i-Jhangvi and IS-K.

Meanwhile, across the border in Afghanistan, IS-K has increased its attacks significantly. The group perpetrated 339 attacks in Afghanistan in 2021 compared to 82 such attacks it claimed

in the country in 2020; it also claimed to have carried out 19 attacks inside Pakistan’s KPK province;¹⁰ PIPS, however, counted eight attacks by the group in Pakistan in 2021. According to the latest United Nations Security Council (UNSC) assessment report of Afghanistan, over 2,000 Daesh militants are present in Afghanistan who could pose a serious security threat to Pakistan also through their associates. In a country like Pakistan, where sectarian discord is rife and a multitude of extremist groups exist, groups like IS-K or Daesh can easily find associates and operative to their targets. For one, former members of Lashkar-e-Jhangvi and Jamaatud Dawah were in past found affiliated with the group in Pakistan.

Although Al-Qaeda has not been found involved in terrorist violence in Pakistan in recent years, yet it has its presence and affiliations with local groups in Pakistan and neighbouring Afghanistan. It has maintained ties with the Afghan Taliban and has reportedly also helped the Pakistani Taliban group TTP in recovering and regrouping in recent years; some AQ-aligned Pakistani groups even joined TTP.¹¹ In April 2021, the

⁹ Imtiaz Ali, “Varsity student held for sending funds to IS-linked families in Syria,” *Dawn*, January 19, 2021.

¹⁰ A tweet by Sweden-based researcher Abdul Sayyed: <https://twitter.com/abdsayedd/status/1476827070307127298>

¹¹ Asfandiyar Mir, “Afghanistan’s terrorism challenge: the political trajectories of Al-Qaeda, the Afghan Taliban, and the Islamic State,” Middle East Institute, October 2020, <https://www.mei.edu/sites/default/files/2020-10/Afghanistan%27s%20Terrorism%20Challenge.pdf>

CNN media group claimed based on its interviews with two Al-Qaeda operatives that the group would step up its operations and fight in the region after the withdrawal of US troops from Afghanistan. The report claimed that the group was planning a comeback by relying on its enduring partnership with the Afghan and Pakistani Taliban.¹²

Baloch insurgent groups have apparently also increased the number of attacks in Balochistan, mainly targeting security forces and alleged supporters as well as non-Baloch workers. While five Baloch insurgent groups were at the forefront in claiming responsibility for different terrorist attacks reported from the province in 2021, the BLA and BLF perpetrated over 80 percent of this violence. While it is still early to establish a link of this growing insurgent violence in the province to the Afghan situation, some experts argue that the increasing pressure on Baloch leaders/militants sheltered in Afghanistan is forcing them to relocate to Balochistan and that could be one of the causes. Experts also underscore that the Baloch insurgents will certainly draw inspiration from the changing environment and will further increase and intensify their attacks. Others pundits assert

that Baloch insurgent leaders have established closer ties with Iran after being chased from Afghanistan. There is a third argument as well that contends both ideas cited earlier and asserts that Baloch insurgency is mainly being led by the Baloch insurgent commanders and fighters, who are not living in exile but are present largely inside Balochistan. Subscribers of this view believe that insecurity in Afghanistan and Pakistan will only encourage the Baloch insurgents to exploit the situation to their advantage. PIPS data for 2021 suggested, as cited earlier, that Baloch insurgents had intensified attacks against diverse targets including security forces, non-Baloch workers, shops/stalls selling Pakistani flags, government officials, civilians as well as Chinese engineers and workers. They also carried out a few high-impact attacks, including against security forces, Chinese engineers, and non-Baloch workers/settlers. The suicide blast perpetrated by BLA against the convoy of Chinese engineers near Gwadar was a prime example of Baloch insurgents' growing reliance on high-profile and high-impact attacks.

Meanwhile, a Sindhi nationalist insurgent group, Sindhudesh Revolutionary Army, perpetrated three attacks in interior Sindh. Few

¹² Nic Robertson and Saleem Mehsud, "Al-Qaeda promises 'war on all fronts' against America as Biden pulls out Afghanistan." CNN, April 30, 2021.

statements and reports released during 2021 by law enforcement agencies hinted at the growing nexus between Baloch and Sindhi nationalist insurgents, at least at the operational level.

3. Challenges and recommendations

3.1 The Afghan situation

While the political and security situation in Afghanistan is still fluid, concerns are growing inside Pakistan about the possible fallout including in terms of insecurity and militancy, cross-border terrorism, border insecurity or conflict, influx of refugees, and economic instability. Another key factor will be the Afghan Taliban's response towards Pakistani demands for acting against anti-Pakistan groups and ensuring border security. Despite their repeated promises to not allow anyone to use the Afghan soil against Pakistan, the Afghan Taliban have yet not seriously considered to act against or influencing the TTP in support of Pakistani concerns, except having facilitated talks between the Pakistani government and the TTP which have also not shown any successes so far. Nonetheless, there have been critical statements about Pakistan from some Taliban officials on multiple occasions. Nonetheless, tensions have been rising along the Durand Line, from where in

multiple incidences the Afghan Taliban have either tried or damaged the border fencing erected by the Pakistani security forces to prevent cross-border infiltration of militants.

Pakistan needs to increase vigilance and surveillance at the border and conflict-prone areas such as Khyber Pakhtunkhwa and Balochistan. It should also try not to be seen as fully aligned with the Taliban because the Taliban do not have the sort of political clout in the international community that Pakistan needs to pursue its economic security, which is at the core of the newly announced National Security Policy. Pakistan also needs to activate the parliamentary and political action to step up implementation of the National Action Plan, mainly those clauses that deal with countering extremism and extremist narratives. Lastly, it should try to establish friendly relations with its neighbors including, China, Iran, and India to avoid any proxy war in Afghanistan, which will certainly hurt Pakistan the most.

3.2 The FATF challenge

Although Pakistan has adopted a range of legislative, institutional, and administrative measures to combat financing of terrorism (CFT) in recent years, it still remains on the Financial Action Task Force's (FATF) grey list, which not only puts stress on Pakistan's economy but also negatively bears upon the

country's foreign policy. Experts argue that Pakistan's 'serious efforts to address the deficiencies in its CFT regime' have come largely because of the FATF pressure. Secondly, a comprehensive institutional response mechanism is still missing which will take time to evolve and become fully functional following the strengthening of regulatory frameworks and bodies and effective coordination among institutions dealing with CFT and Anti Money Laundering (AML). A zero-tolerance policy against all radical and violent religious groups will remain an overarching factor in the state's resolve and policy action to curb terrorism and its financing.¹³

3.3 Countering Violent & Nonviolent Extremism (CVE/CE)

Religious extremism presents a critical challenge to Pakistan's efforts to counter terrorism and achieve security and social harmony in the country. In 2021, multiple events and developments indicated that a persistent challenge of violent and nonviolent extremism confronted the country, including a 46 percent reported an increase in the incidence of terrorist violence in the country, growing incidents of communal or faith-based

mob violence, reported episodes of violent protests by the TLP workers that forced the state to bow down to their demands, and an overall environment of intolerance and persecution in which Pakistan's minorities continued to feel insecure.

For the state to develop effective CVE/CE policies and strategies, it is recommended to first develop a clear and functional definition of extremism and clarify its thinking and stance on the challenges posed by religious extremism in the country. The parliament should initiate and lead that discourse. Secondly, religionizing politics have had devastating consequences for the country. Pakistan as a state and society has little option but to refrain from exploiting religion for political purposes. Thirdly, to neutralize violent extremist tendencies, detach the conventional militant groups from terrorism landscape and curbing hate speech, the government has to initiate a deradicalization and reintegration scheme, which shall also partner with civil society.

3.4 Negotiating with the militants

Political parties in the opposition as well as Pakistan's Supreme Court were apparently not convinced with the government unilaterally pursuing talks with the TTP. The opposition

¹³ Muhammad Amir Rana, "FATF compliance," *Dawn*, June 13, 2021.

parties asserted that the parliament is given the responsibility to decide about that; many also questioned, in the first place, the government's decision of talking with the TTP, which had killed thousands of Pakistani people. Similarly, the Supreme Court summoned Prime Minister Imran Khan for questioning the implementation of court orders regarding the 2014 Army Public School attack and the government's talks with the TTP.¹⁴

On the other hand, despite its tall claims to reach out to the Baloch insurgent leaders to end ongoing conflict in the province, the government has done little to act on that promise that also forms a clause of both original and revised drafts of National Action Plan. During his visit to Gwadar on July 5th last year, PM Khan said he was considering holding talks with insurgents in Balochistan, adding that he had always planned that whenever his party came to power, it would pay attention to the province. He later also appointed Jamhoori Watan Party MNA Shahzain Bugti as his special assistant on reconciliation and harmony in the province. But the reconciliation process has practically remained a nonstarter so far. Apparently, instead of initiating an effective reconciliation

process, the government's exclusive focus remains on Peaceful Balochistan Program, which entails providing financial and rehabilitation support to the Baloch insurgents surrendering before the authorities, and quitting violence.

3.5 National Action Plan & National Security Policy

The government has revised the 20-point NAP to an abridged version of 14 points. While many clauses have been retained as such from the original draft, some have been amended, and a couple of new ones have been included in the revised plan. However, experts see it as a very vague plan that can be interpreted and thus misused in several ways. "For example, the fourth clause talks about acting against the spread of terrorism through media (electronic, print, and social media), communication, and cyber networks. One can imagine how such clauses could be used to further restrict the freedom of press and media."¹⁵

The government has also approved the country's so-called first-ever ***National Security Policy*** (2022-26) putting economic security at the core, which is envisaged to bolster military and human security in return.

¹⁴ Haseeb Bhatti, "APS carnage: SC grills PM Imran," *Dawn*, November 10, 2021.

¹⁵ Muhammad Amir Rana, "Security policy impasse," *Dawn*, December 26, 2021.

The overall framework of the new policy, as stated by the National Security Advisor Moeed Yusuf, is the safety, security, and dignity of citizens. The opposition parties in the Senate called into question the NSP which they said was framed without taking parliament on board.

Although Pakistan needs to restructure its anti-terrorism and national security regimes to enable it to cope with the emerging challenges, that should be done through exclusive, bureaucratic practices. First, there is a need to give a leading role to the Parliament. Secondly, to make NAP implementation effective and progress measurable, there is a need to devise well-defined, realistic, and achievable plans/objectives with effective monitoring and evaluation systems against individual NAP goals/clauses. Thirdly, the National Counter Terrorism Authority (NACTA) be strengthened, and the prime minister may take ownership of NAP and use the NACTA platform to regularly review the status of and progress on NAP provisions. Fourthly, Pakistan needs to reform the criminal justice system with much greater urgency and focus.

The revised NAP also places emphasis on introducing reforms in merged tribal districts of Khyber Pakhtunkhwa including ensuring an adequate share in the National Finance

Commission (NFC), capacity building of law enforcement agencies, and introduction of political-administrative structures like local government elections and land reforms. Although the process of introducing reforms and new political, judicial, and administrative structures in ex-FATA is underway, but it is quite slow. There is an adequate need to rehabilitate the internally displaced persons from ex-FATA and develop educational, road, and other infrastructure in these areas. The establishment of police stations and training of law enforcement agencies also needs to be stepped up. The reconstruction and up-gradation of educational and health facilities and making necessary arrangements to manage basic health units is urgently needed. Indeed, healing and rehabilitating citizens of ex-FATA has become more urgent and significant after the fall of Kabul to the Taliban. Pakistani Taliban had been exploiting political-administrative, judicial, and governance-related voids in ex-FATA to get public support and recruit youths and they should not be allowed any such spaces there this time.

THE DEEPENING POLITICAL AND ECONOMIC CRISES

Raza Ahmad Rumi

The year 2021 ended with a brewing political crisis and economic meltdown that was long in the making. During 2022, both these crises are likely to intensify -- thereby resulting in regime change or mass protests, which will pose yet another challenge to the Pakistani state — with serious implications for security and foreign policy choices.

The 'hybrid regime' that has been governing Pakistan since 2018 became hostage to internal contradictions and external pressures throughout the year 2021. On the political front, the Pakistan Tehreek-i-Insaf (PTI) government led by Prime Minister Imran Khan lurched from one crisis to another; and was repeatedly rescued by the military establishment.

In April 2021, Shaukat Tareen was appointed as Finance Adviser mainly to salvage the economy that has been facing the twin pressures of high external borrowing and stagflation. Tareen promised that he would follow pro-growth policies and hinted that he was not ready to accept the International Monetary Fund (IMF) conditions in their entirety. He introduced an expansionist budget with higher allocations for development spending and attempted to revive the

confidence of big businesses and investors to achieve the increased economic activity, employment generation, and stabilization. However, by the end of 2021, it was clear that his efforts were leading to nowhere as Pakistan's quest for another IMF program required fulfillment of tough conditions that were going to increase the burden on the citizenry. The IMF program has been approved but it comes at a high cost: further devaluation, increased taxes, and slashed public spending on development.

Governance: Rule-by-Ordinances and reckless inconsistency

The economic woes of Pakistan are a direct result of poor governance and mismanagement at the highest levels of the government. During 2021, heads of the Federal Board of Revenue (FBR) and secretary finance were frequently changed -- thereby creating a new record of reckless inconsistency. The parliament barely met for legislation during 2021 and the PTI government continued to rely on ordinances. The majority of lawmaking took place via ordinances including the extension in the tenure of the National Accountability Bureau (NAB) chairman and other important matters concerning national governance. By the end of

the year, there was a long list of legislation to be approved and it was only with the intervention of the establishment that the PTI government managed to get 33 bills approved in the joint sitting of the house -- creating a new record of instant legislation, circumventing the due parliamentary processes and setting dangerous precedents for the future governments. The rule-by-ordinance syndrome is symptomatic of the deeper governance crises whereby the government has little or no working relationship with opposition and has been unable to create consensus on key policy issues. During 2022, this is likely to continue.

Emboldened Mullahs

The year 2021 was also the year of major victories for the new rising force i.e. Tehreek-e-Labbaik Pakistan (TLP). The group launched major protests in April and November, attacked and killed policemen, vandalised public and private properties, and demonstrated that their street power was unmatched and unmanageable by the existing law and order apparatus. After both rounds of protests, the PTI government capitulated and signed a truce agreement with the group. The November agreement is a secret document, details of which are yet to be made public. Ironically, many members of the cabinet

confessed that they were not privy to the document that they were meant to approve. And yet, they went ahead and approved it. During the second round of protests, the TLP wanted to march to the federal capital, and the negotiations were led by the army chief himself -- with the assistance of regime-friendly clerics and wealthy businessmen of the majoritarian Bareilly sect. The hapless PTI government seemed ill-equipped to manage this crisis. And during 2022, the TLP — emboldened by its 2021 successes — will likely be back on the streets.

Decades of overt and covert support to the Afghan Taliban, and the US resolve to get out of the country, led to the dramatic fall of the Kabul regime. Pakistani government and many sections of the society celebrated these events -- perhaps even more than the Afghan population itself. In an ill-advised move, PM Imran Khan termed the Taliban victory akin to breaking the shackles of slavery.

However, developments since then have been ominous and worrisome. The Tehreek-e-Taliban Pakistan (TTP) launched several attacks on Pakistani security personnel and this is why terrorism after years has emerged as a major challenge for the state. In December alone, TTP claimed responsibility for 45 attacks. The TTP is now a major threat to

Pakistan's internal security while the Afghan Taliban that have not been recognised by the world yet are turning out to be a liability for Pakistan. But Pakistan's old-school security worldview continues to consider the Afghan Taliban a vital strategic asset in keeping India away from Pakistan's western borders.

Sadly, the Afghan people and their sufferings have increased manifold with millions facing malnourishment, unemployment, and an extremely uncertain future with closed borders preventing their escape from a country that is yet to find a peaceful resolution to its internal conflict. This will turn out to be a key challenge for the year 2022. Pakistan continues to convince the world to recognise the Taliban regime, extending humanitarian assistance to the Afghans and managing the TTP threat which is here to stay.

Relations with India remained tense with little or no sign of normalcy and are likely to remain troubled until there is an external intervention or display of initiative by the two countries, which remain hostage to their right-wing constituencies.

Fixing the Troubled Relationship with the West

The most crucial of the developments during the year 2021 was the political and diplomatic enstrangement of the US and its clear-cut

policy of not giving any relief to Pakistan in different international and regional contexts. President Biden not calling Imran Khan turned into a joke and the national security adviser in a weak moment told the *Financial Times* of Islamabad's concerns. His otherwise direct statement was construed as a sign of Pakistan's weakness and abandonment by a longtime ally. This is why tables turned by the end of 2021 with pro-establishment TV anchors arguing for mending relations with the US even if it came at the expense of slowing down the work on the China Pakistan Economic Corridor (CPEC).

It is an open secret that IFIs would not cooperate without a nod from the Biden administration; the Financial Action Task Force (FATF) will not give breathing space to Pakistan without US approval, and the European Union's special trading facility GSP+ might also not get extended if the situation persists. While the military leadership is cognizant of the need to repair the relations with the US, the PM and his associates appear to be on a different track. Managing these crises at Pakistan's doorstep will be a major worry of 2022 and might even become a reason for regime change. The US also influences Pakistan's Middle Eastern allies such as Saudi Arabia, the United Arab Emirates (UAE) et al.

, and the choices before the country were never so clearer.

The 'Islamisation' Agenda Continues

Sadly, the year 2021 will be remembered for Imran Khan's adventurism in contributing further to the radicalisation of the Pakistani society purely to gain short-term political mileage. The PTI government rolled out the Single National Curriculum (SNC) across the country, contradicting the spirit of the 18th amendment that had shifted these powers to the provinces. But more than the legal lacunae, the SNC builds on the regressive curricula built by Zia ul Haq and diminishes the chances of improving the quality of education and changing the overall mindset of younger Pakistanis. During the year, magistrates in the Punjab were raiding schools to check if children were being taught the Holy Quran. The Punjab government ordered mandatory recitation of prayers in public schools, and the prime minister set up yet another religious authority to 'counter Islamophobia' and 'protect the honour' of Prophet Muhammad (PBUH). The head of this authority, soon after his appointment, turned into a subject of national controversy due to his anti-democracy and conspiratorial views and insistence on managing the country through an 'elite of the elite'.

The PM's other pronouncements competed with the TLP narrative and do not bode well for Pakistan's future. Especially when the country has lost thousands to violence perpetuated by religious extremists and is a state-run laboratory of extremism. There are no signs that the year 2021 will see a reversal of these policies because Pakistan's history tells us that undoing bigotry is next to impossible.

Media Freedoms, Human Rights and Shrinking Dissent

As the parliament remained unable to play a leading role in legislation, government accountability, and overseeing citizen rights, the civil society and media faced tremendous pressure like the earlier years during the current hybrid regime.

The situation concerning human rights was worrisome during 2021. Journalists Absar Alam, Asad Toor, among others were physically attacked. The former was shot in a park in Islamabad and the culprits are yet to be arrested. During the summer of 2021, Pakistan's leading TV anchor Hamid Mir was taken off-air. Numerous other incidents of intimidation were noted. Online harassment often instigated by government officials attracted the attention of international media watchdogs.

Idris Khattak, a longtime human rights defender from Khyber Pakhtunkhwa province was convicted of espionage and sentenced to 14 years rigorous imprisonment. Ali Wazir, a member of the National Assembly of Pakistan from a tribal district of Khyber Pakhtunkhwa remained in prison for his criticism of the security forces. Wazir was granted bail in one of the cases against him but he remains incarcerated in another case.

The manager of a goods factory of Sri-Lankan origin was lynched to death in December 2021 for an alleged act of blasphemy. This brutal incident left the country shocked for days. The silver lining at the end was the acknowledgment by the PM of a factory staffer who tried to save him from the mob. He was awarded the *Tamgha-e-Jurrat* and almost the entire political elite condemned this incident. Nevertheless, the act of the mob – not the first one – is a sign of both radicalization and weak law enforcement.

Challenges and Scenarios for 2022

Based on the above, the year 2022 is likely to present three major challenges for the Pakistani state and society.

First, the unraveling of the hybrid regime

which is already underway will not be completed without a major political crisis. The year 2022 is when the incumbent army chief retires and his successor has to be appointed by the PM. The PM, in 2021 by dragging his feet on the issue of notifying the new Director-General (DG) of Inter-Services Intelligence (ISI), made his choices rather clear. Not unlike the past, the civilian PM is likely to get embroiled in a long drawn-out conflict with the most powerful institution about this transition. This will be the driving force that will either push PM Imran Khan out of power or will consolidate him for the near future.

Second, getting the IMF and international financial markets on board will be a major challenge that would require US intervention or assurances that will have to be agreed upon by both the civil and military leaders. Managing this tricky process may result in further friction within the hybrid regime and it will be a real test for the PM to navigate these trouble waters.

Third, the institutional decline will need to be arrested if Pakistan is to avoid domestic political chaos. Institutions such as the Election Commission of Pakistan (ECP), agreements on Electronic Voting Machines (EVMs), issues of overseas voting, National

Security Policy, and a long list of serious political reforms have no buy-in from the opposition parties, which happen to be far more influential than Imran Khan thinks. The success of opposition parties in the recent by-election, and local bodies elections should have been an eye-opener for the prime minister and his party that bulldozing new laws and rules without a consensus would invite a serious backlash. It is unclear how the year 2022 will lead to a changed perspective, but a blanket push is not likely to work.

Lastly, the year 2022 will also be a year when the military establishment, recognising the seriously dysfunctional hybrid order in place, attempts to reset its relationship with political forces, the media, and the civil society. Through the year 2021, the military was criticised by the sections of the media and political parties, and a bulk of this criticism was

articulated through social media which the hybrid regime was unable to completely gag or regulate. Individuals disappearances or attacks on journalists aside, the new media platforms are now arenas of political contests. And this will likely intensify in 2022. As this 'reset' happens, Imran Khan will find his position more and more fragile and his survival in office will remain under threat.

Since the return of (diluted and now hybrid) parliamentary democracy in 2008, no prime minister has been able to complete his term, be it Yusuf Raza Gillani of Pakistan People's Party or Nawaz Sharif of Pakistan Muslim League-N. The looming question at the start of 2022 is: how and why will Imran Khan be an exception to this trend? Even a bigger question is how would such instability lead to economic recovery?

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IS COVID-19 BECOMING ENDEMIC?

Prof. Dr. Javed Akram

The COVID-19 pandemic has changed life as we know it. It also had profound influences on our individual lives as we can see from our routines and priorities. Many say the world has changed forever. But 2022 could be the year of return to near normal, if the vaccines drive down infections and variants are kept at bay. At that point, what will we glean from the past years? Are there silver linings or lessons learned with regards to health policy-making?

Human memory is short, and what is not ever-present fades quickly. The Bubonic Plague, for example, ravaged Europe in the Middle Ages, resurfacing again and again, but once it was under control, people forgot about it. However, bacterial, viral, or parasitic pathogens that have ever affected people over the last several thousand years remain with us because it is nearly impossible to fully eradicate them. Smallpox was the only exception. Mass vaccination campaigns led by the World Health Organization (WHO) in the 1960s and 1970s were successful and in 1980, smallpox was declared the first and still the only human disease to be fully eradicated.

Diseases such as malaria, tuberculosis, leprosy, and measles have been with us for several millennia. Despite all efforts, immediate eradication is still not in sight. Add to this mix

relatively younger pathogens such as Human Immunodeficiency Virus (HIV), Ebola, Influenza, and Coronaviruses, and the overall epidemiological picture becomes clear. Research on the global burden of disease reveals that annual mortality caused by infectious diseases, most of which occur in developing countries, accounts for nearly one-third of all deaths worldwide. Today, in an age of global air travel, climate change, and ecological disturbances, humans are continuously exposed to the threat of emerging infectious diseases while continuing to suffer from much older diseases that remain alive.

Yet, the real threat for the world today is from the non-communicable diseases (NCDs), which kill 41 million people each year, equivalent to 71% of all deaths annually. According to WHO, cardiovascular diseases account for most NCDs deaths, around 18 million people annually, followed by cancers (9.3 million), respiratory diseases (4.1 million), and diabetes (1.5 million). People of all age groups, regions, and countries are affected by NCDs. These conditions are often associated with older age groups, but evidence shows that more than 15 million of all deaths attributed to NCDs occur between the ages of 30 and 69 years. Children, adults, and the elderly are all vulnerable to the risk factors contributing to

NCDs, whether from unhealthy diets, physical inactivity, and smoking, etc.

Among other factors driving this trend are rapid unplanned urbanization, globalization of unhealthy lifestyles, and population ageing. Unhealthy diets and a lack of physical activity may show up in people as increased blood pressure, high blood glucose, elevated blood lipids, and obesity. These are called metabolic risk factors that can lead to cardiovascular diseases.

The NCDs burden in Pakistan is also growing rapidly and little attention has hitherto been paid to it for checking this disturbing trend.

Pakistan is, moreover, not prepared to deal with a new epidemic that may insidiously hit its people.

After devolution, the provinces are responsible for developing policies suitable to their local needs. At present, provincial governments are the single largest institutional entity spending on health care and allocations have increased substantially. However, large part of it is spent on curative care, and consequently health system lacks the ability for NCDs prevention and control. Meanwhile, international donors that account for a relatively small portion of total health spending, have considerable influence on policy making. Their attention

has traditionally been geared towards communicable diseases and mother and child health. They remain aloof from the emerging challenges of NCDs. Pakistan, however, has internal resources that can be tapped. Health philanthropy in the country, although poorly recognized, is one of the largest in the world and is growing markedly. Pakistan also has an expanding private sector even in rural areas. Primary care for NCDs — early detection, early management, prevention — remains unaddressed by all these three sub-sectors and the public and private sectors. Even philanthropy continues to concentrate the available resources on expensive tertiary care contributing little to avert the tide.

Researchers have identified key risk factors that if addressed will result in averting more than six hundred thousand deaths due to major NCDs in ten years. These include simple measures such as reduction in tobacco use, a 3mm reduction in systolic blood pressure, increased consumption of fruits and vegetables, and an increase in physical activity. Four cost-effective interventions including low salt intake, tobacco cessation, exercise, and cost-effective pharmacotherapy have been suggested to reduce NCDs-related mortality and morbidity across the country.

Pakistan was one of the first developing countries to come up with a comprehensive National Action Plan to address NCDs. What is required now are the functional platforms for providing stewardship on NCDs control and a multi-pronged approach involving regulation, primary care interventions, awareness, and surveillance to reduce NCDs on a national scale. The current focus of policy and planning is disease-oriented, but it has to become health-oriented with an enhanced focus on primary care, prevention, and health promotion. Optimum strategy to handle NCDs is primary prevention. There can be many interventions including taxation, law enforcement by governments in addition to using part of philanthropic funding for primary care. It is proposed that Provincial Commissions for Prevention and Control of Non-communicable Diseases be established as statutory bodies with the participation of professional and public sector representatives to design effective public health response to reduce NCDs risk factors, undertake legislations and set service targets and standards across the public and private sector.

Primary prevention programmes with the least cost and higher benefits should be prioritized in national and provincial resource allocation. Population-based cost-effective interventions must become priority agenda for future

research. Time has come for key decisions in the light of future trends in health to ward off an epidemic that may very well deprive it of its most productive individuals.

The COVID-19 pandemic has tested the country's health infrastructure and identified the need for more investment in the health sector especially for diagnostic facilities, disease surveillance, disease prevention, and spread, training of health personnel and their protection, vaccine development, upgrading healthcare infrastructure, emergency wards, intensive care units, and public awareness.

Pandemics do not die—they fade away. And that is what COVID-19 is likely to do in 2022. There will be local and seasonal flare-ups, especially in chronically under-vaccinated countries. Epidemiologists will also need to watch out for new variants that might be capable of outflanking the immunity provided by the vaccines. Over the coming years, as Covid settles into its fate as an endemic disease, like flu or the common cold, life in most of the world is likely to return to normal—at least, the post-pandemic normal.

Behind this prospect lies both stunning success and a depressing failure. The success is that very large numbers of people have been vaccinated and that, at each stage of infection from mild symptoms to intensive care.

Moreover, new medicines can now greatly reduce the risk of death. The rapid creation and licensing of so many vaccines and treatments for a new disease is a scientific triumph. The polio vaccine took 20 years to go from early trials to its first licence. In contrast, by the end of 2021, just two years after SARS-COV-2 was first identified, the world was producing nearly 1.5bn doses of vaccines every month.

However, on the flipside, a very large numbers of people are either protected from current variants of Covid only because they have already been infected, or many more, particularly in the developing world, will remain unprotected by vaccines or medicines long into 2022.

This immunity has been acquired at a terrible cost. According to an estimate, on October 22nd there was a global total of 16.5m deaths (with a range from 10.2m to 19.2m), which was 3.3 times larger than the official count. Working backwards using assumptions about the share of fatal infections, a very rough estimate suggests that these deaths are the result of 1.5bn-3.6bn infections—six to 15 times the recorded number.

The virus is constantly mutating and the more of it is in circulation, the greater the chance that an infectious new strain will emerge. However, even if Omicron and Rho variants strike, they may be no more deadly than Delta is. In

addition, existing treatments are likely to remain effective, and vaccines can rapidly be fine-tuned to take account of the virus's mutations.

Increasingly, therefore, people will die from Covid only because they are elderly or infirm, or they are unvaccinated or cannot afford medicines. Sometimes people will remain vulnerable because they refuse to have a jab when offered one—a failure of health education.

Regrettably, vaccine doses are also being hoarded by rich countries, and getting needles into arms in poor and remote places is hard. Livelihoods will be ruined and lives lost, all for lack of a safe injection that costs just a few dollars.

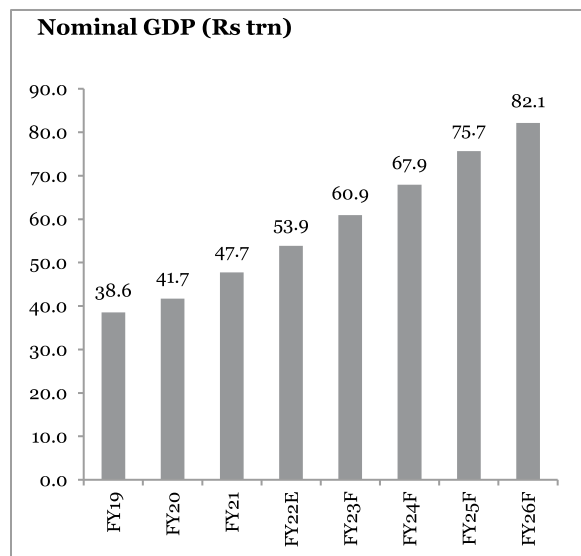
Covid is not done yet. But by 2023, it will no longer be a life-threatening disease for most people in the developed world. It will still pose a deadly danger to billions in the poor world. But the same is, sadly, true of many other conditions. Covid will be well on the way to becoming just another disease.

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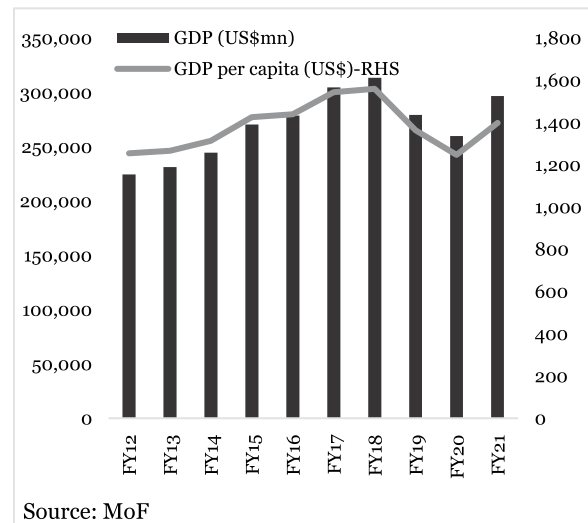
PAKISTAN'S ECONOMIC LANDSCAPE

Faran Rizvi

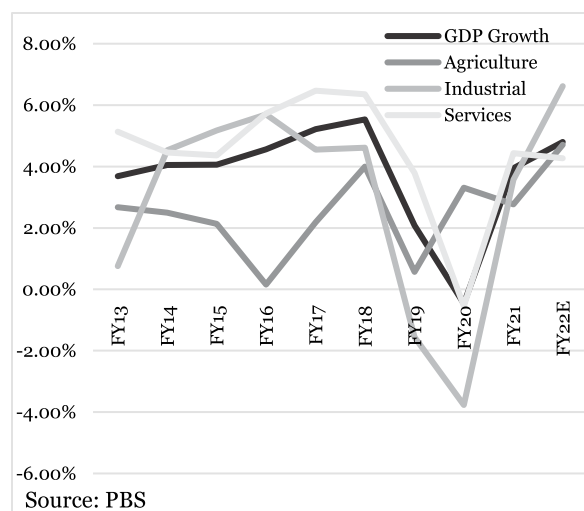
FY21 closed on a positive promising recovery of 3.9% and the government is now targeting 5% growth ahead which has become evident after vaccines were rolled out, coupled with continuation of stable economic activity during the last COVID19 waves. The agricultural sector is being provide and impetus as government seeks to enhance output by providing better seed varieties ad modern technology. More specifically the cotton output has grown at an extremely faster pace to recover from the multi-year low recorded in FY21. In addition to this, the government has introduced Kharif and Rabi packages, which includes subsidies on fertilizer and other inputs, in order to support growth. This is in addition to the increases in the minimum support price of wheat and sugarcane crops.



Pakistan's economic recovery has gained hold and GDP growth for FY22 is expected to near 4.5%, where growth is dispersed across nearly all segments, indicated by better agriculture, construction and other high frequency indicators. In doing so, the government is also tilting towards fiscal consolidation at a tepid pace to avoid the staple boom-bust cycle which the country has witnessed historically.



However, the second round of growth will continue to emerge from TERF and construction amnesty scheme, providing a shield to cyclical headwinds from stabilization measures, going forward.



However, emerging opaqueness of economic outlook of Pakistan is defined by growing uncertainty and risk factors which have engulfed both the external and domestic fronts. The external vulnerabilities hold paramount importance, despite SBP's stabilization measures, as stronger economic activity and higher commodity prices have begun to manifest in current account and exchange rate.

Most challenging task is approval of the Finance supplementary bill of PKR343bn and the SBP autonomy bill 2021, both having strong bearing on successful resumption of IMF program. Fund holds key to meeting the external financing requirements through multi/bi-lateral borrowing and issuance of Eurobond/Sukuks, which will also finance the current account deficit. This will likely bring stability to recent turbulence in exchange rate as difference between interbank and open

market has widened and PKR/USD trades 4% lower in underground banking channels, which can lead to evaporation of remittance growth ahead, especially after travel restrictions ease further.

IMF's prior actions regarding energy price hikes and petroleum levy collection have piled on to the transitory inflationary pressures of commodity price bull-run that is not expected to last beyond the pandemic related supply chain disruptions. We expect FY22 inflation to stand at 11.0% during FY22, entering single digit rate in Sep-2022.

Agriculture sector is growing strongly

Both agriculture packages introduced in FY21 laid emphasis on subsidies. The Kharif package included subsidy of PKR925/bag on DAP and PKR 243/bag on urea. And the Rabi package included PKR1000/bag subsidy on DAP. Despite that DAP offtake grew 19% in Kharif and 2% in Rabi season. It is pertinent to note that the offtake in Rabi was dampened by the sharp increase in the global commodity prices. Specifically, during Oct'20-Mar'21 where DAP prices rose sharply by 49%. This constrained the farmers' ability to purchase and apply the input, despite the subsidized rates.

The stock of agri-credit rose to PKR1.4tn during FY21, compared to PKR 1.2tn last year mainly due to increase in disbursements to

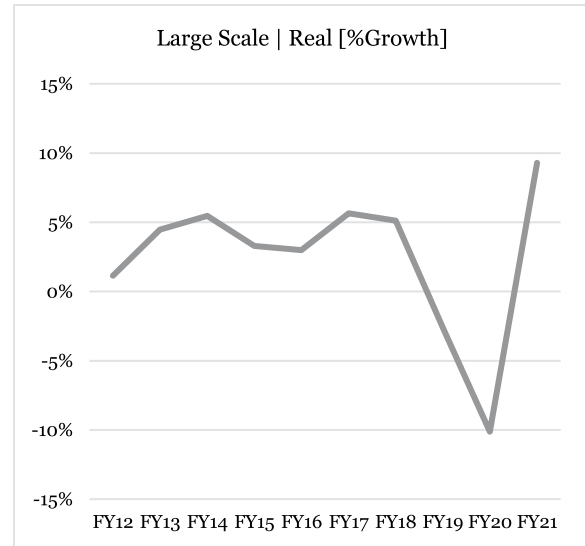
farming sector which spurred an increase in crop production loans. This can also be assessed by record production output of wheat, rice, and cotton. Working capital loan disbursements to dairy and livestock also improved.

Pakistan is a forest-deficient country, where only 5% of its area is under forest cover. UN recommends forest area to be at least 12% of country's land area. The 'One Billion Tree Tsunami' afforestation project in KP has planted 1.18 billion trees between 2014-17. Federal government launched the 4-year Ten Billion Tree Tsunami in 2019. Such mega initiatives can help bring environmental and ecological benefits.

On the other hand, fishing sector has an encouraging potential to generate FX earnings for Pakistan, with exports of fish and fish preparations averaging USD421mn during FY17-21.

Industrial sector has grown robustly

Mainly tracked by Large Scale Manufacturing (LSM), industrial sector has posted notable economic growth as business activities resumed. International demand for textile products and domestic demand for construction materials, automobiles and petroleum products have been major drivers of economic activity during FY21.

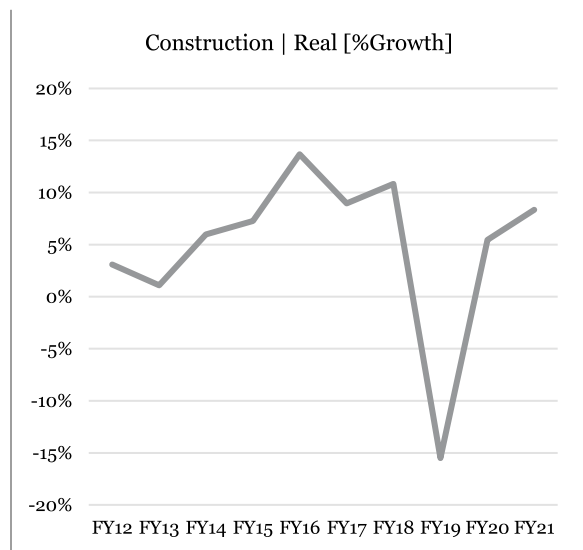


Owing to temporary relief packages introduced via fiscal and monetary stimulus, the economic recovery gained speed post lockdowns after COVID19 outbreak. Cement and Steel sector recorded double-digit growth in production during FY21. Electricity generation and gas distribution witnessed sharp decline in FY21, despite an increase in electricity output.

Construction sector expanded 8%

Construction industry grew by 8.3% in FY21 along with its allied industries of cement and steel in the LSM as it received incentives from the government. Construction package reduced the cost for both buyers and sellers via tax reduction while the amnesty for real estate developers attracted fresh investment liquidity. This is coupled with impact from government incentivizing the demand through Naya Pakistan Housing Scheme (also known as Mera Pakistan Mera Ghar (MPMG) Scheme). SBP

has also reduced mark-up rates and introduced mandatory targets for banks to ensure lending to construction sector.



However, this also triggered an increase in real estate prices as more private investment has flown in the system. As per FBR, more than 2,100 housing projects have been registered. With September 2023 set as the deadline for the completion of the projects, anecdotal evidence suggests that real estate developers are hastening their efforts to meet the requirements.

Aided by capacity expansions over the past few years, the cement industry responded to the increase in demand for the commodity by setting the record for output, which grew by 27% during FY21. The monetary and fiscal stimuli, along with the lowering of FED on cement, facilitated the growth in FY21. Domestic demand has been the driving force

in FY21, contributing 17% to overall growth of 20% in the year. Local cement dispatches increased by 18.2(North) and 34% (South). Since large public infrastructure projects and majority of the private sector projects are in North, the cement producers in that region gained more benefit.

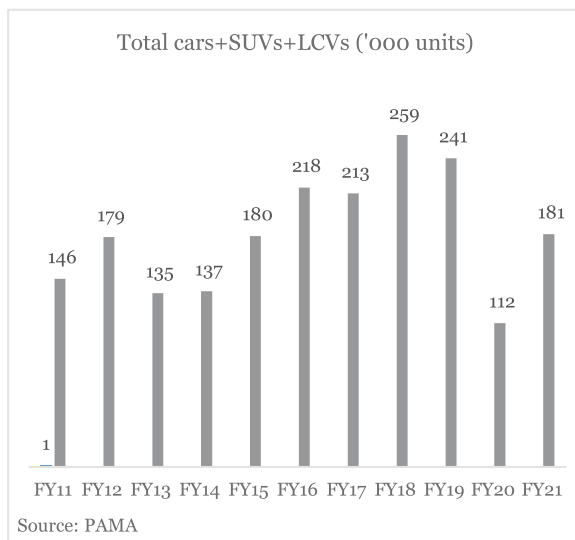
Pakistan is not self-sufficient in steel and relies heavily on imports to plug this domestic shortfall. Steel scrap and finished product imports also rose by 21% and 25%, respectively. Most of the import growth in steel sector was due to increase in demand for reinforced bars, a long-steel product, used in construction activity. The price of re-bars increased sharply due to higher cost of imports as well as the increase in domestic demand.

Textile also benefited from the energy package and the SBP's concessionary finance schemes, which lowered its cost of production. Textile output rose by 15% during FY21, compared to a contraction of 10% last year. The export-oriented high value-added textile industry performed quite strongly during the year on the back of the policy support and by capturing textile export orders from some competitor countries.

The automobile industry also recovered from constrained output over the past two years, on the back of the introduction of new models,

pent-up demand from delayed purchases last year (amid the lockdowns) and low interest rates.

The petroleum sector has been one of the key beneficiaries of post-pandemic demand growth from ease in mobility restrictions. The growth in both petrol and diesel is evident from the 18.1% growth in FY21. The spillover effect of economic rebound in POL sales was from increase in transport, retail trade and wholesale activities, owing to which we also saw a sharp rise in the import of energy products. With the lifting of restriction on utilizing FO for electricity generation during FY21 also induced 14.7% growth in furnace oil production during the year.



The automobile sector also recovered from a 45% decline in FY20 to a double-digit growth of 51% in FY21. Low interest rates and introduction of new car models as well as competition helped automotive sector gain

momentum. Auto financing increased by PKR 97bn in FY21, against a meager rise of PKR 4.3bn in FY20.

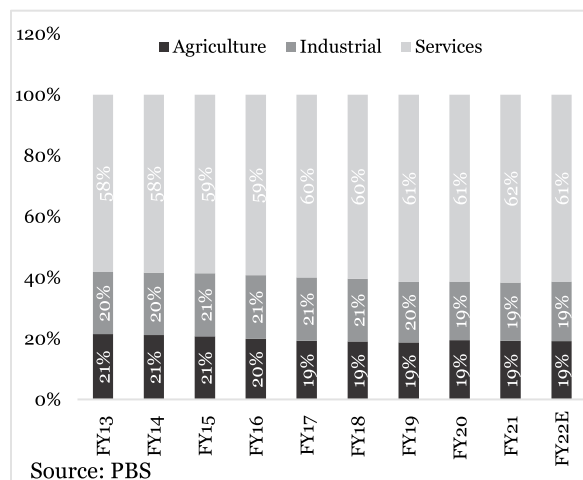
Under the incentives from the Automotive Development Policy 2016-21, new models and manufacturers were introduced which enhanced interest from the buyers as the new competition introduced world standard features and safety while pricing competitively. More specifically, the compact SUV gained a lot of traction as this new category filled a gap in the previous domestic car market.

A better farmer and rural income also gave rise to 2-wheelers and tractors whose volume sales grew by 37% and 55% in FY21, respectively.

Services have enhanced contribution to GDP growth

Services sector grew 4.4% in FY21. Early adoption of smart lockdowns helped the services sector output recover faster from the pandemic in FY21. Google Mobility statistics show Pakistan's recovery superseding various South Asian economies. Targeted fiscal support to various sectors and lower interest rates played a vital role in reviving commodity producing sector which effectively increases the demand for services as they have a spillover impact. The economic stimulus to the sector mainly came from wholesale and retail trade which grew 8.4% during FY21. Finance and

insurance segment also rose by 7.8% owing to strong performance of the banking sector, coupled with healthy growth in the insurance sector.



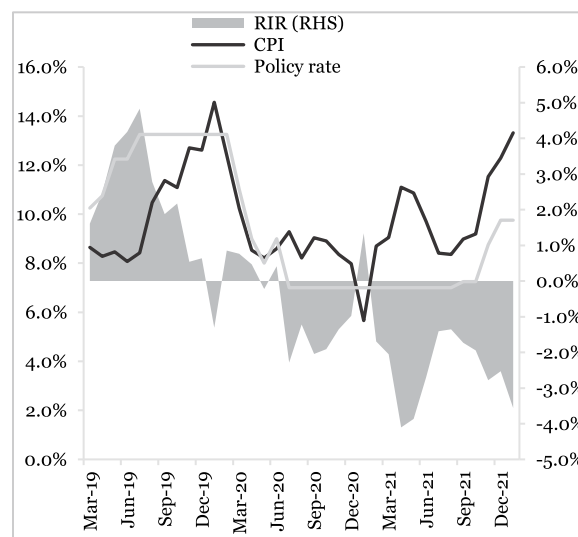
Inflation is skyrocketing at the moment

The Monetary Policy Committee at SBP considered it appropriate to continue with accommodative stance throughout FY21 in order to provide necessary support to the ongoing recovery process and hence policy rate was kept unchanged at 7% amid anchored inflation expectations and subdued inflationary pressures.

Inflation, if expectations of commodity bull-run are assumed temporary, is actually transitory. The recent broad inflation prints for Dec'21 has jumped by a whopping 12.3%, highest in 22 months. This has actually burdened an average Pakistani. They have to deal with this pressure when they purchase

groceries, fill fuel tanks, pay for electricity, health and education.

Pakistan is witnessing an unprecedented economic turmoil, with the inflation rate rising exponentially. The inflation being a temporary thing does not provide any respite to the masses, more specifically the low-middle income families that have been struggling over recent couple of years. At this pace, inflation is expected to stay at 11% for FY22. The core inflation has also inched upwards to 8.5% showing how entrenched inflation is at the moment.



Interest rates are on a rise now

The recent weakening of USD: PKR parity, which is about 10% during FY21 has also transmitted into inflation indicators. Even though a market-based exchange rate has served as a good shock absorber and has actually allowed the central bank to build

reserves, the global development including recoveries around the world and supply chain disruptions have caused a sharp hike in global commodity prices, which has pushed up current account deficit as well as inflation in Pakistan.

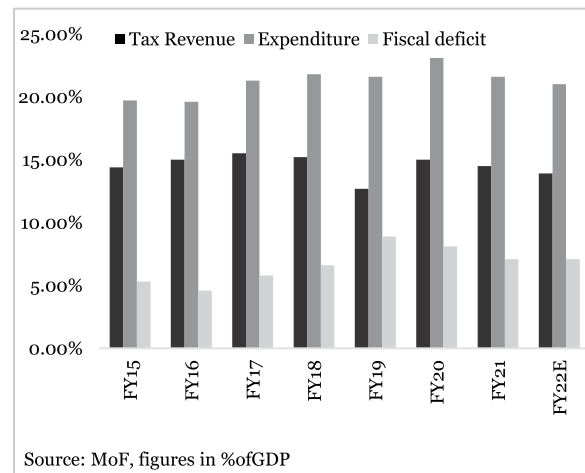
While fiscal policy has been very complimentary and is also withdrawing stimulus so a coordinated macroeconomic response, SBP raised rates by accumulative 275bps since Sep'21. SBP will take a "pause" in its interest rate hikes to sustain economic recovery after raising policy rate to 9.75%. Albeit, Pakistan is expected to witness more rate hikes this year.

Fiscal consolidation on the cards

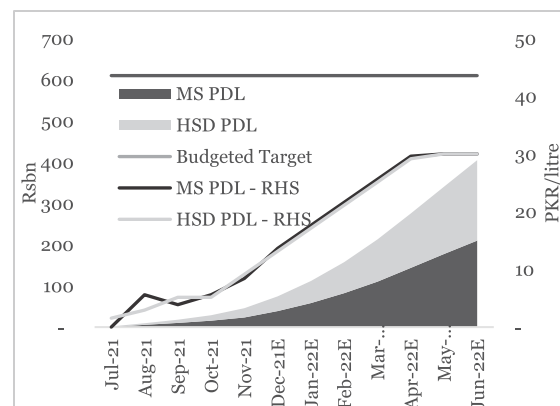
Pakistan continued to implement fiscal consolidation during FY21, witnessing a notable reduction in the fiscal deficit to 7.1% of GDP from 8.1% in FY20. This was driven by a large increase in collection and a slowdown in non-interest current spending. Also, greater than targeted provincial surplus of 0.7% of GDP further supported this outcome. Tax revenue jumped 19.5% in FY21, contributed by both the federal and provincial governments.

Specifically, FBR taxes gave a 5year high growth of 18%, underpinned by a sustained recovery in economic activity, along with a

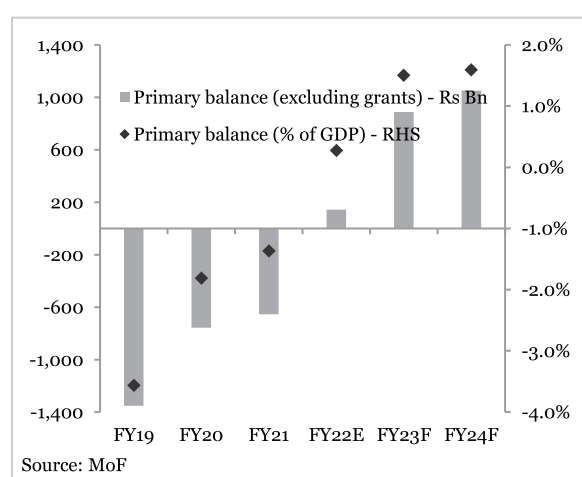
strong increase in imports. FBR's administrative measures to streamline the audit procedures, anti-smuggling and documentation led to a slight uptick in FBR tax-to-GDP ratio during FY21.



High GST collection by provinces on services and higher profits from hydroelectricity also added to the growth. On the other hand, non-tax revenues, declined in FY21 from lower SBP and PTA profits. The increase the rates of petroleum development levy (PDL) during the year acted as a buffer. However, since non-tax revenues are non-recurring in nature, they are not a stable source for financing expenditures.



Disbursement of power sector subsidies increased considerably in addition to the fiscal burden stemming from the need to cover losses of Public Sector Enterprises (PSEs). However, the recovery in tax revenues helped to contain the level of fiscal and primary deficit for FY21. Overall, fiscal improvement stemmed from both the revenue and the expenditures side.



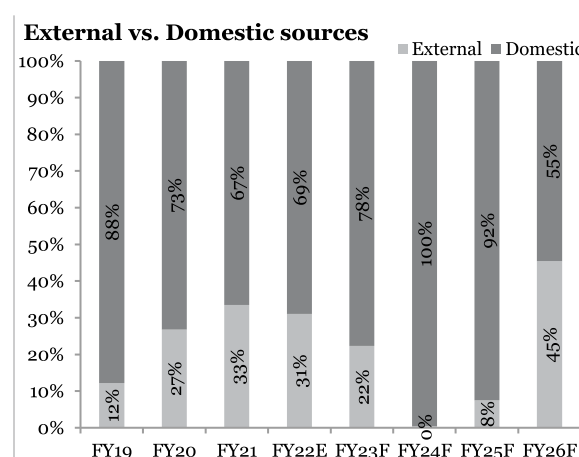
Most of deficit financing was met through domestic commercial banks in FY21. However, external financing also rose sharply from Naya Pakistan Certificates (NPCs) in addition to the loan inflows from bilateral and multilateral creditors.

Pakistan contained fiscal deficit from reduction in non-priority current spending in FY21. However, there is a need to address some emerging risks to fiscal sustainability.

There is a need for fast-track implementation of Public Financial Management (PFM)

reforms such as transition to Treasury Single Accounts (TSA) to improve spending efficiency. TSA will enhance cash management by providing consolidated information on availability of funds and lower the cost of borrowing, strengthening government's control over budget execution and lower transaction costs.

Ongoing reforms of broadening of the tax base by stepping up tax administration efforts, reducing income tax exemptions have helped strengthen tax receipts. However, despite these policy efforts the volume of tax exemptions as measured by tax-expenditures to- GDP, has remained elevated.



Pakistan's debt servicing cost is considerably high. The ratio of interest payments-to- FBR tax revenues stood at 58% in FY21 i.e., more than half of tax revenue is utilized for debt servicing, leaving less space for undertaking development expenditures. This has dampened

country's growth prospects as well as the debt repayment capacity.

FBR is making efforts to scale up tax regulations, procedures and evaluation processes to broaden the tax base. Important measures introduced during FY21 included: (i) improvement in audit procedures, focused on ensuring transparency and fairness while conducting audit of taxpayers; (ii) intensification of crack-down against smuggled goods; (iii) integration of the tier-I retailers with the centralized database of FBR; iv) revising the rate of penalties; and (v) filing complaints under Anti Money Laundering Act to comply with FATF.

Circular debt continues to be a menace

Subsidies, grants, and loans to PSEs constituted a major share in the non-interest current expenditures, 80% of total subsidies, of the federal government during FY21. Hence, the share of power sector subsidies, loans and grants to PSEs reached an average of nearly half of primary deficit in terms of GDP over last three years. Circular debt of power sector stood at PKR 2.28tn in Jun'21, 4.8% of GDP.

Growth in circular debt is driven by delays in adjustment of power tariffs, DISCO's operation losses, and un-paid subsidies. To arrest the accumulation of power sector arrears and ensure a sustained decline in the circular

debt stock, the government has prepared a Circular Debt Management Plan (CDMP) in consultation with the World Bank, ADB and the IMF. It also aims to rationalize subsidies and renegotiating Power Purchase Agreements with IPPs.

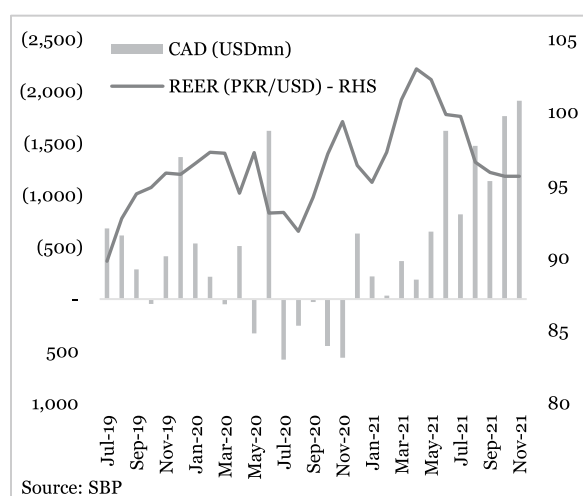
The inefficiencies in PSEs are emerging from governance issues, political interventions and other administrative factors. The top-10 loss-making PSEs contribute 90% to total losses per annum. NHA, Pakistan Railways, PIA and power sector DISCOs are among the major, top 10 loss-makings PSEs.

Expediting reforms in power sector and PSEs is crucial to lower the fiscal burden arising from their inefficiencies. These reforms should aim at improving governance, transparency and efficiency, strengthening monitoring, advancing privatization, enhancing legal/regulatory framework, by minimizing government's interference in PSEs' operation, etc. Moreover, the power sector reforms should aim at rationalizing subsidies, boosting antitheft and collection efforts, upgrading generation and transmission infrastructure, expediting privatization of loss-making DISCOs.

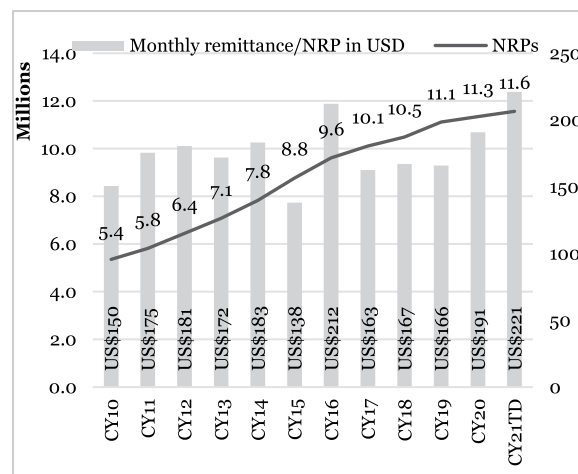
Taming CAD and IMF resumption are vital

IMF program of USD6bn Extended Fund Facility is vital and identifies time-bound

administrative measures targeted to attain full cost recovery focused on passing on sector inefficiencies to consumers by raising prices of utilities (instead of implementing structural reforms with the objective of dealing with the sector inefficiencies, particularly gas and electricity), and petroleum levy with direct impact on the cost of transportation of people and goods, including perishables.



The incumbent government's initial optimism on his ability to renegotiate the terms agreed with the IMF was slightly misplaced, and mini-budget envisaging the withdrawal of exemptions of over PKR343bn is a proof as is the public admission that the government will raise the petroleum levy by PKR 4 per liter to bring it to PKR 30 per liter levels.



Even though exports and remittances have been strong this year, the current account deficit has increased due to a sharp rise in imports. Higher commodity prices are the lead cause of rise in trade deficit and nearly 3/5th of this increase is estimated to come from commodity prices and shipping charges.

The 5MFY22 trade deficit of USD20bn is extremely unfavorable for Pakistan. Meanwhile, the SBP's foreign exchange reserves had begun to fall, sowing seeds of near depletion and a full-blown balance of payments crisis. Additional measures have also been taken to moderate the current pace of demand growth to a more sustainable level, including by curbing consumer finance through tighter macro prudential regulations. Together, these proactive measures will moderate the growth of imports going forward and allow a faster correction in the current account deficit.

External borrowing has jumped from USD95bn in Aug'18 to USD127bn today and domestic debt has jumped from PKR 16.5tn to PKR 27tn today. This does not go well with the government's initial target of paying off past loans.

Conclusion

At the core, Pakistan's near-term challenge is three-pronged: regionally, it is grappling with economic and financial fallout of Afghanistan situation; domestically, it is trying to arrest the decline in Pak Rupee and also overcome the lack of resources to keep prices of electricity, gas and oil in check; and most importantly, internationally, it faces soaring international commodities prices such as wheat, sugar, oil and gas amid high shipping freight charges as trade routes continue to remain choked.

These near-term challenges are a part of mismanagement of various policies which puts Pakistan in an extremely distorted situation that every single time the country plans to grow, it is mostly based on consumption and that effectively puts current account under an

extremely distressed situation. The increasing levels of commodity prices have a magnified impact on their expensive landing costs in Pakistan. A devaluing currency makes imports even more expensive and, hence, imported inflation continues to get transmitted into local inflation.

Moving away from these near-term problems, a bird's eye view provides that these instances emerge from deep-rooted structural problems in the economy. These structural challenges loom largely on the productivity of agriculture and industry, documentation of economy, fiscal management, external issues, banks intermediation of private sector credit and agriculture reforms.

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TRANSFORMING THE POWER SECTOR

Arooj Asghar

Since the establishment of the Water and Power Development Authority (WAPDA) in 1958, the entire investment in the generation, transmission, and distribution of electricity was made by the public sector through this agency, which effectively created its monopoly in the country. The bulk of the country is still served by former departments of WAPDA, but now independent bodies National Transmission and Despatch Company (NTDC), Central Power Purchasing Agency (CPPA), distribution companies, etc, which extend from north to south excluding Karachi that is served by KE. The World Bank, United States Agency for International Development (USAID), Asian Development Bank (ADB), and other international donor agencies provided financial and technical assistance to Pakistan in the shape of millions of dollars for infrastructure development projects in the 80's, which later continued during the 90's as well.

An autonomous body named Private Power Cell was formed in the Ministry of Water and Power in 1989 to address the private sector participation in the power sector – later renamed as Private Power Infrastructure Board (PPIB) in 1994 – to provide a one-

window facility for all new power generation investments requiring government regulatory

approvals, fuel, and power purchase guarantees, and project development facilities. Privatization was also started on the recommendation of the World Bank.

The power sector is divided into three segments; generation, distribution, and transmission. Each segment has its own significance and complements the other, thus, forming a chain. One segment's inefficiencies bring the other two down automatically. An inefficient distribution company (DISCO) has the capacity to single-handedly drain a large part of efficiency gains of the other segments. Successive governments have tried their best in improving the overall system yet no government could bring the required change in the power system because of multiple reasons.

Prices of electricity in Pakistan are one of the highest in the region and are considered a major source of high inflation in the country. Although, the government is subsidizing electricity rates for various categories of customers (residential and industrial), yet both government and electricity customers are not satisfied. Circular debt is a combination of various factors, ranging from private power producers' capacity payments to the transmission line losses to an inefficient DISCO system. Despite continuous increases in electricity rates to manage the circular debt,

there is no sign of its curtailment. This suggests that there are some leakages within the system due to which an increase in electricity prices is not the only solution.

Circular debt is increasing month after month. In the coming months, it is estimated that it will further escalate. Breakdown of circular debt shows that a large chunk is coming from the state-owned enterprises. Receivables of one state-owned enterprise are payable to another state-owned enterprise that too within the energy sector, thus, it should be zero at a certain level on a consolidated basis. The government borrows funds to financially support its enterprises and after rotating money from one enterprise to another, the government's cost of borrowing also increases, which also becomes part of circular debt. Therefore, it is better to just write off the receivables/ payables of state-owned enterprises on a cut-off date and thereafter, make a system where it must not be accumulated. As a matter of fact, circular debt is a natural phenomenon in the power sector, which occurs due to timing differences between receipts and payments to various companies/stakeholders within the ecosystem. Therefore, circular debt will also remain there, but it should be within an acceptable level, which is to be determined by independent power sector experts.

Despite all this, government officials largely blame private power producers and their

capacity payments for mounting circular debt, besides criticizing the high return on equity (ROE) of investors, thus, the entire focus is on the reduction in profits of the investors. ROE is actually just one component of the circular debt, some of the other components are high cost of fuel, transmission and gas pipeline losses, inefficient DISCOS, and short or virtually no recovery at all from the end consumers.

It is an established fact that distribution companies in Pakistan are not efficient. Distribution companies (DISCOs) lag behind the established global benchmarks on losses and collection of bills. DISCOs have three challenges which compound their losses; i) technical, ii) under-collection of bills and iii) delta (a gap between the cost of electricity and sale price i.e. revenue). Delta is dependent on the energy mix and level of subsidies given by the government to various categories of customers. Pakistan has ten DISCOs and there is a need to do a scientific analysis of their data. Mapping each feeder within a DISCO based on various parameters (green being the best and red being the worst) would help implement an effective plan.

Coverage area and the number of customers under each DISCO have increased over time. On the contrary neither financial nor human resources have increased proportionally. They have rather rather decreased. Therefore, dividing a DISCO would help manage the

network much better. Sooner or later, these DISCOs will either be privatized or the operations of these DISCOs will be outsourced. In that situation, it is recommended to split the DISCOs into smaller parts to supervise the operators more effectively. Stock or inventory count is one of the few measures, which are taken in organizing any company efficiently. Presently, no systematic method is in place to measure or estimate the current level of inventory, how many transformers are there, length of cables, number of poles, generators, etc. With this situation; stock in hand might be overstated; thus, all the analyses could be misleading. There is, hence, a need to engage reputable technical firms for a detailed assessment of stock in-hand.

With an ever-increasing trend of captive rooftop solar power solution and net metering options, DISCOs are finding new ways and means to block such options. The private sector is pushing for the wheeling arrangement, which requires the support and approval of NTDC and DISCOs. DISCOs are against wheeling because they view it as a potential threat to their own existence. DISCOs have requested PKR 5/Unit as capacity or wheeling charges from the companies which are interested in doing the wheeling or intend to use their system. Power companies might accept high level of charges if they get an assurance of continuity in the policy and

pricing. The problem is how and when DISCO will change the wheeling charges and whether the government could abruptly terminate the wheeling arrangement altogether. On one side, all provincial governments are solarizing their schools, hospitals, buildings while on the other DISCOs are discouraging the private sector to install CAPTIVE power. Moreover, on the other side, the government is of the view that it has excess capacity and has to pay huge capacity payments to the private power producers therefore, it cannot afford good pay customers to be out of its system while on the other they are heavily investing in CAPTIVE solar. This gives mixed signals to the investors and confuses the entire sector.

Various plans are presently under consideration by the policymakers for bringing improvements in the power sector. That includes development and approval of Indicative Generation Capacity Expansion Plan (IGCEP), implementation of Competitive Trading Bilateral Contracts Market (CTBCM), and the privatization of DISCOs. While looking at the features of each of these plans, it is quite obvious from the below that these are not fully synchronized:

Under Competitive Trading Bilateral Contracts Market (CTBCM), there would be a competitive regime with multiple sellers and multiple buyers. Whereas IGCEP will determine the capacity and technology (wind, solar hydro, coal etc.) to be injected in the

system country-wide. The exclusivity of DISCOs will end in 2022 and, thereafter, private sector could also enter into the distribution sector after getting a distribution license from NEPRA. The above three are self-contradictory. If anyone can sell power to anyone in the market, then what is the purpose of CTBCM. Whereas if multiple sellers can select multiple buyers (means it would be a business-to-business arrangement) then how come IGCEP will determine the capacity to be injected into the system. Instead of moving ahead with these plans, there is a need to have a detailed evaluation of all these policies otherwise, the entire sector will get stuck badly.

As per the Grid Code, NTDC was given the task to prepare an integrated generation plan on an annual basis. Somehow, NTDC only lately submitted the generation plan a couple of times to NEPRA for their review and approval after a delay of almost 15 years. The structure of the power sector has changed massively in the last 15 years. Various present-day autonomous state-owned entities were part of NTDC when the grid code was approved thus it was logical to assign the development of a generation plan to NTDC at that time. But now, it doesn't make sense. Now, NTDC is preparing Pakistan's first IGCEP and once it is approved then on the basis of the approved generation plan; NTDC will prepare a 'Transmission System Expansion Plan'. Either Planning Commission or Ministry of Power

should prepare IGCEP and NTDC should focus on transmission plan only. NTDC is not supposed to (a) determine the cost of a generating unit; (b) make determination of demand and supply forecast; and (c) devise a strategy for either utilizing indigenous resources or relying on imported fuels. Instead, it should only focus on developing a technical and financial plan on how to evacuate power from a power project and what would be the cost of a transmission line thus NEPRA, Ministry of Power, PPPIB, AEDB, and all provincial agencies could take a comprehensive decision of procuring power from any particular project or a cluster of projects and take a view on how to utilize the available resources resultantly bringing down the cost of electricity.

Many forms of renewable energy are location-specific. Northern areas of Pakistan have a huge potential for the development of hydropower projects including development of small and medium sized dams and reservoirs. Presently several small-medium-sized hydropower projects are at various stages of development in Khyber Pakhtunkhwa Province and Azad Kashmir. However, one of the biggest challenges for a small, medium, or even a large hydropower project is the availability of transmission lines for the evacuation of power. It is technically a bit difficult to evacuate power from such a rugged mountainous terrain but solutions are

available. Moreover, land acquisition is a time-consuming exercise and requires a lot of effort. Land record in KP Province is not as organized as in other parts of the country hence, the provincial government must do some legislation in this respect.

It is a general presumption in Pakistan that utility-scale solar power plants can be installed anywhere in the country, which is not the case. Utility-scale solar power plants can only be installed after conducting a detailed solar assessment study whereas the capacity factor of a solar power plant can be different from location to location. In Pakistan, the southern region has higher solar irradiation than the northern region and further in the north, solar irradiation in KP province is even less than Punjab. Similarly, wind projects can only be installed in Baluchistan and Sindh but taking power from Baluchistan and Sindh to the load center in Punjab is too costly. However, Off-grid solar panels which are also called roof-top solar can be installed at any location depending on the need.

. The following can help address the power sector's current issues including reducing the circular debt and cost of electricity;

- The federal government has always given bailout packages to DISCOs despite their consistent operational and financial shortcomings. Restructuring of DISCOs can be a solution to ever-

increasing circular debt. Let the exclusivity of DISCOs expire in December 2022, and they may be split for better management.

- Allowing wheeling arrangement and opening up of the power market on a business-to-business (B2B) basis. If existing private power producers are allowed to sell their electricity to anyone in the market instead of selling to state-owned CPPA; private power producers will obviously not only reduce their tariffs but will also delink their tariffs from US dollars. This will also not shake the confidence of the investors as it would give everyone a fair and equal chance to operate;
- By allowing wheeling, on one side electricity prices will decrease (investors will reduce their returns as opposed to their current level of returns given by NEPRA) while on the other, the government would be out of its obligation of paying huge fixed capacity payments to the private power producers;
- A hydropower plant is probably the best solution to address circular debt and high cost of power generation. The tariff of a hydropower plant can be in double digits, which should not be viewed as a negative element as it would not be exposed to any foreign

exchange variations and other indexations;

- The focus should be on developing small-medium-sized hydropower projects, where Pakistan's business community could easily manage to contribute required equity while such projects could also attract local financial institutions.

In recent months, agreements with private power producers have been executed by the federal government, under which tariffs of private power producers were reduced. Some view it as having a negative impact on the investment climate. There was a time when investors considered various risks including economy, foreign exchange, interest rate movements, and change in tax laws before investing, but now there is also the risk of discontinuation of policies. Due to this, the overall risk of investing in Pakistan has increased and there is no mitigation against this new risk.

Furthermore, privatization of DISCOs is already too late now. Incoming investors will ask for exclusivity for at least 15-20 years to recover their investments but giving monopoly rights to a private party especially after the experience of KE would be a difficult decision to make. Therefore, it is better to split the DISCOs so that the O&M of smaller DISCOs can be outsourced for a term of 5 years (say) with an extension of another 5 years. This will attract a lot many parties otherwise, only a

couple of local companies or big foreign companies will be able to acquire the DISCOs.

Pakistan has a vast supply of renewable energy resources, which should be harnessed. As renewable energy is now the cheapest form of electricity generation in Pakistan, the government should reduce its reliance on the expensive imported fuel-based power plants (RLNG, coal, oil) in favor of cleaner, more accessible electricity for people and businesses.

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ENSURING ENERGY SECURITY

Dr. M. Ilyas Fazil

Background

Pakistan faces a multitude of challenges, with all of them directly impacting the citizens of the country - the pressures from IMF, the volatile prices of energy in the international marketplace, and the depleting indigenous natural resources. All these factors impact the prices of commodities that are consumed by the common man, who is hard put to meet the financial challenges resulting therefrom.

Recent crises in availability of essential commodities (sugar, wheat, cooking oil) at affordable prices, the June 2020 petrol crisis, the gas crisis, ongoing LNG availability crisis - all these provide an opportunity not only to learn from them, but also to chart a course that will avoid repetition of past mistakes and lead to a stable and sustainable future.

A scrutiny of the daily discourse on the media confirms that while challenges are recognized, yet focus seems to be on discussing them more than targeting actions that will resolve them in the current and expected international scenarios in future. Paralysis through analysis is, unfortunately, what is happening instead of finding the correct solutions.

The continued and sustained supply of Petroleum Oil Liquids (POL) is important even during business-as-usual (peace-time) in order to keep the engines of the economy operating smoothly. This, however, becomes even more critical when the situation at the borders dictates that we ensure the supplies mainly for our Armed Forces - Army, Navy and Air Force.

POL is the key area that needs to be focused on with the single objective of maximum use of indigenous resources and minimum imports of energy.

Another area of concern is that Pakistan sees too many road accidents caused by the pathetic condition of vehicular population. Unlike the developed countries, which are being emulated in terms of increasingly stringent specification standards for Petrol and HSD, Pakistan does not have annual inspections before the renewal of registration. In the UK, for example, no vehicle is allowed on the roads if it has not passed and met stringent vehicular condition standards. The most critical vehicular parts are (a) the Tyres; (b) the Brakes and (c) the Lights.

Proposals in this chapter if recognized and implemented, will help address all these challenges meaningfully.

1. THE COUNTRY SCENARIO

Pakistan's Indigenous sources of Energy are:

- ⇒ Oil
- ⇒ Gas
- ⇒ Hydel
- ⇒ Coal
- ⇒ Nuclear
- ⇒ Renewable (Solar, Wind)

Pakistan's Primary Energy Supplies during 2019-20 were

Oil	22.6% <i>Down from 25.7% a year before</i>
Gas	33.1% <i>Down from 35.0% a year before</i>
LNG Import	10.3% <i>Down from 10.6% a year before</i>
Hydro Electricity	9.9% <i>Up from 7.8% a year before</i>
Coal	18.2% <i>Up from 15.4% a year before</i>
Nuclear Electricity	1.3% <i>Up from 1.37% a year before</i>
LPG	1.3% <i>Up from 1.1% a year before</i>
Renewable (Solar, Wind)	1.2% <i>Down from 1.3% a year before</i>
Imported Electricity	0.1% <i>Up from 0.1% a year before</i>

Source: Pakistan Energy Yearbook, 2020
Hydrocarbon Development Institute
Pakistan (HDIP)

In terms of Tons Oil Equivalent (TOE), supplies shrunk from 83,811,284 to 80,616,727 a year ago.

Gas has witnessed a NEGATIVE Annual Compound Growth Rate (ACGR) of - 2.3%, i.e. minus 2.3 % over the last 6 years.

As on June 30, 2019

Original Recoverable Natural Gas (NG) Reserves

62.01 Trillion Cubic Feet (TCF)

Cumulative Production

41.09 TCF

Balance Recoverable Reserves

20.91 TCF

In other words Pakistan has already used up ~ 66% of Natural Gas Reserves.

Power Sector accounts for

~ 61% of NG Use

General Industry

~ 5%

Fertilizer

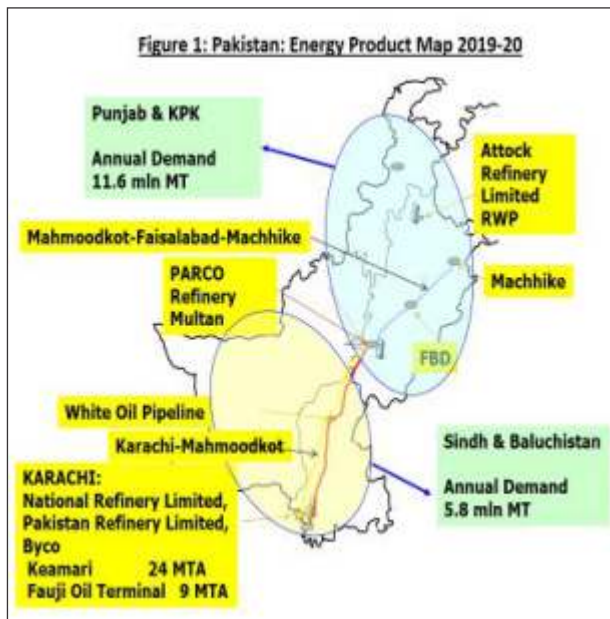
~ 34%

In other words, NG is a fast depleting resource and there are many takers!

A number of projects and investors are being touted in all the areas of Energy Supplies but most of them are either on the drawing board or have long gestation periods, made more uncertain for the Investor because of lack of clarity or Government Policy. The additional energy resources arising out of these projects cannot be a quick-fix for our problems as they would come to fruition 3-4 years minimum from inception.

There is also the need to understand the Downstream Oil Sector.

Figure 1 depicts Pakistan's Energy Map 2019-20



Pakistan's annual Refined Product demand was around 17.4 Million Tons in 2019-2020. Demand dropped by

almost 30% of the 25.5 Million Tons seen in 2017-18. Primary factor: The Covid-19 Pandemic and its global impact translating itself to the Pakistan Market.

The local Refining Sector too was very badly hit: as against a Refining Capacity of 19 Million Tons, the local Refineries' throughput was only 10 Million Tons. This capacity utilization of less than 60% since 2017-18 resulted in local Refined Product availability dropping by 30% as compared to 2017-18. The main reason for this (in addition to the overall Covid 19 impact) was the non-use of locally produced Furnace Oil. This caused the local Refineries to operate at below or around 60% of their nameplate capacity.

In addition to the impact of Covid-19, therefore, what impacted the local Refiners most, and continues to do so even more today, is the non-use of local Furnace Oil due to government's continued dependence and preference for Imported LNG.

Pakistan Refinery Limited (PRL) has become the third one to announce its closure following Byco Petroleum Pakistan Limited (BPPL) and National

Refinery Limited (NRL), due to non-lifting of their furnace oil production by the power producers and the OMCS, primarily PSO.

Instead of using local Furnace Oil, decision-makers prefer to import at roughly Rs.50,000 per Ton higher cost as compared to the local Furnace Oil. Is the Import Lobby ruling the roost at a time when Pakistan must reduce dependence on imports? In 2017-18, our local Refineries produced their highest volume of 3,261,123 Metric Tons of Furnace Oil. This translates to almost 9,300 Tons per Stream Day (Stream Day is the number of days a Refinery is on-stream throughout a Calendar Year, net of shutdown for planned maintenance). The figure of 9,500 is based on 350 Stream Days.

PSO has recently imported a 70,000 Ton Tanker of Furnace Oil. It has eaten up almost 7 days' equivalent of local refineries' Furnace Oil production. Why was this over-import necessary?

2. PROBLEM DEFINITION

Energy sector face the following challenges:

2.1 Pakistan is not self-sufficient in Product availability

Pakistan imports almost 40% of its Gasoline and 50% of HSD requirements

2.2 Refining Capacity is not 100% utilized

Capacity utilization falls short by 30-40%

2.3 Reduced Lifting of Furnace Oil the main reason for lower Refinery Throughput

This impacts local availability of Petrol, HSD and Jet Fuel

Jet Fuel (JP-8 for the Armed Forces) must be available locally

2.4 Lower Refinery capacity has a direct impact on Local Crude Processing

Local Associated Gas availability from Fields especially in the case of ARL has a direct impact on Gas availability as well as threatens closure of Crude Oilfields

2.5 The impact of these factors is ummarized below:

	2017-18				NOV '21	SHORTFALL
FO				PER MONTH		
ARL	411,526	13%	ARL	34,294	29,341	-14%
BPPL	927,434	28%	BPPL	77,286	37,657	-51%
NRL	419,261	13%	NRL	34,938	34,759	-1%
PARCO	992,674	30%	PARCO	82,723	79,985	-3%
PRL	510,228	16%	PRL	42,519	7,109	-83%
	3,261,123			271,760	188,851	-31%

	2017-18				NOV '21	SHORTFALL
PETROL				PER MONTH		
ARL	684,380	29%	ARL	57,032	53,473	-6%
BPPL	249,244	11%	BPPL	20,770	30,964	49%
NRL	227,783	10%	NRL	18,982	14,424	-24%
PARCO	947,219	40%	PARCO	78,935	95,157	21%
PRL	240,996	10%	PRL	20,083	7,126	-65%
	2,349,622			195,802	201,144	3%

	2017-18				NOV '21	SHORTFALL
HSD				PER MONTH		
ARL	727,638	13%	ARL	60,637	48,123	-21%
BPPL	1,152,350	21%	BPPL	96,029	46,521	-52%
NRL	938,492	17%	NRL	78,208	48,747	-38%
PARCO	1,952,042	36%	PARCO	162,670	167,588	3%
PRL	695,606	13%	PRL	57,967	18,666	-68%
	5,466,128			455,511	329,645	-28%

SOURCES	
PAKISTAN ENERGY YEARBOOK 2020 HDIP PRODUCT REVIEW MEETING DEC 2021	FOR ANNUAL PRODUCTION FOR NOVEMBER PRODUCTIONS

As the foregoing analysis clearly shows, the low or non-lifting of Furnace Oil production from the Local Refineries has a direct impact on the local production of Petrol and HSD:

Petrol Production lower by
65% for PRL and 24% for NRL

HSD Production lower by
Lower for all Refineries except
PARCO (overall 28%)

In terms of Financial Impact, at today's Prices of Brent touching almost 78 USD per Barrel, impacting import price of Petrol and Diesel respectively and this has the following FEX impact:

ADDITIONAL VOLUMES IMPACTED AND COST SAVINGS

Add'nal Annual Petrol Production: 4.24
Million Tons X USD/Ton Landed Cost 868 =
3.7 Billion USD

Add'nal Annual HSD Production: 2.99 Million
Tons X USD/Ton Landed Cost 800 = 2.4
Billion USD

Less Add'nal Crude Cost of 7.8 Million Tons
X USD/Ton Landed Cost 662 = 5.1 Billion
USD

Net Savings of USD 1 Billion

3. CONCLUSIONS AND RECOMMENDATIONS:

1. Maximize use of local resources in

national Energy Mix

2. The path to this lies in operating existing Refineries to their fullest possible potential instead of the current ~ 60%. A Refinery's safety is compromised below 60%
3. Local Furnace Oil must be fully utilized in order to maximize local Refinery throughput. It must be removed from the merit-order calculations and must remain a must-use Product round-the-year. This will keep local Refineries operating at their maximum optimal capacity, thereby maximizing local Petrol, HSD and Jet Fuels availability, minimizing imports of the same. For this the Oil Marketing Companies (OMCs) must play their due role. Over-import in November 2021 caused Furnace Oil storages to reach overflow levels. The Independent Power Producers are carrying only 20% of their capacity in Furnace Oil instead of the minimum mandated stock level of 80%. This is totally unacceptable. Latest

import by PSO cost Rs.50,000 per MTon more than the local Furnace Oil price. This differential alone translates to a Rs 3 Billion Loss on this single import only.

Having listed the factors impacting our energy security, the solution is simple:

1. Use local Furnace Oil to the maximum for Power Production
2. It will free up Gas for provision to Domestic and Export-oriented Industry

It will help reduce imports of the very expensive RLNG whose price has shot through the roof with no respite in sight

4. FOR THE FUTURE WELL-BEING:

4.1 Dedicate two of the Oil Piers at Keamari to Oil Only. This had already been discussed by the Industry with Chairman KPT in October 2018 but needs to be implemented post-haste

4.2 The present Byco SPM also needs to be better utilized

to shift some of the volume from Keamari to the SPM and reduce the load on KPT. Due to the drastic fall /ban in Furnace Oil imports, a second jetty at Port Qasim may not be required

4.3 Ensure and fast-track Keamari-Port Qasim Connectivity Project

4.4 Expedite Strategic Storages Strategic Storages are permanent petroleum reserves held for non-commercial reasons. These safeguard against:

External blockades (e.g. in times of war)

Internal impediments to product movement (e.g. floods, other disasters)

Oil Industry Disruptions (e.g. Refinery Outages, pipeline break down)

Strategic Reserves are separate from Commercial Stocks, but these can be

utilized by Oil Industry
in times of need.

Based on a Pakistan
Study conducted few
years back, 45 Days
Strategic stock
requirement for the
country had been
proposed by the
authorities. It was also
proposed that these
storages should be built
across the country.

- Locations to be
determined from
strategic and
defense point of
view with
proximity to
demand centers
- However,
development will
entail:
 - Infrastruct
ure
developme
nt costs
 - Additional
bi-annual

costs of
logistics
will be
incurred to
recycle
reserves
(Product
quality of
stocks is
susceptible
after 6
months)

The same study recommended that a
Policy in this regard be prepared

The fact remains that
*there is still No defined
National Policy on
Strategic Storages for
Pakistan*

*It is proposed that a
Working Group be
constituted earliest with
Ministry of Defense
(MOD) and Ministry Of
Energy Petroleum Division
(MOEPD) as members to
evaluate detailed options for
strategic storage for
Pakistan and develop
future course of action, with*

all stakeholders (Industry, Defense, Ports & Shipping) participating. MOD to take the lead role and MOEPD providing the technical support

5. SAFETY ECOMMENDATION

If Pakistan wants to save the lives of thousands of people dying due to road accidents across the Country, and especially the motorcyclist, it is proposed that Maintenance of Transport (MOT) Policy in coordination with, and cooperation of, the Traffic Police be developed covering the following factors:

- a. $\frac{3}{4}$ year Inspection to check for defects in
 - Tyres (replace if treads are gone thin)
 - Brakes
 - Lights
 - Tie-Rods and axle
- b. Removal of defects before the vehicle is

allowed back on the road

- c. Incentive scheme for those coming for these Inspections (free oil change and the like)
- d. Separate dedicated lanes for Motorcyclists who must be fined if they venture into main lanes
- e. The Original Equipment Manufacturers (OEMs) that manufacture spare parts for vehicles must be part of this scheme

These recommendations may sound far-fetched to achieve but where there's a will, there's a way.

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HDIP's Energy Yearbook 2020

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ABOUT IPI

The Islamabad Policy Institute (IPI) is a nonpartisan, independent policy research institute based in Islamabad. Our goal is to undertake in-depth analysis of challenges and choices confronting Pakistan. We aim to help policymakers and public better understand the world, region and Pakistan-specific challenges and opportunities. We make efforts to engage government, civil society, private sector, media, and academia in open debates and dialogue on the most significant developments in national and international affairs. We envision contributing to policy-making through periodic policy-papers putting forward policy-recommendations developed in collaboration with experts and stakeholders in each area.

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