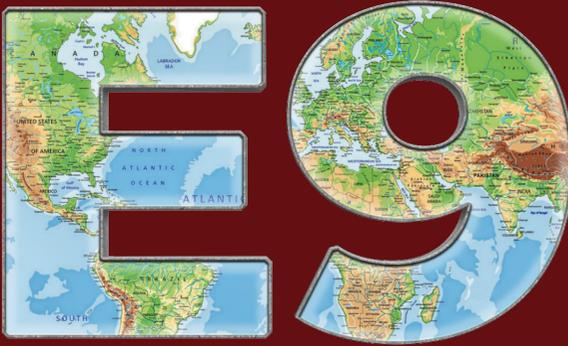




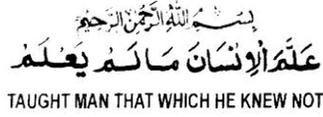
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A Periodical of INSIGHTS

INSTITUTE FOR STRATEGIC STUDIES, RESEARCH AND ANALYSIS
NATIONAL DEFENCE UNIVERSITY, ISLAMABAD



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E9 QUARTERLY

A Periodical of INSIGHTS



Institute for Strategic Studies, Research and Analysis (ISSRA)
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Editorial Note

The first issue of volume 3, 2024 of *Eg Quarterly* in hand contains ten INSIGHTS written during the first quarter of 2024. These INSIGHTS discuss Pakistan's economic, political and security challenges while highlighting the importance of strategic alignment, domestic institutions, and economic reforms. Pakistan must strengthen its institutions and implement economic reforms to achieve sustained growth. This issue covers ethical complexities in international relations, exemplified by the Israel-Palestine conflict, noting that power dynamics often eclipse moral considerations, resulting in a dilemma where legality is twisted to justify ethically questionable actions.

Besides this, Japan's re-evaluation of its post-WWII pacifism, centred on revisiting Article 9 amidst rising tensions with China and North Korea, manifested through its involvement in defence alliances such as QUAD and AUKUS and its escalating military budget as well as the difficulties of religious minorities in India, particularly under the BJP government's saffronisation, have also been touched upon in this issue.

This issue further entails the underexplored trade potential between Pakistan and Iran, emphasising the significant gap between current trade volumes and achievable targets, the geopolitical shifts in the Indo-Pacific region, focusing on the United States (US) Indo-Pacific Strategy (IPS) to counter China's influence and Pakistan's growing pension bill and its impact with particular focus on transforming the pension challenge into a viable opportunity for long-term fiscal health and economic stability of Pakistan.

This issue further explores the prospects of Regional Energy Integration (REI), specifically from Pakistan's perspective, emphasising electricity requirements because South Asia lacks fossil fuel resources, Pakistan's efforts to reduce its reliance on imported engineering goods and foster domestic production, highlighting the industry's significant GDP contribution alongside challenges like high costs and technological gaps

and Pakistani startups ecosystem, outlining its growth, challenges, and strategies for improvement.

Finally, the issue concludes with a discussion over the consequences of the US withdrawal from Afghanistan, revealing how US-made weaponry left with the Afghan National Defence and Security Forces ended up fueling cross-border terrorism, notably escalating attacks by the Tehreek-e-Taliban Pakistan.

We hope that this publication will assist readers in keeping up to date with the current strategic landscape. We welcome contributions in the form of short pieces of writing offering insight into national security matters.

Legality and Morality: Addressing the Ethical Dilemma in International Relations (Israel – Palestine Case Study)

Dr Muhammad Shabbir

Abstract

This INSIGHT discusses the ethical complexities in international relations, exemplified by the Israel-Palestine conflict. It scrutinises how power dynamics often eclipse moral considerations, resulting in a dilemma where legality is twisted to justify ethically questionable actions. The document also explores the international community's response, highlighting the moral dissonance in addressing human rights and justice within this framework.

Keywords: Legality and Morality, Ethical Dilemma, International Relations, Israel-Palestine Conflict, Power Dynamics.

In the complex world of international relations, power dynamics often take precedence over moral considerations. States leverage their influence, employing economic, military, diplomatic, and information-based strategies to advance their interests, even disregarding ethical values. This realpolitik approach frequently leads to a system where power and interests triumph over morality and legality, prompting profound ethical questions. The tragic example of Gaza underscores how the perception of legality is wielded to justify morally indefensible actions.

The Israel-Palestine conflict stands as a stark example of power dynamics overriding moral considerations. Even though numerous United Nations resolutions affirm the right of the Palestinian people to self-determination, their enforcement is hampered by political manoeuvring.¹ The United States' veto power in the UN Security Council frequently

thwarts resolutions that are unfavourable to Israel, leaving the Palestinian territories under occupation and annexation.² The US supports Israel for many reasons, including a powerful Jewish lobby in the US, as well as "critical components of leading American high-tech Perception is Reality

Country	Estimated YouTube ad Spending	Estimated Impressions
France	3800000	443,400,000
Germany	1900000	231,100,000
UK	1100000	233,900,000
Belgium	227800	297000000
US	50900	6100000
Switzerland	14000	1500000
Hong Kong	1700	300500
Netherlands	1200	108400
Russia	383,1	70000
Israel spent more than s8.1 Million Dollars in 2 weeks on You Tube ads, using some horrifying videos (as of Oct 23, 2023) > 1 billion impressions		

Source: Sofia Smith Galor FRSA, suing SEMRUSH

products are invented and designed in Israel, making these American companies more competitive and more profitable globally. Cisco, Intel, Motorola, Applied Materials, and HP are just a few examples".³

The recent Israeli aggression in the Gaza Strip and the West Bank has taken a devastating toll, with the death toll surpassing 19,088 and over 54,450 individuals wounded.⁴ The casualties include over 300 healthcare workers, 86 journalists, 35 civil defence personnel and 135 United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) staff.⁵ Despite these dire circumstances, Israel maintains a perception of legality through powerful alliances and support.

The question is how Israel gets away with the human rights abuses. The answer is with the support of the US, manipulation of laws of war and use of propaganda and technologies. Just consider that since 1945, a total of 36 UNSC draft resolutions related to Israel-Palestine have been vetoed; out of these, 34 were vetoed by the US and two by Russia and China.⁶ Another noteworthy factor is Israel's adept manipulation of the laws of

war, exploiting ambiguities and exceptions to favour states over non-state actors.⁷ This manipulation, coupled with a colonial narrative depicting Palestinians as "human animals"⁸ ignorant of the laws of war, constructs a narrative that frames Palestinians as immoral aggressors deserving the violence inflicted upon them.⁹

Israel strategically disseminates these narratives to its domestic and Western audiences to justify its actions. It has also run advertisement campaigns on X, YouTube, Facebook and other print and digital media platforms against Palestine. The paid content is aimed at adults over 25 in France, Germany, England, the USA, and other countries.¹⁰ The content portrayed Hamas as a

"vicious terrorist group", similar to the Islamic State. It showed the scale and type of abuse, including gruesome images like that

Since 1945, a total of 36 UNSC draft resolutions related to Israel-Palestine have been vetoed; out of these, 34 were vetoed by the US and two by Russia and China.

of lifeless, naked women in a pickup truck.¹¹ Another paid video posted to X, with text alternating between "ISIS" and "Hamas", has disturbing imagery that gradually speeds up until the names of the two terrorist organisations blend into one. "The world defeated ISIS. The world will defeat Hamas", the advertisement ends.¹²

The tragic events in Gaza expose a glaring moral bankruptcy of world leaders. The US, employing its veto power, obstructs ceasefire calls in the UN Security Council and votes against the humanitarian truce in the General Assembly. Israel openly expresses disdain for the UN through its actions. At the same time, the Islamic World, despite sporadic voices by Turkey, Iran and Pakistan against the slaughter, remains silent on multilateral forums such as the Arab League and OIC, indicating a troubling indifference in the Arab and Islamic world.

This indifference becomes even more perplexing when examining the response of Western powers. These nations, quick to condemn human rights abuses in Ukraine, Uighers or globally, adopt double standards when it comes to human rights abuses of Israel against Palestinian people, even children too. The question arises: Are Palestinians viewed as lesser children of God, undeserving of the same protection and empathy?

Do they not have the same fundamental human rights to live in peace, safety, and with dignity? Why is Israel allowed to get away with the slaughtering of women, children, and the elderly by the so-called protectors of human rights? How do world leaders reconcile their lofty principles of justice and human rights with their seemingly indifferent response to the suffering of humanity in Gaza?

There is also a puzzling acceptance of Israel's actions despite disproportionate and lethal violence. The acceptance of Israel's actions in Gaza, despite their disproportionate and deadly nature, underscores the challenge of navigating a global landscape where powerful states wield their influence to shape perceptions. This strategic manipulation of the narrative showcases the lengths states will go to maintain the veneer of legality, even when their actions may be morally questionable. At the same time, it proves that when powerful states commit immoral acts, they maintain the perception of legality to justify their actions, at least to their audience.

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About Insight and Author

This INSIGHT was first published on the ISSRA website in December 2023 and in the Daily Spokesman in March 2024. It can be accessed at <https://www.ndu.edu.pk/issra/pub/insight/2023/Legality-and-Morality-Addressing-the-Ethical-Dilemma-in-International-Relations-Israel-Palestine-Case-Study> / [Legality-and-Morality-Addressing-the-Ethical-Dilemma-in-IR.html](#). The writer is a Research Fellow at NDU and can be reached at mshabbirawan@gmail.com.

Japan Moves Away from Its Pacifist Past: Implications for Asia Pacific

Ch. Salman Mehmood

Abstract

This INSIGHT discusses Japan's re-evaluation of its post-WWII pacifism centred on revisiting Article 9 amidst rising tensions with China and North Korea. It covers Japan's involvement in defence alliances such as QUAD and AUKUS, its escalating military budget, and technological progress. Additionally, it underscores the profound implications of Japan's strategic shift for regional and global security in the Asia Pacific.

Keywords: Pacifist Constitution, Right of Belligerence, Quadrilateral Security Dialogue (QUAD), AUKUS.

Japan is moving away from its 1947 constitution, which has endured about 70 years without a single amendment.¹ Japan is considering changing Article 9 of its pacifist constitution,² but the National Legislature of Japan, the National Diet, has not made a clear decision. The house seems divided on whether Japan should give up its pacifism and begin to adopt a more assertive defence policy.³ Article 9 of Japan's constitution has been a subject of intense debate for the last few years.⁴ This article states, "Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force to settle international disputes. To accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of aggressiveness of the state will not be recognised".⁵ In 2018, Prime Minister Shinzo Abe first mooted the idea of revisiting Article 9. Later, Prime Minister Yoshihide Suga and now Prime Minister Fumio Kishida also showed renewed interest in revisiting the constitution to reinterpret the peace clause.⁶

The United States (US) entered the World War (WW) after the Pearl Harbour attack in 1941 by Japan's air force. It later afflicted the Japanese population with the traumatic experience of the atomic bombing in Hiroshima and Nagasaki. American diplomats primarily wrote Japan's 1947 constitution, and Article 9 was added to restrict Japan from going to war.⁷ Article 9 was crucial because the constitution reflected Japan's peace commitment and war experience.⁸

Japan had an aggressive history before WW II, most notably the invasion of Manchuria in 1931 and the start of the 2nd Sino-Japanese War in 1937. Japan rapidly grew its territory throughout the Pacific and Southeast Asia. It attacked Korea in 1910, Manchuria (northeastern China) in 1931, Indochina (present-day Vietnam, Cambodia, and Laos) in 1940, the Philippines, Thailand, Malaysia, and Singapore in 1941, the Dutch East Indies (Indonesia) in 1942, and British Burma (Myanmar) in 1942.⁹



After WW II, Japan rarely involved its Self Defence Forces (JSDF) in ground battles. Similarly, Japan did not consent to place an army contingent under the International Security Assistance Force (ISAF) in Afghanistan, as the pacifism of its constitution constrained it. Japan, however, contributed economically towards reconstruction projects in

Afghanistan. After the US troops withdrew, Japan continued to assist Afghanistan. In 2022, it allocated US\$ 25 million to improve infrastructure in 165 schools (rehabilitation centres, classrooms, and other facilities)¹⁰, granted US\$ 3 million to upgrade the Salang Tunnel Project,¹¹ and provided US\$ 64 million as humanitarian and development aid.¹²

With its membership in the Quadrilateral Security Dialogue (QUAD) in 2007, along with the US, Australia, and India, Japan has begun participating in Joint Naval Force exercises to counter China in the Asia Pacific region.¹³ In 2019, US\$ 1.9 trillion worth of US trade was conducted with the Asia Pacific region.¹⁴ Japan and China have claims over the East China Sea, and Japan also shares the QUAD members' concerns about China. The stated aim of QUAD is to ensure a "Free and open Indo-Pacific",¹⁵ an idea first mentioned by Prime Minister Shinzo Abe in 2016 during the Tokyo International Conference on African Development (TICAD VI) held in Kenya. Similarly, Japan may join AUKUS, a new trilateral alliance consisting of Australia, the UK, and the US, which aims to strengthen security and defence cooperation among these states against China.¹⁶

Japan's shift towards a more proactive defense policy is likely to have serious implications for regional and global security, particularly in the Asia Pacific region, as it responds to perceived threats from China and North Korea.

Japan has also started spending more on its defence budget and intends to spend 43 trillion yen (US\$ 330 billion) over the next five years.¹⁷ Its defence expenditure will reach 9 trillion yen (US\$ 66 billion) in 2027, equivalent to 2% of Japan's GDP in 2023, which means that Japan may not meet its 2% GDP target in 2027 while still being on track to become the world's third-largest military spender.¹⁸ Japan spends huge amounts of money on developing modern military technology and advancing its navy and aviation forces. It buys aircraft carriers, fighter jets, and anti-missile defence systems from the US and other countries like Italy and the UK. It is also investing in Ballistic Missiles and the advancement of Maritime security.¹⁹

Analysts are discussing several reasons Japan broadened its defence policy in 2022. US support the new defence policy, which mentions China, North Korea, and Russia as reasons for concern for Japan.²⁰ Last year, North Korea launched 37 ballistic missiles, making Japan feel defenceless despite the deployment of US forces on Japanese soil.²¹ Taiwan is too close to Japan for its comfort if it heats up. Russia is being viewed as a threat after the Russian-Ukraine war.²²

The debate to modify or delete Article 9 thus assumes significance. Japan is preparing itself, with obvious approval from the US, for potential conflict in the Asia Pacific region, just as the US is strengthening India's capacity and capability to play a frontline role in Asia Pacific. However, ASEAN countries, such as the Philippines and Malaysia, which suffered Japanese occupation during WW II, might be worried about Japan's military reorientation. Japan is not a permanent member of the UN Security Council but has been aspiring to become one. Policy experts in Japan wish to extend their country's foreign policy beyond its relationship with the US and have a say in world affairs.²³

Japan's move away from pacifism may also have broader implications for global peace and security. It would lead to a shift in the international security landscape. It may contribute to increased tensions between the US and China, particularly in the Asia Pacific region, as it responds to perceived threats from China and North Korea.

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About Insight and Author

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The Future of Religious Minorities in India

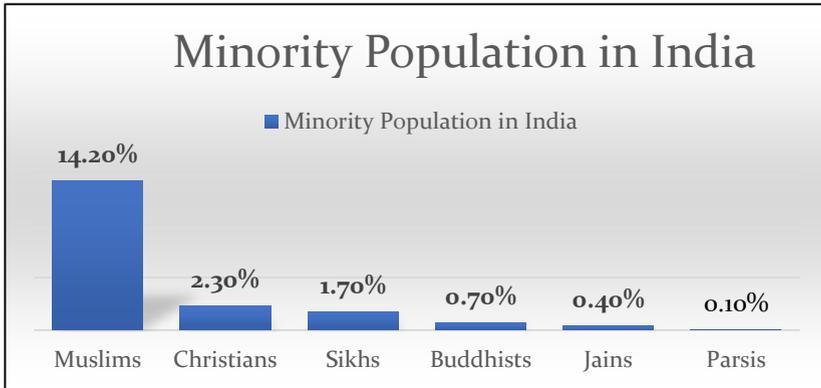
Hadia Ibrar

Abstract

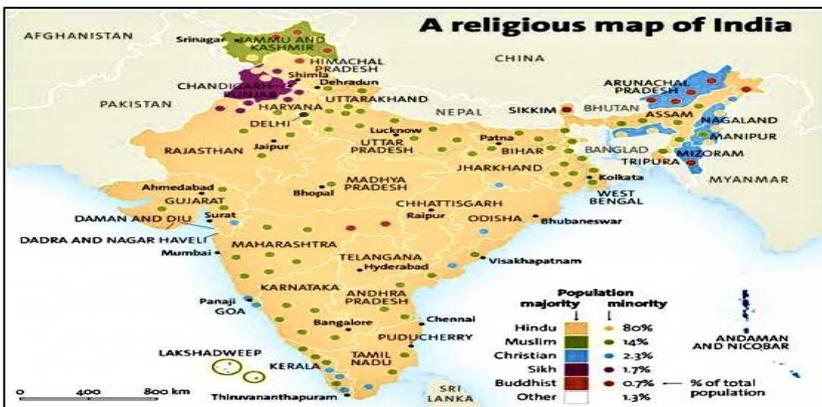
This INSIGHT discusses the difficulties religious minorities in India face, particularly under the BJP government's Hindu nationalist policies. It examines the effects of these policies on Muslims, Christians, Sikhs, and other minorities, detailing incidents of violence, discrimination, and legislative changes. It underscores the need for enhanced protection of minority rights and stresses the significance of international focus on these issues.

Keywords: Religious Minorities, Discrimination, Hindu Nationalist Policies, Secularism, Hindutva.

India has distinct ethnic, religious, linguistic, and cultural diversity. With this diversity in mind, a secular constitution was adopted shortly after independence in 1947, establishing a moral separation of state and religion. However, the genuine spirit of secularism gradually eroded due to power struggle among major political parties. Millions of Indian Muslims, Christians, and other religious minorities feel more insecure because of this phenomenon. Muslims are the largest population, followed by Sikhs and Christians among religious minorities in India. The history of violence against religious minorities predates 1947, but under the Modi regime, the situation has aggravated since 2014. The Indian government, led by the Bhartiya Janata Party (BJP), has been pursuing saffronisation in India for years, promoting Hindu nationalism and implementing a Hindu nationalist agenda with absolute disregard for human values, ethnic diversity, and secular democratic norms.



Hindutva views Islam as a threat and elevates Hinduism above all other religions, leading to increased majoritarianism, violence, and discrimination. Under Modi's rule, the concept of "Hindu Rashtra" intensified tensions, with some Hindu nationalists envisioning India as a Hindu nation. Political scientist Christophe Jaffrelot argues that Hindu majoritarianism results from sustained efforts by fundamentalists and nonpartisan Hindus supporting nationalist ideas. Hindu majoritarianism in India has disrupted the country's cultural and religious traditions and set 1.4 billion people astray. The BJP's Hindutva policies have helped Modi win re-election in 2019 by exploiting ethnic and religious divides, resembling fascist leadership to gain political influence.



The BJP gained significant Hindu support after approving the Ram Mandir construction in Ayodhya following the 1992 demolition of the Babri Masjid by Hindu extremist factions. After winning the elections of 2019, the BJP began construction of Ram Mandir, causing disenchantment among Indian Muslims. The decision of the Indian Supreme Court in 2019 favouring BJP intensified tensions.

The abrogation of Article 370 in 2019, changing the constitutional status of Indian Illegally Occupied Jammu and Kashmir (IIOJK), heightened tensions between India and Pakistan and created unrest among Kashmiri Muslims. Hindu nationalist mob attacked Kashmiris, leading to prolonged curfews and internet shutdowns, causing immense hardship for the people.¹

India's parliament passed a Citizenship Amendment Bill in 2019, offering amnesty to non-Muslim illegal immigrants from Pakistan, Bangladesh, and Afghanistan. The BJP claims that this will provide sanctuary for people fleeing religious persecution. It allows people from six religious minorities in IIOJK Hindu, Sikh, Jain, Buddhist, Parsi and Christian to live or work in India for six years to be eligible for citizenship by naturalisation. Critics argue that this is part of the BJP's agenda to marginalise Muslims. The bill has led to nationwide protests, violence, house demolition, and arrests, resulting in over 53 deaths and 45 Muslim casualties.²

The BJP-led Indian government has been promoting Hindu nationalism and Hindutva-driven policies for years, disregarding human values.

The "Muslim Marriage Act" of 2019 further fuelled tensions, criminalising Triple Divorce and setting the legal marrying age at 18. This move led to widespread protests within the Muslim community, resulting in thousands of arrests.

Human Rights Watch report of 2019 named "Violent Cow Protection Groups in India" reveals that BJP members used communal rhetoric to incite a violent vigilante campaign against the beef and cattle trade, resulting in 44 deaths between 2015 and 2018 based on suspicion of cow smuggling.³

The BJP government faced international criticism for its handling of religious minorities, leading to protests against the 2020 farm laws from the Sikh community.⁴ The lack of government attention escalated the tensions, with activists facing arrests and blocked social media accounts.⁵

In 2021, over 9,000 hate crimes and acts of violence against Adivasis and Dalits were reported without penalty, while over 50,000 suspected crimes against scheduled castes were also reported.⁶ Violent Hindu extremists have targeted the Christian community in India. There have been 525 recorded attacks against Christians in the first eight months of 2023. In the state of Manipur, Hindu fundamentalists destroyed 249 churches in less than three days in May 2023.⁷ The government's perceived inaction during violent incidents led to criticism and accusations of being a silent spectator. The violence displaced families and resulted in over 150 deaths, with many cases unreported.

Many human rights groups have criticised the BJP government for not doing enough to protect minorities in the country. The UN Human Rights Report 2017 highlighted the country's failure to defend its right to security, liberty, and life.⁸ The Human Rights Watch's report in 2019 alleged that the BJP government failed to enforce Supreme Court directives to prevent and investigate mob attacks on religious minorities and vulnerable communities. The Indian government has been urged to implement UN member states' recommendations from the Universal Periodic Review of November 2022, which address minority community protection, gender-based violence, and human rights. However, India has ignored these recommendations, leading to increased violence against religious minorities and regression in human rights since 2017 under BJP rule.⁹ Notably, 21 countries have urged India to improve the protection of freedom of religion and religious minorities.

The relations between India and Pakistan are highly strained, with heightened nationalist emotions and the Kashmir issue serving as a focal point. To divert public attention from internal problems and for domestic political gains, the BJP Government can always engage in a blame game, leading to military conflict with Pakistan. The stability of South Asia is seriously threatened by the polarising nature of Indian society, which affects India's diplomatic ties not only with Pakistan but also with other

neighbouring countries. This underscores the critical need for international cooperation and communication to address the underlying causes of communal unrest and advance regional peace.

It is also interesting to note that the rise of the BJP as a Hindutva-driven, RSS-influenced, nationalist party directly corresponds with the enhanced strategic realignment of India with the US-led West against their common rival, China. In other words, the West supports the extremist BJP against China, and correspondingly, the US-led West also exercises greater leverage as far as the internal stability of India is concerned.

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Pak-Iran Trade Ties

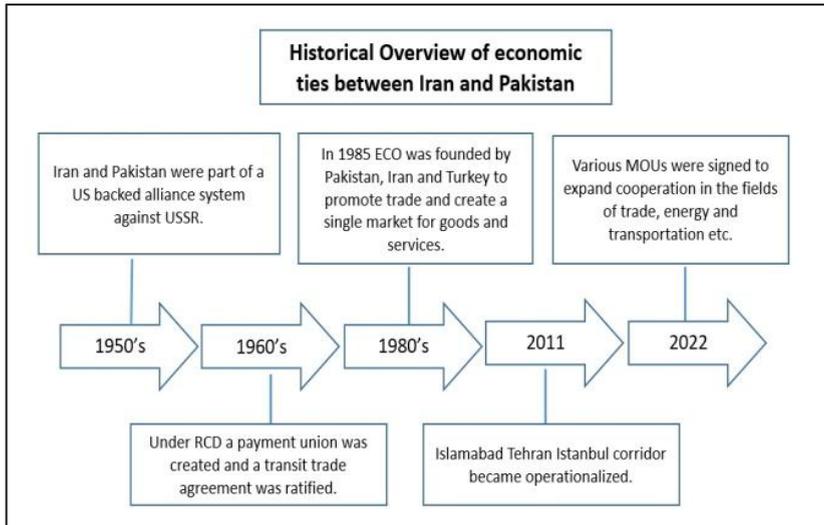
Hamza Amin

Abstract

This INSIGHT discusses the underexplored trade potential between Pakistan and Iran, emphasising the significant gap between current trade volumes and achievable targets. It identifies critical challenges such as trade imbalances, US sanctions, smuggling, and inadequate payment mechanisms as primary inhibitors. Highlighting the asymmetry in export growth rates and the impact of US sanctions on pivotal projects like the Iran-Pakistan gas pipeline, the analysis underscores the complexities of bilateral trade relations. The role of informal financial systems and the necessity of formal agreements, alternative financial channels, and strategic diplomatic engagements are also elaborated. The insight suggests that realising the full trade potential requires concerted efforts in policy-making and international diplomacy, particularly in securing US sanction waivers and integrating Iran into broader regional initiatives like the Belt and Road Initiative.

Keywords: Trade Potential, Trade Balance, Payment Mechanisms, Crossing Points, Smuggling.

Trade is one of the most viable means to connect peoples, states, and societies. Pakistan and Iran, despite being neighbours, having historical, cultural, geographic, religious, and ethnic linkages, have not been able to realise their trade potential fully. This is evident from the current volume of formal bilateral trade between Pakistan and Iran, which stands at US\$ 2.3 billion, whereas the actual trade potential is expected to be above US\$ 5 billion.¹ Pakistan's foreign minister also stressed the need "to tap the vast scope in Pak-Iran trade" during his meeting with the Iranian counterpart in May 2022.² A historical overview of economic ties between Iran and Pakistan is presented in the figure below:-



Major hurdles in enhanced trade cooperation between Pakistan and Iran include trade imbalance, US sanctions on Iran, smuggling, and lack of a credible payment mechanism. In 2022, Iran's exports to Pakistan stood at US\$1.448 billion, while Pakistan's exports to Iran were US\$842.8 million. During the past 24 years, Iran's exports to Pakistan have increased at an annual rate of 13.5%, while Pakistan's exports to Iran have decreased up to 44% annually.³

US sanctions on Iran have negatively affected trade ties between Pakistan and Iran. The Iran-Pakistan gas pipeline is a classic case study in this regard. In 2011, Iran completed the construction of its part of the project.⁴ On Pakistan's side, the construction work was supposed to be completed by the end of 2014. However, Pakistan suspended the construction of the gas project owing to threats of heavy sanctions from the US.⁵ Consequently, these sanctions adversely impacted Pakistan's energy imports from Iran. As per the media reports, Iran has warned Pakistan to either complete its part of the project or face a penalty of US\$ 18 billion.⁶

Smuggling and other illicit activities from across the border also hamper Pak-Iran trade. A report submitted to the Prime Minister's Office on the smuggling of Iranian oil revealed that annually, 2.802 billion litres of oil are smuggled to Pakistan, incurring 60 billion Rupees of revenue loss.⁷

The limited number of legal crossing points is one of the primary reasons for increased smuggling, as only three legal crossing points exist, i.e. Mirjaveh-Taftan, Gabd-Rimdan, and Mand-Pisheen corridors. Similarly, the lengthy documentation process, inordinate delays in customs clearance, and corrupt practices of officials incentivise illegal activities like smuggling.

In 2017, Pak-Iran trade negotiating committees held two rounds of discussions and projected a trade volume increase to US\$5 billion by 2021. However, this did not materialise mainly due to the non-availability of any credible payment mechanism without formal banking channels.⁸ Consequently, Hawala and Hundi systems and other informal means are being used as instruments of financial dealings.

To enhance Pak-Iran bilateral trade, it is imperative to formalise the free trade agreement. This will help reduce tariffs and ensure greater market access to goods and services of both countries. Pakistan's Prime Minister mentioned the acceleration of work on the free trade agreement between Pakistan and Iran during his visit to Gawadar in May 2023. Still, no tangible steps have been taken so far. Addressing non-tariff barriers, such as Iran's phytosanitary measures on commodities like citrus, mango, rice, poultry, and meat, is also necessary.⁹

To avert US sanctions, alternate financial channels must be explored, given the absence of formal banking ties. Barter trade and trade in local or third-country currency may be suitable alternatives. In June 2023, Pakistan notified a business-to-business barter mechanism.¹⁰ A Rupee-Riyal arrangement where Iran deposits a certain portion of its oil revenues in Pakistani banks to purchase goods can also strengthen economic links. Likewise, initiating the registration of Special Purpose Vehicle (SPV) focused on commerce and trade could also aid bilateral trade expansion.¹¹

During the past 24 years, Iran's exports to Pakistan have increased at an annual rate of 13.5%, while Pakistan's exports to Iran have decreased up to 44% annually.

Pakistan's strategic interest is to diversify its oil and gas sector imports. The foreign office needs to diplomatically engage the US to secure a

waiver for trade in oil and gas with Iran. Such waivers were granted to 8 countries, including China, Italy, Greece, Turkey, Taiwan, Japan, South Korea and India in 2018.¹² In a recent meeting of the National Assembly Standing Committee on Foreign Affairs, concerns were raised about Pakistan's inability to seek a waiver for oil trade with Iran, urging the Ministry of Foreign Affairs and Ministry of Commerce officials to pursue options aggressively to secure such waiver.¹³

Opening border markets is also significant in reducing smuggling and increasing formal bilateral trade between Pakistan and Iran. On May 18, 2023, the Iranian President and Pakistan's Prime Minister jointly inaugurated a border market linking Pishin in southeast Iran to Mand in Pakistan's southwest. This market is one of the six being constructed together by Pakistan and Iran.¹⁴

Lastly, including Iran in BRI can go a long way in expanding Pak-Iran trade ties. CPEC, the flagship project of BRI, has two significant components: infrastructure development and energy cooperation. Iran, an energy-abundant country with greater infrastructure development capacity, can effectively fulfil Pakistan's energy requirements and improve regional connectivity for enhanced trade. During a Pak-Iran joint Chamber of Commerce and Industry meeting, the Iranian ambassador to Pakistan also reiterated Iran's willingness to contribute to this "giant project".

In summary, the Pak-Iran trade has great potential. However, various challenges, including US sanctions on Iran, smuggling, and high tariffs on multiple commodities, hamper the optimal use of trade potential. Nevertheless, these challenges can be overcome if both sides show resolve and political will to improve trade ties.

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US' Indo-Pacific Strategy: Implications for Pakistan

Fatima Saleem

Abstract

This INSIGHT analyses the geopolitical shifts in the Indo-Pacific region, focusing on the United States' (US) Indo-Pacific Strategy (IPS) to counter China's influence. It highlights the strategic transition from Asia-Pacific to Indo-Pacific, indicating a significant shift in US foreign policy. ASEAN's balancing act between US and Chinese interests reflects the region's complex power dynamics. The evolving situation in the Indian Ocean Region, indicative of a multipolar world order, necessitates strategic recalibration by regional actors, particularly Pakistan, in response to the deepening US-India partnership and its implications for regional stability.

Keywords: Indo-Pacific Strategy, Strategic Transition, Military Alliances, Technological Advancement.

The Asia-Pacific (APAC), comprising East Asia, South Asia, the Western Pacific, and the Indian Ocean, hosts more than half the world's population, nearly two-thirds of its economy, and seven of its largest militaries.¹ Seeing the region as the epicentre of global geopolitics, the US launched its Indo-Pacific Strategy (IPS) in February 2022 to “firmly anchor” in the region. Rekindling the spirit of previous administrations, the strategy is premised on the principles of:-

- Advance a Free and Open Indo-Pacific.
- Build connections within and beyond the region.
- Drive regional prosperity.
- Bolster Indo-Pacific security.

- Build regional resilience to transnational threats.

The rebranding of the region from APAC to Indo-Pacific shows that it remains central to Washington's foreign policy and is part of a larger geopolitical construct. The new framework aims to form a consortium of like-minded countries to promote US-led rule-based order by merging the theatres in East Asia, South Asia, the Indian Ocean and the Western Pacific. The strategy emphasises "defending US' interests" through containment of China via militarisation of the region, transfer of critical technologies and forging alliances and regional partnerships.² In its action plan, it discusses the Indo-Pacific Economic Framework for Prosperity (IPEF) as a counterweight to the Belt and Road Initiative (BRI) by strengthening ASEAN, supporting India's rise, delivering on the Quadrilateral Security Dialogue (QUAD) and expanding US-Japan-Korea cooperation while promoting good governance and accountability in the region. Through arrangements like QUAD and AUKUS, the US is widening its footprint in the region, promoting the arms race, undermining non-proliferation and altering the strategic balance of the Indo-Pacific solely to keep the Asian giant under check.

In its diplomatic and academic discourse, China deliberately avoids using Indo-Pacific and instead uses Asia-Pacific to describe the region. Chinese have termed the IPS as a 'fantasy targeting China'.³ Even though Beijing still has not produced a documented response to the IPS, it is well aware of its being an anti-China bloc, resulting in increased polarisation in the region.

India appears several times in the IPS and is referred to as "strong India", "India as a net security provider", "India is a like-minded partner", and "Leading India in South Asia".⁴ Its key role in the region has paved the way for its military ascendancy, increased diplomatic outreach and a growing economic clout.

This has infused an exaggerated sense of superiority among Indians, seen in its aggressive posturing towards other states.

The Japanese have labelled the region as a "Confluence of the two Seas". Japan's strategy for the region is known as "Free and Open Indo-Pacific"

(FOIP). It is pursuing various policies, of which it views Washington as its “security guarantor”.⁵

Following a policy of integrated deterrence, Australia will be provided three Virginia-class submarines by the early 2030s, thus demonstrating that the US is central to Australia’s defence capabilities and force structure.

As ASEAN nations find themselves caught amid great power politics, it is becoming increasingly difficult to remain neutral. To ensure centrality and independence and reap maximum benefits from BRI and IPEF, the economic bloc launched its ASEAN outlook on the Indo-Pacific (AOIP) to promote regional integration and meaningful cooperation with partners.

Bloc	2020	2021	2022
ASEAN-US	US\$ 362.2 billion	US\$ 441.7 billion	US\$ 520.3 billion
ASEAN-China	US\$ 685.28 billion	US\$ 878.2 billion	US\$ 975.3 billion

The table shows that China has become ASEAN’s largest trading partner and a significant contributor to GDP growth. Therefore, ASEAN nations will have varying degrees of commitment to the IPS as many of these states are within Beijing’s economic grasp. This will ultimately impact its long-term viability.⁶ Foreseeing this, the US and its allies are working towards building alliances with ASEAN nations, and under this, Japan has been enhancing its defence ties with Thailand, the Philippines, Vietnam, and Indonesia.⁷

One can, therefore, say that considering the varying national interests of each state, the strategy is perceived differently by all key players, and this will impact the future of the IOR. Under the current circumstances, the following can be predicted:-

	Probability			Rationale
	Low	Medium	High	
Polarization of Indo-Pacific	x	x	✓	China and the US are vying for influence through alliances and partnerships. Indo-Pacific will therefore be divided into two blocs; led by China and the US
Nuclearization of the region	x	✓	x	Through arrangements like AUKUS, vertical and horizontal nuclear proliferation in the region might occur
De-dollarization	x	x	✓	In May 2023, Association of Southeast Asian Nations (ASEAN) in its 42 nd Summit decided to promote trade in regional currencies. These moves depict an attempt by APAC to decrease their reliance on the US dollar
AUKUS+	x	✓	x	To enhance the defence capabilities of its allies, Japan, South Korea and India might join
QUAD+	x	✓	x	To enhance diplomatic outreach, South Korea and Vietnam might be included
US-China war	✓	x	x	Due to deep economic linkages, in the near future, there might not be an all-out war between both countries however, increased incidents of cyber-attacks and proxy warfare should be expected

Source: Author

The Indian Ocean Region (IOR) has become the epicentre of strategic competition. It is being increasingly weaponised with states competing to achieve regional dominance, access to resources and control over maritime routes. This has significantly altered the region's strategic balance and led to new frameworks within an emerging multipolar system. There is also an enhanced trend of regional groupings, which has led to increased securitisation of the IOR, with several countries introducing their version of IPS.

Australia's Indo-Pacific policies result from its defence and foreign policy white papers, which aim to enhance its defence capabilities. The ASEAN outlook on the Indo-Pacific was published in 2019, and states have collectively adopted a carefully calibrated regional approach to ensure neutrality and put ASEAN's interests first. India's Maritime Security Strategy of 2015, its Act East policy and its National Security Strategy of 2019⁸ reflect its stance in the IOR, centred primarily on the containment of China.

The IOR lies in the East of Pakistan, and the country has limited stakes in the region. However, its geographical position has made it impossible to remain insulated from the effects of unfolding great power rivalry.

US-India Joint Statement of June 2023 reaffirms that Washington will continue to give preferential treatment to India in the information, political and economic domains. This will ultimately unhinge stability in the South Asian region.

As political volatility and economic vulnerability continue to plague Pakistan, the security

As political volatility and economic vulnerability continue to plague Pakistan, the security situation along CPEC routes will likely deteriorate.

situation along CPEC routes will likely deteriorate. Under such circumstances, it is high time that Pakistan came out of the Cold War thinking and viewed the regional and global strategic realignments with an open mind to better deal with the storm brewing in the Asia-Pacific.

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Growing Pension Bill and its Impact on the Economy

Arshad Ali Khan

Abstract

This INSIGHT examines Pakistan's growing pension bill and its impact. The country grapples with a non-contributory, defined benefit system, burdening its finances heavily. The analysis advocates a transition to a defined-contributory pension scheme, highlighting its potential to reduce government expenditures, broaden pension access, and stimulate the financial market. The focus is on transforming the pension challenge into a viable opportunity for long-term fiscal health and economic stability.

Keywords: Pension, Non-Contributory, Defined Benefit, Defined-Contributory, Financial Security, National Exchequer, Financial Market.

Like many other nations, Pakistan also struggles to manage ever-escalating pension bills. The existing pension scheme, designed as a non-contributory, defined benefit (DB)/pay-as-you-go (PAYG) system for providing financial security to retired public sector employees, is troubling the national exchequer. Therefore, growing pension costs necessitate a significant policy shift from a non-contributory DB/PAYG pension scheme to a defined-contributory (DC) pension scheme. Such a scheme has prospects of long-term benefits, including reducing the government's pension expenditure, expanding pension coverage to the non-regular workforce and growing the financial market.

For the past decade or so, the growing cost of the government, particularly the pension bill, has become an unwieldy constraint on our federal and provincial finances. State Bank of Pakistan (SBP), in its 2021 report, commented that the Federal Government's pension expenditure is increasingly becoming unsustainable. When we look at the federal

pension bill, there has been a significant rise. Pension bills grew at a Compound Annual Growth Rate (CAGR) of almost 14% during 2012-23. The relative share of budgetary spending on pensions has risen from 4.81% to 5.53% during the previous decade (2012-2023). Meanwhile, the pension bill accounted for around 8.5% of the total revenues collected during the same period. As regards provinces, there is quite a different story. In its 2020 report, the World Bank stated that pension bills grew from 6.7% and 4.5% of the provincial revenues in Punjab and Sindh to about 12% of the local revenues during 2012-19.¹



Source: <https://profit.pakistantoday.com.pk/2022/10/02/the-rising-pension-problem-in-the-private-sector/>

Likewise, official Khyber Pakhtunkhwa (KP) government reports reveal that pension payments grew from PKR 11 billion in 2010-11 to PKR 84 billion in 2020-21, showing a 7.64 times increase in nominal terms (F. D. GoKP 2018, F. D. GoKP 2021). In his recent article, Mr. Taimur Jhagra notes that Pakistan's cumulative pensions bill grew 50 times in two decades, doubling roughly every four years.² Likewise, in its 2020 report, the World Bank made actuarial projections to suggest that salary and pension costs will persistently grow, crowding out other public expenditures in the coming years.³

Factors responsible for the growing pension bill include the increasing size of the government, a disproportionately high share of non-gazetted employees, i.e. 95.3% of total Federal Government employees (SBP 2021),

unfunded nature of pension, high replacement rate due to early retirements, improving life expectancy and increasing headcount of pensioners, retrospective increases in pensions, commutation and restoration facilities offered to pensioners and generous survivorship benefits.

One implication of ballooning pension bills is squeezing the development budget because all other heads, such as debt-servicing, defence expenditure, etc., are more flexible. Besides this, excessive public borrowing reduces the private sector's ability to borrow from the financial industry, and a growing fiscal deficit leads to currency depreciation, rising inflation, growing interest rates and eroding household purchasing power. Furthermore, pension bills as a percentage of total expenditure (both at the Federal and Provincial levels) exceeded spending on health and education in 2020 (SBP 2021).

Recent developments also anticipate the future scenario. KP government has introduced a contributory pension scheme for its employees since 1st July 2022. Likewise, former Federal Finance Minister Mr. Ishaq Dar, on 24th June 2023, announced pension reforms (Dar 2023), which bar retired officers (BS-17 & above) from drawing multiple pensions.⁴ Retired officers who get re-employed must opt for either the pension or the salary of a new job. Dependents of a pensioner are eligible to receive a family pension for a maximum period of 10 years after the death of a pensioner and his spouse.

Accelerated public sector spending on non-development segments is worrisome. The same is true for the pension bill. Alternatively, improvements in the pension framework can help create necessary fiscal space for development needs and manageable future pension payments. However, this would require resolute pension reforms, such as gradually phasing out the existing revenue-funded DB/PAYG system and introducing the DC pension scheme. This will accrue certain benefits, such as the transition from a DB pension system to a DC pension system, which will gradually reduce the fiscal liability of the government. The defined-contributory (DC) pension system will expand the country's capital markets by instituting pension fund holdings. Workforces not covered by public-funded pension schemes would also have the choice to

opt for voluntary pension schemes managed by third-party fund managers. Pension funds may be used to buy stakes in state-owned and private business enterprises, helping them grow further.

The way forward includes long-term and short-term reforms. Short-term reforms include the idea that early retirements may be discouraged and late retirements incentivised. Superannuation age may be increased. Retrospective pension increases may be stalled to avoid exponential increases in pension obligations. To prevent early retirements, commutation and restoration benefits may be streamlined by reducing variance in the commutation factor and rationalising the age profile. To finance the pension bill for the existing DC scheme, the government may consider levying a progressively increasing pension contributory tax on its employees (Jhagra, 2023). The survivorship benefits may be rationalised to allow entitlement only to the widow, parents and minor children of a deceased employee/pensioner.

The long-term reforms include the existing non-contributory DB/PAYG pension scheme, which needs to be progressively phased out and substituted with a DC pension structure wherein retirement benefits are systematically linked with pre-retirement contributions. The government may introduce transition pathways for early career employees to switch to the DC pension scheme. New employees must be covered under the DC scheme. An enabling environment should be created before switching to a DC pension system. In this regard, a regulatory framework would be needed to protect

The long-term reforms include the existing non-contributory DB/PAYG pension scheme, which needs to be progressively phased out and substituted with a DC pension structure wherein retirement benefits are systematically linked with pre-retirement contributions.

pension-fund contributors from market risks/fraudulent practices. Public sector employees may be educated about the strengths and weaknesses of both existing and proposed pension schemes. Capacity building and incentivisation of the private sector to establish pension holdings besides diversification of the financial market by allowing international fund managers/pension holdings to accrue the desired dividends.

A concerted effort toward comprehensive pension reforms is imperative to effectively confront the substantial burden of Pakistan's pension bill. These reforms should meticulously balance the need for reliable retirement security for public employees with the broader goal of sustaining the nation's fiscal health and economic progress. Through such strategic measures, Pakistan can navigate the complex dynamics of its pension system, ensuring both immediate relief and long-term sustainability.

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Future of Regional Energy Integration: Pakistan's Perspective

Mr. Taimur Hussain

Abstract

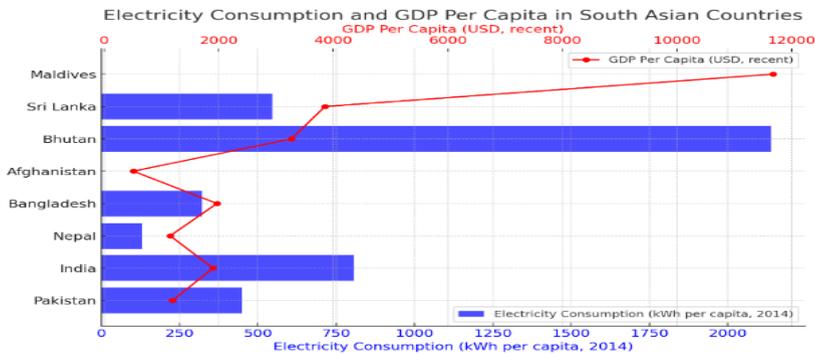
This INSIGHT analyses the prospects of Regional Energy Integration (REI) specifically from Pakistan's perspective, emphasising electricity requirements because South Asia lacks fossil fuel resources. It explores the correlation between energy consumption and growth, climate change and the need for Renewable Energy (RE), existing REI initiatives and their analysis, and finally, options for Pakistan.

Keywords: Regional Energy Integration, South Asia, Fossil Fuel, Energy Consumption, Renewable Energy, Climate Change, Growth.

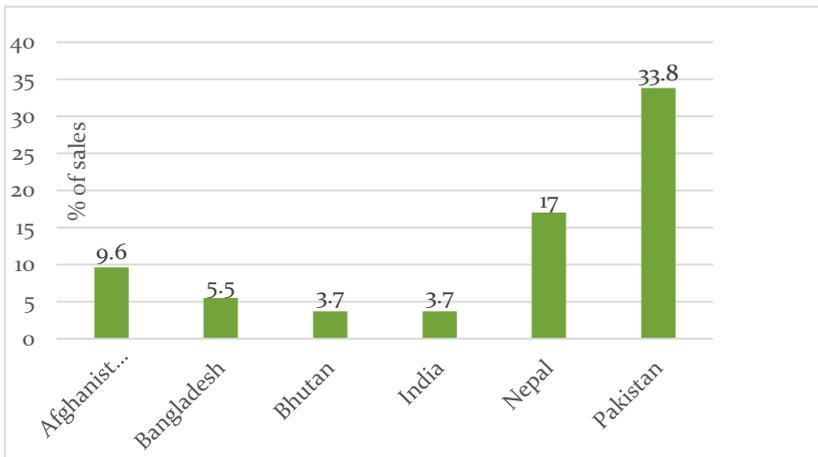
Eight countries of South Asia (SA) together cover 4% of the world's land area and 24% of the world's population.¹ If SA is viewed as a single entity, it is the fifth-largest economy in terms of Gross Domestic Product (GDP).² However, in terms of trade and connectivity, it is the least integrated compared to other regional groupings.³ In Regional Energy Integration (REI), the situation does not fare any better, especially for Pakistan.⁴

Pakistan's energy sector remains a significant hindrance to industrial development and growth. With a generation capacity of 39,772 megawatts (MW), Pakistan is grappling with an annual shortfall of over 5000 MW.⁵ Graphs 1 and 2 display the energy-growth linkage and losses due to electricity outages in SA countries. There is a general correlation between per capita energy consumption and growth. Pakistan lags behind the SA average in both categories.⁶

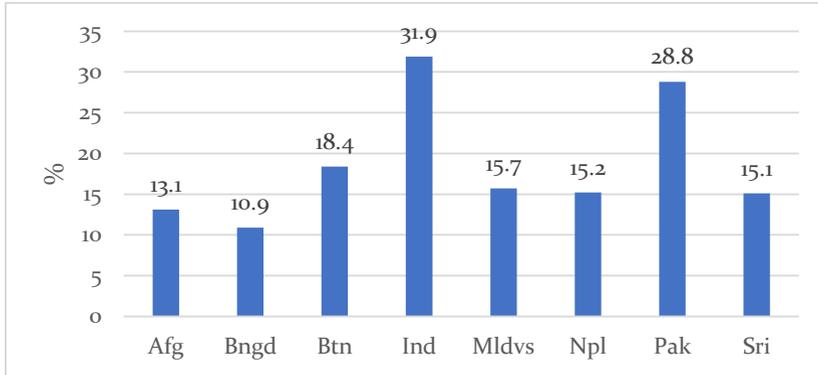
Graph 1: Energy and Economy Linkage



Graph 2: Representing Loss in Value (% of Sales) due to Electric Outages



The trend towards heavily relying on imported fossil fuels for energy generation across South Asian countries, apart from Bangladesh, underscores a significant economic and environmental challenge. This reliance is particularly pronounced in Pakistan, where 65% of energy production is based on fossil fuels. REI's potential in this context is enormous. It offers a structure to significantly reduce the financial drain associated with such imports, evidenced by the substantial proportion of merchandise imports dedicated to fuel, as depicted in Graph 3.

Graph 3: Fuel Imports as % of Merchandise Imports

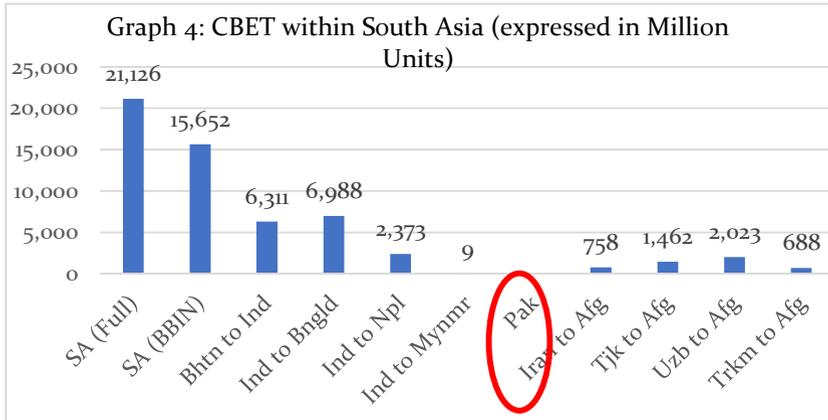
SA is the region most affected by climate change, with five countries ranking among the top 25 out of 180 in the risk index. This reflects a dire need to shift to greener energy solutions. Pakistan is 8th on the list.

In line with the United Nations (UN) Sustainable Development Goal-7 (SDG-7) of affordable and clean energy, all SA countries have great potential for REI. Despite having one of the world's highest insolation / solar irradiance, Pakistan has produced just 568 MW in 13 years (2010-23) against the much more projected potential, as displayed in Table 1.

Table 1: Electricity Generation Capacity of SA Countries

Country	Generation Capacity		
	Wind (MW)	Utility-scale solar (MW)	Hydropower (MW)
Afghanistan	67000	220000	23000
Bangladesh	-	-	4000
Bhutan	4825	-	263000
India	102778	750000	150000
Maldives	-	-	-
Nepal	3000	-	733000
Pakistan	131800	169000	60000
Sri Lanka	24000	-	21000
Total	333403	1139000	1254000

The existing Cross-Border Electricity Trade (CBET) is depicted in the graph 4. There are six REI initiatives from which Pakistan can benefit. A brief overview of the initiatives and their analysis is as follows: -



In 2004, the South Asian Association for Regional Cooperation (SAARC) Energy Centre was established to foster sub-regional cooperation. India's role was crucial in framing the SAARC Framework Agreement for Energy Cooperation (Electricity) 2014. This framework was designed to boost regional energy collaboration.⁷ However, the effectiveness of SAARC initiatives has been debated recently. Notwithstanding these challenges, progress has been reported in cross-border electricity trade among Bangladesh, Nepal, and India, per the World Bank's findings. Nonetheless, these developments should be considered within the broader context of SAARC dynamics.

The United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) has initiated a project to address the 'energy trilemma' in South Asian countries, focusing on energy security, affordability, and sustainability. The proposed roadmap for REI, formulated in 2018, outlines a comprehensive nine-step strategy. However, progress has yet to be impeded as negotiations between India and Pakistan still need to be completed at the initial step. The World Bank supports this project, providing grants and loans totalling US\$ 600,000. Under this initiative, Tajikistan and Kyrgyzstan are expected to supply 1,000 MW of power to

Pakistan via Afghanistan, although the project's advancement is currently hindered by instability in Afghanistan.⁸ Meanwhile, eleven energy projects have been completed under the China-Pakistan Economic Corridor (CPEC), and ten additional projects are ongoing.⁹

Both the Turkmenistan-Afghanistan-Pakistan-India Pipeline (TAPI) and Iran-Pakistan-India (IPI) projects were conceived to acquire cheap gas by accessing Iran and Central Asia (CA). However, both projects still need to be completed. Indian intransigence against Pakistan and undermining of SAARC in favour of other regional platforms like the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC) and Bangladesh, Bhutan, India, Nepal (BBIN) skirting Pakistan leaves little hope for REI from the East.¹⁰

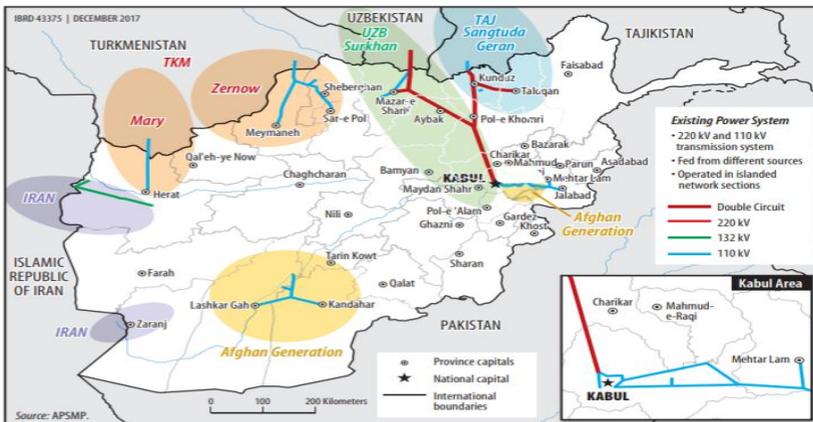
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Instability in Afghanistan hinders the transit of energy from Central Asia to Pakistan. Nevertheless, there lies an opportunity within Afghanistan itself. The country imports 85% of its electricity from four to five neighbouring countries, excluding Pakistan. Since Afghanistan has no unified, country-wide transmission system, its population centres along the border with Pakistan present a unique opportunity for energy trade. Notably, Pakistan's electricity demand in winter is about 35% lower than in summer. In contrast, Afghanistan's winter electricity needs surge to 150 - 180% of its summer consumption.¹²

Table 2: REI / CBET Potential of SA

Importing countries	Exporting countries		
	India	Pakistan	Bhutan
India	x	Peak power support possible	Hydropower export
Pakistan	Peak power support possible, particularly in winter	x	Unlikely
Bhutan	Thermal power for dry season support	Unlikely	x
Nepal	Thermal power for dry season support	Unlikely	Unlikely hydropower seasonally correlated
Bangladesh	Two interconnections in operation, 3 more planned	Unlikely	Hydropower export planned via India
Sri Lanka	Thermal power for dry season support	No scope	Unlikely
Afghanistan	Peak power support possible, transit through Pakistan	Peak power support possible	Unlikely

Figure 1: Mapping Afghanistan’s Electricity Grid System



The recommendations emphasise a strategic shift in REI for Pakistan, moving the focus from the East to the West, particularly towards the Central Asia-South Asia-1000 (CASA-1000) project and Afghanistan. This shift is in response to the current geopolitical climate, where collaboration with India appears unlikely.

Pakistan should continue engaging with the South Asia Regional Initiative for Energy Integration (SARI/EI), SAARC, and ESCAP to explore fair and reliable CBET options. The emphasis should be on

fostering connections with Central Asia through the CASA-1000 project, which aims to facilitate electricity trade from Tajikistan and Kyrgyzstan to Pakistan and Afghanistan.

It is recommended that the Ministry of Foreign Affairs (MoFA) and the Ministry of Energy (MoE) work with the World Bank to release funds essential for CASA-1000 and engage with the Government of the Islamic Emirate of Afghanistan (IEA) to facilitate the development of transmission lines.

A vital aspect of these recommendations is to utilise Pakistan's reduced winter electricity demand by supplying surplus energy to Afghan provinces that experience a spike in demand during the colder months. This approach not only aids Afghanistan but also strengthens Pakistan's role in regional energy dynamics.

MoFA is also advised to diplomatically engage with Muslim countries and the United Nations to raise awareness about the challenges of electricity scarcity during winter in the region and to secure funding and support for developing transmission infrastructure and CBET.

The recommendations urge the reinvigoration of the MoE (Power Division) and the China-Pakistan Economic Corridor (CPEC) Authority to expedite the completion of ongoing CPEC energy projects.

Lastly, the MoE may be urged to prioritise clean Renewable Energy (RE) initiatives and seek funding and assistance from international bodies like the Green Climate Fund, established under the United Nations Framework Convention on Climate Change (COP-17). This approach aims to enhance Pakistan's energy security and contribute to global efforts to combat climate change.

A comprehensive and forward-looking strategy is imperative to harness REI's potential and enhance Pakistan's energy security. This strategy should prioritise diversifying energy sources, expanding CBET, and fostering collaboration with neighbouring countries. Pakistan can significantly bolster its energy independence by focusing on renewable energy and leveraging regional partnerships, contributing to sustainable economic growth and national security. This strategic direction is vital

for Pakistan's energy sector and its broader socio-economic development and resilience in the face of global energy challenges.

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Pakistan's Engineering Sector: A Strategic Roadmap for Reducing Import Dependency and Fostering Indigenous Growth

Mr. Nadir Mohyuddin

Abstract

This INSIGHT examines Pakistan's efforts to reduce its reliance on imported engineering goods and foster domestic production. Highlighting the industry's significant GDP contribution alongside challenges like high costs and technological gaps, it evaluates Pakistan's regional competitiveness and proposes strategic interventions. These include shifting the government's role, enhancing regulatory frameworks, and focusing on technology transfer and human resource development to modernise Pakistan's engineering sector, decrease import dependency, and drive economic growth.

Keywords: Economic Landscape, Import Dependency, Gross Domestic Product (GDP), Contribution, Exchange Rate, Manufacturing Strategy, Engineering, Elements, Indigenous Growth, Self-Reliance, Technology Development Fund (TDF).

A comparative analysis of input of the Engineering Goods Industry of regional countries like India, China, Bangladesh, and Vietnam with Pakistan, focusing on elements crucial for manufacturing cost and efficiency based on data as of Fiscal Year 2018 - 2019, is presented in Table 1.¹

Comparative Analysis: Engineering Goods Industry Inputs 2018-19

Element	India	China	Bangladesh	Vietnam	Pakistan
Electricity Tariff (Cents/KWT)	8	8	9	8	17-20
Gas Tariff (US \$/mm BTU)	3.4	-	5.2	4.2	7
Minimum Wage Rate (US \$/Month)	72.67	351.2	63.26	171	112.78
Land Cost, Leasing Price (US \$/SQM)	80	40-80	-	140	20-40
Raw Water Cost (US cent/m ³)	46	45	30	48	18
Steam (US cent/kg)	1.3	1.64	-	1.2	1.1
Transportation (Diesel Rate US Cents/Liter)	105	102	78	80	110
Exchange Rate (1 US\$ / local currency)	72.90	6.97	83.99	23,502	143.80

Pakistan's electricity tariff is notably higher at 17-20 cents per kilowatt (KWT) compared to 8-9 cents of its regional counterparts. This indicates a potential disadvantage for energy-intensive processes in its Engineering Goods Industry, challenging its cost-effectiveness and competitiveness.

The minimum wage in Pakistan is competitive, at US\$112.78 per month. It is lower than China (351.2) and Vietnam (171) but higher than India

(72.67) and Bangladesh (63.26). This positions Pakistan favourably in labour cost, potentially making it attractive for labour-intensive manufacturing.

Land leasing in Pakistan, costing US\$20-40 per square meter, puts Pakistan in an advantageous position for being cost-effective compared with India (US\$80), China (US\$40-80), Bangladesh, and Vietnam (US\$140). This positively influences the country's manufacturing cost and makes it an attractive location for industrial setups.

Pakistan benefits from relatively lower utility expenses, with raw water costing US\$ 18 per cubic meter and steam 1.1 cents per kilogram. These costs are lower than most of the regional counterparts, contributing to potential cost savings in manufacturing and enhancing competitiveness.

Pakistan's exchange rate against the US Dollar is higher than that of its regional counterparts. A weaker currency will likely make export competitiveness more challenging for Pakistan as it raises the cost of importing raw materials and machinery, affecting the industry's cost dynamics.

The industry also faces employment challenges, including insufficient job opportunities and wage disparities, compounded by a shortage of skilled labour. This exacerbates the difficulties of expanding and further developing the sector.

Additionally, the engineering goods industry is burdened by various import duties, leading to higher production costs and reduced competitiveness. Higher input costs, such as raw materials and energy, further hurt the industry.

Pakistan's strategy to boost its indigenous engineering goods industry demands a holistic approach to reducing import reliance and enhancing self-reliance. This strategy necessitates a shift in the government's role from control to facilitation, creating an environment conducive to innovation, growth, and self-sufficiency in the engineering sector.

Vital strategic actions include the development of a comprehensive and long-term industrial policy involving stakeholders to avoid abrupt

business disruptions. Taxation reforms are crucial to optimise the implementation of R&D tax benefits, accelerate tax refunds, and ensure integrated sales tax processes across the value chain. Strengthening intellectual property laws and their enforcement is essential to protect innovation and support industry growth.

Collectively, these measures can create a regulatory environment that promotes growth and sustainability in the engineering goods sector. Capitalising on identified opportunities within subsectors like automobiles and electric fans, Pakistan can transition from import dependence to a self-sustained market presence.

A significant aspect of this strategy is technology transfer, which encourages a shift to higher technological standards and aligns with the national goal of replacing imports with domestic production. Incentivising technology transfer projects, formulating policies for continuous technological enhancement, and efficiently utilising the Technology Development Fund (TDF), assessed by engineering universities, are vital components.

Enhancing engineering standards and reinforcing the role of the Pakistan Standards and Quality Control Authority (PSQCA) is also critical. Proactive human resource development aligning workforce skills with industry demands is essential. This includes allocating 1% of the total annual budget for technical education in the initial five years and advocating for the autonomous governance of engineering universities with industry representation on their boards.

Harnessing foreign expertise to improve operational efficiencies and elevating skills and technology to augment the industry's human resource potential is also crucial. Expanding the industry's capabilities to support the economic and defence sectors reinforces its role in national development and security.

Pakistan must adopt a strategic approach that aligns with global standards and domestic needs to drive meaningful progress in the engineering sector. The country can significantly advance its industrial capabilities by implementing key initiatives such as technology transfer,

enhancing engineering standards, and fostering proactive human resource development. This approach centres on transitioning from import dependency to a self-reliant, innovative, and competitive engineering sector, bolstering economic growth and strengthening national security and development. It is a pathway to transforming the industry into a critical contributor to Pakistan's financial resilience and global competitiveness.

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Strategies for Creating New Startups in Pakistan

Mr. Hammad Ahmed Quraishi

Abstract

This INSIGHT explores the Pakistani startup ecosystem, outlining its growth, challenges, and strategies for improvement. It emphasises the significance of addressing funding, favourable policies, talent development, infrastructure and innovation to support startup growth. Coordination among stakeholders, including policymakers, investors, and entrepreneurs, is highlighted as crucial for unleashing the potential of Pakistan's startup sector.

Keywords: Startups, COVID-19 Impact, Entrepreneurship, Innovation, Funding Challenges, E-Commerce Growth, Economic Conditions.

Startups are entrepreneurs-led companies or businesses that address a market gap or introduce a product or service that may still need to be created. They are also defined as young companies founded to develop a unique product or service and bring it to market to make it irresistible and irreplaceable for customers. Like many other countries, Pakistan's entrepreneurship set-up witnessed a transformation during the COVID-19 pandemic due to changing work patterns where entrepreneurs explored opportunities to introduce new startups as per market demand.

Since the early 2000s, Pakistan's startup ecosystem has been evolving, gaining significant momentum around 2010 with increased local and international investment. Key growth areas of startups in Pakistan have been e-commerce ventures like Daraz and PakWheels, etc., and fintech with players like Careem, Uber, and Easypaisa. The years 2018-2019 marked a critical expansion phase across various sectors. Notably, with

around 64% of its population under 30, Pakistan's demographic makeup offers a fertile ground for innovation and entrepreneurship.

Currently, there are approximately 12,113 active startup programmes in Pakistan.¹ Funding for technology startups reached US\$ 350 million in 2021, followed by US\$ 322 million in 2022.² Despite these advancements, Pakistan's startup sector must catch up with more established ecosystems. In 2017, for instance, only nine Pakistani startups secured Venture Capital funding, compared to significantly higher numbers in Nigeria (34), the United Arab Emirates (38), and India (790). This gap underscores the need for enhanced support and innovative strategies to foster Pakistani startups' growth and global competitiveness.

The role of the Securities and Exchange Commission of Pakistan (SECP) is crucial for fostering a modern and efficient corporate culture to support the country's burgeoning startup landscape. SECP aids startups through various services, including company incorporation, provision of guidance, and conducting online courses. A critical development is the introduction of section 458A in the Companies Act 2021, which focuses on ease of business procedures, enhancing regulatory efficiency, and encouraging the use of technology in corporate operations.³ This amendment will boost the digital financial environment and create a more investor-friendly climate.

The Government of Pakistan, under Ehsaas interest-free loan programmes, offers financial support of up to Rs. 100,000 for individuals and up to Rs. 2 million for organisations. This initiative aims to kickstart new small businesses or enhance existing ones through an interest return scheme, fostering entrepreneurial growth.

Furthermore, the Special Technology Zone Authority (STZA) operates as a one-window framework, streamlining the registration process for businesses. STZA's integrated digital system simplifies compliance and business procedures, enabling companies to onboard digitally and connect with various government and regulatory agencies.⁴ This streamlined approach enhances transparency and significantly improves the ease of business, attracting more Foreign Direct Investment (FDI) into Pakistan.

Pakistan's startup ecosystem faces challenges that impede its growth and attractiveness to investors. Political instability and deteriorating economic conditions have led to a decreased flow of investment, which is crucial for developing new businesses. The country's economic environment needs to be more progressive and stable because cumbersome procedures involved in launching businesses deter potential investors.

There is a need to introduce more investment-friendly policies and tax relaxations for small businesses and startups. Pakistan's pool of angel investors and venture capitalists (VCs) is limited. This limitation is attributed to the national economic conditions, limited bank loan options, and investors' preference for investing in public sector enterprises or continuing family businesses over exploring new startups.

A significant number, approximately 90% of startup programmes in Pakistan fail. Factors contributing to this high failure rate include lack of funding, inexperience, high initial costs, and minimal available resources. Despite increased digitisation, many consumer markets in Pakistan still prefer cash transactions over digital transactions, hindering businesses' growth capital as they cannot develop a comprehensive transaction and credit history.

Startups often need more market research, business planning, and financial management expertise. The limited talent pool at the managerial level and in product development and inadequate opportunities for interaction with professionals further hinder startups' successful growth.

Research and Development (R&D) setups in Pakistan are minimal, leading to limited innovation and market impact. Vocational training opportunities provided by institutes and NGOs are concentrated in major cities and selected remote areas, thus not addressing the skill gap comprehensively.

Basic infrastructure such as uninterrupted electricity, high-speed internet, and office space are essential for startups to thrive. In Pakistan, these facilities are generally limited to major cities, placing startups in

other regions at a disadvantage when competing globally. These challenges demand comprehensive strategic interventions to nurture a robust, innovative, and sustainable startup ecosystem for Pakistan.

A comprehensive approach involving various policy recommendations is essential to enhance the startup ecosystem in Pakistan and elevate its global competitiveness. Initiatives such as introducing grants, subsidies, and supportive measures tailored explicitly for startups are vital. This includes exploring public-private partnerships to underpin national initiatives in this arena.

Implementing frameworks like the STZA Framework and introducing and regularly reviewing startup-friendly policies is imperative. These efforts should provide tax incentives, streamline registration processes, and create fertile ground for innovation. Establishing a more investment-friendly environment by creating angel investor networks and venture capital funds is necessary to facilitate vital connections between startups and potential investors.

Skill development through vocational training courses in technology innovation, marketing trends, and business management should be integrated into the education system at all levels. This strategy is geared towards equipping aspiring entrepreneurs with the essential skills needed for successful ventures. Additionally, improving online business infrastructure, specifically internet connectivity and customer-friendly digital payment methods, will significantly boost the growth of tech startups nationwide.

Encouraging R&D investment in the business sector is another crucial aspect. Incentivising investments in research and innovation can achieve this. Bridging the gap between academia and the industry is also vital. This can be done through collaborations that facilitate research, development, and innovation, thus blending theoretical knowledge with practical application.

A collaborative and strategic effort is crucial to actualising the vast potential within Pakistan's startup landscape. Policymakers, investors, and entrepreneurs must work together to overcome prevailing

challenges, create a nurturing environment, and implement policies that foster innovation and entrepreneurship. By focusing on building a supportive ecosystem, enhancing digital infrastructure, and encouraging research and development, Pakistan can pave the way for a vibrant startup culture. This collective endeavour will be instrumental in unlocking the latent potential of the startup sector, propelling it towards national and global success.

By focusing on building a supportive ecosystem, enhancing digital infrastructure, and encouraging research and development, Pakistan can pave the way for a vibrant startup culture.

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Influx of Arms and Ammunition from Afghanistan into Pakistan: A Legal Perspective

Sheherazade Amin

Abstract

This INSIGHT discusses the consequences of the US withdrawal from Afghanistan, revealing how US-made weaponry left with the Afghan National Defence and Security Forces ended up fueling cross-border terrorism, notably escalating attacks by the Tehreek-e-Taliban Pakistan. It underscores the urgent call for accountability and global collaboration to mitigate these growing regional security threats.

Keywords: Terrorism, Humanitarian and Economic Strain, Demilitarising Afghanistan.

The United States' (US) withdrawal from Afghanistan was completed by the 30th of August 2021, despite the Taliban toppling the government earlier in the month.¹ The Pentagon reached this decision as they realised the humanitarian and economic strain the War on Terror was having. However, it was announced after the killing of Osama bin Laden in 2011 that the eventual process of demilitarising Afghanistan would begin.

In December 2018, it was decided between the US government and the Taliban that the US would eventually demilitarise Afghanistan, completely erasing its presence in Afghanistan. On 29th February 2020, the US and the Taliban signed a peace agreement. It detailed a complete withdrawal of US troops over fourteen months. Along with other particulars, this agreement specified that the Taliban would prevent affiliates of Al-Qaeda and other militant non-state actors from operating within Afghanistan. It has been over two years since the complete

withdrawal of US troops from Afghanistan, and this exercise has led to several issues developing both within the state and, most recently, in the region. As early as March 2023, reports of US-made arms and ammunition finding their way into Pakistan's black market emerged.² These reports found merit in the fact that the Pentagon had, a year earlier in its report to Congress, estimated that at least "US\$ 7.2 billion worth of aircrafts, guns, vehicles, ammunition, and specialised equipment such as night vision goggles, biometric devices..." were left



behind in Afghanistan.³ The Tehreek-e-Taliban Pakistan's (TTP)⁴ attacks have increased by 27% since the Taliban takeover of Afghanistan.⁵ This is extremely alarming for Pakistan's national security.

The US, like any other state, has a responsibility to ensure that no civilian population is harmed when engaging in armed conflict.⁶ Furthermore, under the agreement to bring peace to Afghanistan, one can argue that the US remains responsible for areas previously under their control until negotiations and dialogue determine a new post-settlement Afghan government.⁷

Though the US claims not to have left behind any weapons, ammunition, and explosives post-withdrawal, this claim is mitigated by the Secretary General's Report.⁸ It is clarified that these weapons being used for cross-border terrorism are indeed those previously belonging to

former Afghan National Defence and Security Forces (ANDSF).⁹ It should be noted that former ANDSF have been formally trained by the US and North Atlantic Treaty Organisation (NATO).¹⁰

Furthermore, a report by the US Institute of Peace claims that “The ANDSF have long been dependent on US financial and operational assistance, as well as support from NATO. They are expected to remain dependent on foreign aid for many years”.¹¹

Thus, the US and NATO are responsible for the increase in non-state militant attacks and cross-border terrorism in Pakistan since they essentially did leave behind weapons with the ANDSF, who were trained and aided solely by them.¹² These weapons were then acquired by militants and made their way across into Pakistan, which was left to deal with increased attacks by such entities, as well as national security risks.¹³ The fact that non-state actors have easily accessed arms and ammunition from neighbouring Afghanistan and are carrying out attacks frequently illustrates that the security of Pakistan has indeed been compromised.

The US has a responsibility under the United Nations (UN) Security Council Resolution passed in 2001, which asserts that all states must help eliminate the supply of weapons to terrorists.¹⁴ By leaving behind arms and ammunition in Afghanistan, the US has directly and indirectly helped supply weapons to non-state terrorist organisations in Afghanistan. It should be noted that under the Protocol on Prohibitions or Restrictions on the Use of Mines, Booby-Traps and Other Devices 1996 (Amended Protocol II), the US is obligated to remove all weapons, ammunition, and explosives at the cessation of hostile activities.¹⁵

By leaving behind arms and ammunition in Afghanistan, the US has directly and indirectly helped supply weapons to non-state terrorist organisations in Afghanistan.

Pakistan is responsible to its citizens to ensure that they are not harmed in any way, as enshrined in the constitution of the Islamic Republic of Pakistan.¹⁶

Afghanistan has a responsibility, in keeping with its obligations under the Doha Accord 2020, that no non-state actors or militant groups are armed or trained or have access to influence in any way.¹⁷ The weapons, ammunition, and explosives that have made their way into Pakistan once belonged to the ANDSF, who were trained, supervised, and aided by the US and its allies, including NATO.¹⁸ Under the agreement for bringing peace to Afghanistan 2020, Afghanistan has the responsibility to ensure that no harm or terrorist attacks take place originating from Afghan soil, targeting the US or its allies, which includes Pakistan.¹⁹

Afghanistan has a responsibility to recognise the fact that these attacks are a regional issue and not just an internal one, as they claim. The TTP has no legitimate links with the state of Pakistan. It is a non-state entity enjoying no rights or privileges of a democratic institution. The TTP is inherently linked to Kabul and has often claimed to be the Pakistani Chapter of the Taliban.²⁰

At this point, there is no concrete framework to deal with the issue at hand. Still, there are some measures one can take to reduce the likelihood of attacks carried out by non-state actors who have access to arms and ammunition left behind by the US and its allies.

A substantive measure would be strengthening one's borders under conventions such as the UN Convention against Transnational Organised Crime 2000. This details a complex framework that includes cooperation between border control agencies, establishing direct communication channels, etc.²¹ Another course of action would be raising the issue on international platforms such as the UN, as Ambassador Munir Akram, Islamabad's permanent representative to the UN, is doing.²² This would, of course, include appealing to international forums and exerting diplomatic pressure to hold the US and its allies accountable for breaching their obligations and requesting the UN to conduct an impartial and thorough investigation through one of its agencies, such as the United Nations Assistance Mission in Afghanistan (UNAMA), which has a liaison office in the capital of Pakistan also. Its mission states explicitly that it will take all necessary steps to "encourage regional partners to contribute to a stable and prosperous Afghanistan, which would benefit the region's stability and development".²³ After such an

investigation, a report should be drafted so that one can identify the exact mechanism and route through which arms and ammunition came into possession of the TTP and other non-state militants.

Another course of action that can be pursued would be passing a Presidential Ordinance to regulate arms within Pakistan further, thus making it more difficult for individuals to bear arms without being adequately regulated. Public awareness campaigns dispelling misinformation and propaganda being spread by non-state actors, militant groups, etc., are also vital, significantly narrowing the sphere of influence of such actors. However, structuring a decisive strategy and framework for eliminating these non-state actors' presence in Pakistan is of the utmost importance. This step is within Pakistan's rights and obligations to its citizens.²⁴

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