# Economy

## Historical overview

* first 20 years highest growth rate in South Asia; By the 1990s, slowest growing country in South Asia. World Bank
* main explanatory factor: experiment with socialism had a negative impact on industrial development, export expansion, the quality of education and gave an overarching role to the bureaucracy in economic decision-making.
* The substitution of a culture of entrepreneurship, risk taking and innovation by rent seeking and patronage suppressed the dynamism of the private sector
* Bureaucratic harassment, problems of law and order, unreliable and expensive power and inadequate infrastructure also discouraged investment
* Disintegration of the unified eco of West and East
* During Zia era the process of nationalization was abandoned, the preferential orientation towards public sector did not diminish in any perceptible way.
* The frequent changes in government throughout the 1990s and consequential political instability played havoc with the economy. Uncertainty and discontinuity of economic policies, patronage-based economic governance benefitting a small elite to the exclusion of the majority of the population and exogenous shocks derailed the economy from its tracks
* Nuclear test and follow up sanctions
* Alliance with US and NATO restored international financial aid
* A careful calculation of costs and benefits of Pakistan’s participation in the war against terror would reveal that the benefits received via foreign assistance pale into insignificance compared to costs incurred since 2001.
* Economic management played second fiddle to political management and coalition politics.

## Tax Structure

* Taxes are involuntary charges levied on individuals or corporations and enforced by a government entity—whether local, subnational or national—in order to finance government activities.
* the prime objective of the taxes is revenue generation. However, for sustained stream of revenues, the tax policy also needs to be growth facilitating.
* These dual objectives can only be achieved if the tax policy reduces the deadweight loss resulting from imposition of taxes, and help transactions grow. Higher number of transactions is associated with higher economic growth and more employment. Increased growth enhances the taxable capacity of the economy and therefore generate sustainable streams of revenues.

### Flaws

* The objective of the tax policy is reduced to only to collecting more revenues to achieve illusive targets of Tax— GDP ratio and to reduce fiscal deficit.
* Growth facilitation has not been the priority. Increasing the tax-to-GDP ratio even at the cost of violating the basic principle of taxation—fairness, certainty, efficiency, and convenience—has become the cornerstone of policy.
* Consequently, the tax structure has taken the shape of an exploitative and antigrowth design that kills transactions.
* The amplified share of indirect taxes in total collections, the increase dependence on withholding taxes accompanied by compliance cost, and the use of tariff for revenue generation instead of a trade facilitation instrument are some of glaring examples of a tax structure that would go for short-term revenue gains by sacrificing long-term growth.
* Frequent changes in policy and rates make the environment very uncertain especially for potential investors.
* Excessive withholding regime: About 70 percent of tax revenue is collected through withholding tax agents such as banks, utilities, telecom etc. placing the burden of collection on these businesses and increasing their business costs. Easy source of collection for FBR
* if these taxes are not levied, businesses would reinvest them to expand, then the overall impact would be more economic activity resulting in even more tax collections than that forgone. But unfortunately, while policies are made, no one notices the loss to economic growth and job creation due to these adverse tax measures.
* Similarly, excessive documentation requirements increase transaction cost. Together, these make the tax policy inefficient and inconvenient

### Recommendations

* There is a clear need to have a transaction-facilitating policy rather than having one that kills transactions.
* A tax system must be simple and clear
* Tax rates and policies should be stable and not changing in minibudgets every few months forcing all to speculate on tax policy
* Rent seeking: political economists define it as people’s lobbying of a government to grant them subsidies and financial privileges that would ultimately enhance their personal wealth.
* Research is needed to assess which industry need such exemption and why? And for how long? Whether those that have been given these exemptions/concessions have achieved the desired results such as jobs creation and economic growth.
* While people pay their taxes, they expect to receive services in return. This is a very rational expectation. Whereas, when a government levies taxes, even if not pronounced, it by default agrees to return the money in the form of services. This is a basic principle of taxation.

## Issues and Sol

* **Innovation and start-ups**: When Henry Ford introduced motorcars in the US, there were no proper roads in the country. Good roads were built from the money raised through taxes on vehicles and fuel. So first came the innovation and the infrastructure later.
* Traditionally, Pakistanis like to invest in physical assets like real estate. On the other hand, startups are an investment in human beings (founders) with an idea and a big dream. Growing investment in startups will result in the birth of a niche meritocracy in the country, which will challenge our social norms where the smartest labour and capital is incentivised to become rent seeking rather than productivity or innovation seeking.
* raising a quarter of a billion dollars already this year. This is more money than they have raised in the last five years combined.
* Startups have been innovation and economic growth engines for developed countries like the US (think Silicon Valley and the hundreds of thousands of high paying jobs it has created).
* Imagine the opportunities a meritocracy creates for women and other marginalised groups in our country.
* **Inflation**: debt servicing takes up a considerable portion of the federal budget; the purchase of wheat, sugar and oil weighs in heavily on the import bill; rampant corruption has eaten up the very foundations of the economy; and the continued devaluation of the rupee has further aggravated the entire condition
* **Inefficient judicial system**: underperforming judicial system, where expeditious dispute resolution remains elusive, with parties stuck in judicial proceedings for years with no end in sight.
* Lack of FDI can be attributed to our inefficient judicial sys
* World Bank ease of doing business report: the resolution of a commercial dispute in Pakistan took 1,072 days on average, compared to 164 days in Singapore, 216 in New Zealand, and 437 days in the UK
* A concerted effort is required by all stakeholders including lawyers, judges, bar councils, the executive and legislature to defeat the lethargy and red tape that plague Pakistan’s judicial system.
* **Women inclusion**: How far the new State Bank initiative — ‘Banking on Equality: Reducing the Gender Gap in Financial Inclusion’ — will help remove the barriers to women’s access to banking and financial services, only time will tell. Yet the first of its kind mainstreaming effort for the financial sector, which introduces a gender lens in our banking practices, is creditable. The policy aims to boost the number of active women-transaction bank accounts from the existing 14.5m to around 20m by 2023 and increase female participation in the workforce of financial institutions from 13pc to 20pc by 2024.
* **Low tax to gdp ratio**
* **Loan waivers:** an estimated Rs 20 billion in loans were waived off by more than thirty banks between 2012 and 2014 to facilitate about 2,000 privileged customers among the previous and incumbent governments, causing a massive loss to the public exchequer. This came on top of Rs 403 billion that were written off by various governments between 1997 and 2009. (tribune)
* **Debt Trap**: failure to reform the tax system and increase revenue collection is a major factor behind heavy domestic and foreign borrowings by the government; The fact that Pakistan’s external debt continues to accumulate, and it has to borrow more dollars to repay its old loans suggests that the country has actually been caught in a debt trap; government will continue to borrow more money to repay its old loans while accumulating more debt. This is not sustainable for any economy, least of all a fragile one. The government should put its house in order to attract FDI, boost exports, increase tax revenues and incentivise domestic savings to get out of this trap.
* Take **Scandinavian countries** as an example. Widely held up as role models of development, they carry a heavy debt burden. But it’s used to further the quality of life rather than extend an inefficient leviathan in the form of the public sector. And that investment pays off in the form of the public’s trust, which then happily pays a large percentage of their income to the government as tax.
* In conclusion, debt acquisition does not perpetuate worries if it can spur economic growth and enhance the quality of citizens’ lives.
* **Political will**: Charter of economy (consensus of major polities regarding eco policies) is required
* As Acemoglu and Robinson argue, those who control the political power determine economic institutions So, if political power (which in turn determines the political institutions) is controlled by a small, extractive elite, they will set up economic institutions which benefit them, not the majority.
* Our manufacturing sector is rife with examples of rent-seeking practices**.** For example, Pakistan’s automobile sector is dominated by a handful of Japanese manufacturers known for selling low-value cars while making a considerable profit. Despite this, Pakistan provides them with extensive trade barriers to protect them from foreign competition.
* Direct evidence of our political structure influencing economic outcomes comes from a paper by Asim Ijaz Khwaja and Atif Mian. They show that politically connected firms in Pakistan receive loans from government banks in Pakistan at lower rates despite defaulting more than non-politically connected firms. This is evidence of unaccountable political power translating into inefficient economic allocation.
* **Geopolitics**: Ukraine crisis; pak-india issues
* **Policy inconsistency** biggest reason for country’s abysmal dev record; other SA countries focused on human dev, building better institutions, we obsessed with illusion of growth
* in 60s 80s 200s aim was to legitimise the regime on the basis of growth, helped by foreign aid, earlier partner in cold war then war on terror. 5-year term for democracy, short term projects preferred over long-term reforms, no rational politician would choose latter, even if some did next govt would sabotage it to prevent initiator from gaining political mileage.
* **Economic inequality:** unequal access to wealth or income; eco-soc consequences; on eco front, rising no. of poor people causes less investment in edu and health, negative impact on future productivity and eco prosperity, poverty reduces demand for goods and services, leads to eco stagnation; on socio sphere: eco inequality is associated with high crime rate, mental illnesses, suicides, social unrest or class conflict between the haves and the have-nots
* **Governance**: Why Nations Fail authors argue diff of income btw haves and haves-not stems from the difference in their institutions ie laws, rules and processes
* **LOW FDI**: Pak has to attract FDI which depends on peace prospects in the region and better gains and ease for the investor; FDI solves balance-of-payment problem
* Nike’s annual report shows that 40 per cent of the company’s global footwear production is currently produced in Vietnam.
* Major FDI: CPEC related
* **Low exports:** lagged behind its South Asian counterparts since early 90s, despite eco liberalisation and privatization; despite a sustained period of exchange rate stability with no energy shortage between 2001 and 2005 (explained by Atif Mian in his research paper) Reason: twin deficits: current account and fiscal, low investments rate and savings compared to its GDP;
* *Solution*: an export-led growth model; lifted millions out of poverty in China South Korea, Taiwan and Singapore; China invested heavily in education, particularly science and technology, as well as in heavy engineering and other capital-intensive industries. Foreign investors looking for trained and low-cost workers found no shortage of human talent as the ‘communist’ China had invested heavily in basic education and its Special Economic Zones (SEZs) jump-started the labour-intensive exports-led industrial revolution that has transformed China.
* **Low private investment:** Tax concessions and government-guaranteed yields may have succeeded in attracting investments in the energy sector, an unsustainable model; instead 3D strategy required: Deregulate (end bureaucratic hurdles and rent-seeking), devolve (without t impossible to provide basic services) & digitise (without it cannot compete in a world defined by digital divide);
* **Elite Capture:** World Bank report titled Pakistan@100 points to elite capture and jobless growth as key impediments to realising the nation’s true potential.
* **Digitization:** A SIGNIFICANT number of Pakistanis have shifted to internet and mobile banking to transfer money, pay bills and shop online. Covid-19 forced people to use online banking services; the waiver of transactional fees on all online interbank and intra-bank fund transfer encouraged many to start accessing internet and mobile banking services; the incentives offered by the provinces to taxpayers using mobile banking for payment of government taxes or restaurant bills also contributed to an uptake in digital transactions.
* Selling spectrum at low cost, cutting taxation on the internet, lowering duties on mobile phones and giving subsidised access to the poor would facilitate ‘internet for all’ — the pay-offs are likely to be greater than the celebrated signal-free corridors, motorways and BRTs.
* **State-Owned enterprises:** Wapda, railways, Steel Mills, PIA and others have succumbed to political interference of PPP and PML-N governments in the past. Corruption and overemployment have turned them into parasitic entities. The present government will do well to privatise them despite the political saber rattling from all directions.
* **Red tape:** to import 3d printer 9 gov agencies are involved; land developers must obtain 22 NOCs from diff agencies;
* **Low trade:** Pakistan’s trade with regional economies, with the exception of China, has historically remained far below its potential; multiple factors which have long prevented economic connectivity of the Saarc countries that also include Afghanistan. Long-standing political and territorial disputes between individual states, terrorism and poor security conditions in other countries, non-tariff barriers created by some to protect their local businesses, higher cost of trading within the region etc; certain ‘exogenous’ issues such as the international sanctions against Iran, which keep Pakistan and others from developing commercial ties with the affected country
* There are three reasons to promote regional trade in South Asia: strategic, demographic and consumer benefit.
* On the **strategic** front, climate change and water security pose an existential threat to the breadbasket in India and Pakistan. Increased trade ties in the agricultural and energy sector can build linkages that can allow long-term research and innovation that benefits both countries.
* The northern subcontinent’s **demographic** dividend is turning into a ticking time bomb. Increased trade flows can foster economic development on an east-west axis that has historically been the driver of income and wealth generation in the region for millennia.
* Improved trade ties will also bring more innovative and better-quality goods and services to population centres at lower prices, creating savings for **consumers** economically hard hit by the pandemic.
* **Inter-provincial disparities:** Despite significant institutional developments in NFC award, inter-provincial disparities are widening. Human development: Sindh, Punjab, KP, Bal respectively; Sindh highest because of high GDP per capita, better progress on life expectancy; Punjab leads on edu, highest net enrol ratio and literacy rate; KP showing improv; Bal deteriorating in the past decade; appears decentralization initiated by 18th amend and 7th NFC Award failed to mitigate inequities across provinces. **HDI**
* 18th amend apply fullest extent to be effective in eliminating inequities; article 140A, a viable solution: devolution of political, admin and financial responsibility and authority to the elected representatives of the LG; will pacify grievances; to make provincial autonomy effectual, avoid elite-capture at inter-provincial level; for that effective inter-district decentralization; making LG functional, make Provincial Finance Commissions efficient; ensure social cohesion in our societal structure; shape our behavioural structure cuch to eliminate biases against social identities like ethnicity, race, gender, etc
* **Unemployment:** E-residency policy (facilitation, registration , hiring employees from Pak, virtual presence); freelancing (pak ranks 4th high-performing freelancers; develop products which can be used by local industry and exported too); increase in tech unicorns ( Estonia makes 1b$ yearly, investment in start-ups, reduce unemployment); Expanding e-commerce market (Amazon seller list inclusion benefit especially for women, in india some 100k sellers exporting products worth more than 2b$ a year, local like Daraz); Embracing fintech (solve informal economy issue, online banking, digital payment); capacity building (vocational and technical training Digiskills, govt launched NAVTTC programme with objective to train 50k individuals with marketable skills, free of cost courses); linking academy and industry (making internships mandatory after finishing uni)
* **Reliance on remittance:** Record remittances reported in fiscal year 2021.This is a good sign for the economy since remittances are the biggest source of foreign exchange earnings for Pakistan — significantly higher than export inflows — and help finance the trade deficit.
* Multiple factors — disruptions to international travel due to Covid restrictions, a crackdown on hundi and hawala as part of the FATF mandate, ease of money transfer through banks and, last but not the least, massive rupee depreciation — have encouraged overseas Pakistanis to use formal banking channels to send cash to their families since the Covid outbreak. Part of the remittances is also flowing in through RDA deposits for utility bill payments, transfers to rupee accounts, etc.
* Once the virus is contained and travel reopens, inward remittances could decline or stagnate. Given external-sector vulnerabilities, even a small dip in remittances will increase Islamabad’s reliance on loans to finance the deteriorating current account deficit unless measures are taken to preserve the remittance growth momentum.

## Agriculture

* Although share in economy dropped below 20% of GDP; rural populace (2-3rd of total pop) livelihood depends on it; provides employment to 39% of entire national labour force; Pak’s food security, 75% exports dependent on this sector’s performance
* For a country where 70pc of the population is engaged in agriculture is it not shameful we spend almost 40pc of what we earn in importing agricultural produce, supposedly our area of strength?
* The Federal Committee on Agriculture says that despite an unprecedented, good wheat harvest (28.75 million tons), exceeding the target by 2m, we will still need to import 1m ton for strategic reserves. We have the Ministry of National Food Security and Research at the centre, with agriculture departments in each province and an equal number of irrigation departments, plus provincial food departments, research institutes, the Zaria Taraqiati Bank etc. Yet we spend 40pc of our export income on importing food and agricultural products.
* Reason: the complete lack of priority for agriculture, only paying it lip service.
* Pakistan, once one of the largest producers of cotton in the world, has now become a major importer of the commodity.
* The Multan Cotton Research Institute has been closed and large swathes of land of the Cotton and Textile Institute Karachi were handed over to the US Embassy. the Punjab government wants to convert the Bahawalpur Research Institute into the provincial secretariat of the proposed government of South Punjab.
* The contempt and low esteem that the government holds agriculture research institutions in is evident in these actions. This contempt for research is seen across the board. Rather than improve research in the country the solution seems to be to close down such institutions and leave everything to either the private sector or imports.
* **PM’s Agriculture Transformation Plan**-> proposed interventions of 100bn 3years to reduce farm input cost to encourage crop value-addition, enhance milk production, provide fertiliser subsidy, the construction of grain storage, and so on; effective for short-term for long-term heavy investments in research & development to develop new, high-yield, drought- and disease-resistant seed varieties, help farmers adopt modern technologies, improve soil fertility and water efficiency, etc
* Modernisation of the agriculture sector, then, requires an immediate shift from the current subsidy-based strategy to the adoption of new approaches and heavy public investments. It also demands that the government give tax and other incentives to the private sector to set up agro-based industries and invest in cold chains to minimise wastage and supply disruption from farm to consumers.
* In an out-of-the-box solution to empower the farmers, a Kisan Portal has been launched. Pakistan is in drastic need of land reforms. More than 80% of farmers are with small landholdings, and they inevitably fall in the trap of feudal class who fleece them of their produce. To further compound their miseries is their lack of access to markets and mills. . The Kisan Portal may be a window of opportunity, but again the argument is how many millions of farmers have access to smartphones, its proper understanding and internet?
* Give farmers proper incentives and they work wonders. This has been incontrovertibly proved by the fact that the maiden agricultural policy of the Punjab government, introduced in 2019, has started to give more than expected results within a short time. In 2020-21, the province has had record harvest of wheat, paddy, sugar cane and other crops. Some of the incentives being provided to the farmers are interest-free loans; the government is also paying them premiums on crop insurance, subsidies on purchase of basic inputs, agricultural machinery and laser land levelers. The subsidies amount to billions of rupees. Moreover, growers are assured of a minimum support price fixed for wheat and sugar cane.

## Major Intl projects

* **Trans-Afghan**
* railway from Termez in Uzbekistan to the Pakistani city of Peshawar via Mazar-i-Sharif and Kabul in Afghanistan. The railway could transport up to 20 million tons of cargo per year, and the section from Termez to Mazar-i-Sharif, built by Uzbekistan, is already operational. In Peshawar, the railway will connect arriving trains with the Pakistani transport system, thereby linking the Central Asian and Eurasian railway networks to those of South Asia and providing access to the Pakistani ports of Karachi, Qasim, and Gwadar. It is estimated that the new railway will reduce goods transportation times from Central Asia to Pakistan from 30 days to 15 and cut transportation costs by 30-35%.
* More suitable than Bandar Abbas
* Pakistan and Uzbekistan have signed **Agreement between Uzbekistan and Pakistan on Transit Trade (AUPTT)**. The AUPTT would give access of Pakistani seaports to Uzbekistan and offer the access to all five Central Asian States for Pakistani exports. This would help in enhancing trade and regional connectivity and open doors for increasing Pakistan’s exports to Uzbekistan, while harnessing the potential of a $90 billion market in Central Asia.
* **TAPI:** The 1,814-kilometer pipeline will run from the Galkynysh gas field in Turkmenistan to the Indian city of Fazilka via Herat and Kandahar in Afghanistan and the Pakistani cities of Quetta and Multan.
* Although security concerns have long cast doubt on the TAPI pipeline’s viability, completion is now scheduled for December 2023. Crucially, a high-ranking Taliban delegation visited Turkmenistan on February 6, promising to support the project
* PAK-Russia projects

## Impact of CPEC

* Pakistan cannot lift its people out of poverty unless it is able to increase the productivity of its agriculture. The agriculture Joint Working Group under CPEC was set up last year after an MoU was signed in March 2020.
* Cotton being vital to Pakistan’s export economy, one of the first projects in this domain, has been started for high quality cotton seed production and field experiments are ongoing.
* Large pieces of land in different provinces have been identified for collaborative investments by Chinese and Pakistani companies for different high value crops as well.
* A JWG for science and technology had already been set up last year. It is extremely encouraging that both the Chinese and Pakistani sides have agreed to start a new working group for information technology.
* Over the years, SEZs have been successfully implemented by many countries around the world which include Republic of Korea, Taiwan, China, Vietnam, Bangladesh, Mauritius, the Dominican Republic and El Salvador. These SEZs have paved their way towards industrialisation, economic development and growth.3 SEZs have also brought Foreign Direct Investment (FDI) to the host country resulting in foreign exchange earnings, enhancing exports and government revenues for the country. Moreover, SEZs have also helped in technology transfers, adoption of modern management practices along with skills up-gradation in most of the emerging economies
* The second SEZ has been set up in Rashakai in Khyber-Pakhtunkhwa. The unique thing about Rashakai is that the developer of this SEZ is a Chinese company and it is responsible for marketing this SEZ to Chinese and other investors. It has already attracted foreign investors and the first of these projects is under construction in Rashakai and expected to start production next year.
* The third SEZ which is expected to become operational is in Dhabeji in Sindh.
* new infrastructure projects were started with a particular emphasis on the western alignment of CPEC which connects the most underdeveloped regions of Pakistan with Gwadar and the major urban centres of Pakistan
* The new international airport is under construction, the connection with national power grid is in advanced stages of completion, dams for increased water supply have been built, Eastern Expressway is nearly complete and a number of socioeconomic projects for the people of Gwadar and nearby areas are being implemented.

## SBP Amendment Act

* the new bill seeks to formally empower SBP so that it will only focus on price stability. Where the bank’s independence can arguably assist with price stability and low inflation, the initiative appears to be in line with IMF’s austerity and fiscal consolidation agenda that the Fund imposes on borrower nations.
* **Critics**: SBP’s plan to only focus on maintaining price stability when the lack of employment is a social crisis in this country has serious political implications. Third, IMF-SBP forcing austerity and fiscal consolidation on the Pakistani government, in a time of crisis no less, will also impede the government’s ability to pay for public services like health, education and clean drinking water now and in the future.
* **Proponents**: WHAT should be the goals of our monetary policy? Should it be to maintain price stability or promote growth, or both? The State Bank of Pakistan should be focused on maintaining price stability, besides supporting growth, when so many government departments such as Planning Commission are already focused on promoting growth, and none on maintaining price stability.
* There is no denying that the need for central bank freedom in targeting price stability was being felt for a long time. The negative impact of excessive political intervention in its functions of monetary and exchange rate policy determination on the economy and current account under the previous PML-N administration also made many change their opinion. But concerns remain regarding the bank’s role in times of crises such as the Covid pandemic. Will it stick to its redefined mandate of price stability, or would it be willing to support economic growth in such crises? We don’t know. We’ve seen central banks across the world stepping in to support economic growth and recovery during the 2008 global financial crisis as well as after the outbreak of Covid in 2020. On both occasions, the IMF, which pushed Islamabad to change the State Bank law as a key condition for its funding, was standing behind them. State Bank autonomy is very desirable to prevent politicians from influencing the bank for political purposes. But we also need clarity on its role during such crises.

# Ukraine Conflict

* + Former soviet republic, rightfully belongs to Rodina, the motherland
  + Historical significance: Kyiv capital of modern Rus

## Pakistan

* It enjoys good relations with Ukraine and there is a close cooperation between the two countries in the field of defence. Pakistan’s main battle tank, the M-80, is of Ukrainian origin and there are other areas in defence — helicopters, electronics and night vision devices — in which the two militaries have been cooperating. Over the years, trade in agricultural products has increased with Ukraine
* In recent years Pakistan has also considerably improved its relations with Russia. Russian exports to Pakistan consist of edible vegetables, Iron and steel, inorganic chemicals and machinery; and Pakistan exports edible fruits, vegetables, cereals and apparel to Russia. Pakistan is interested in expanding cooperation with Russia in the energy, defence and space sectors and negotiations on the gas pipeline project is in advance stage and Memorandum of Understanding has been signed. With US and Western sanctions and ban on purchases Pakistan would be assessing the fallout of it on these projects.
* **at the strategic level:** with China having fully embraced Russia and standing firm with it any support in favour of Ukraine would be considered breach of trust. In this situation, Pakistan will continue to tread a difficult balancing act.
* The morally correct position would have been not to overlook Russia’s aggression against Ukraine. But morality takes a back seat when expediency demands a different approach. Where was West morality in iraq, etc?
* **Economic effect**: With the unfolding of these events Pakistan’s economy, already in distress, will face additional pressure due to escalating fuel prices and unsettled global conditions.
* Pakistan did some excellent tightrope walking at the United Nations General Assembly session on Ukraine. By abstaining from voting on the resolution condemning Russia for marching into Ukraine, it took a stance that was passive and left a lot of room for behind-the-curtain diplomacy. Pakistan’s choice of words was startling, as it took a high moral ground by emphasising the need to protect territorial integrity of a state without threatening the national interests of another. In other words, it played out carefully by reiterating its commitment to Ukraine’s sovereignty and territorial integrity, and at the same time allied itself with the Russian concerns on the undesired extension of NATO eastwards.

## Causes of war

* Result of overreach by both parties
* NATO continued its expansion in post-soviet space in despite of promise made by Bush admin with Gorbachev in return for withdrawal of Soviet forces from East Germany
* In 1998, George F. Kennan, the long-time diplomat and historian of US-Soviet relations, was prescient and pessimistic. “I think [NATO expansion] is the beginning of a new Cold War,” he said. “I think the Russians will gradually react quite adversely and it will affect their policies. I think it is a tragic mistake.”
* In 2008, US President George W. Bush’s administration called for Ukraine to be invited to join NATO
* Russia’s overreach lies in its 2008 invasion of Georgia and 2014 annexation of Crimea and occupation of Ukraine’s industrial heartland in Donetsk and Luhansk
* Nato perceives itself as a defensive alliance, which Russia rejects. According to Russia, Nato has a history of getting into conflicts not directly involving its members. It uses the pretext of humanitarian interventions to justify its aggressive ambitions — like it did in Kosovo and Libya.

## Purpose of Russian invasion

* demonstrate to Ukraine and other Eastern European states that the NATO and US commitments to them are actually quite weak
* yalta conference; each power’s spheres of influence to be respected; Ukraine and Belarus left as buffer; Russia cannot manpower its whole border;

### Russian demands

* include ‘ironclad guarantees’ that Ukraine and no other former Soviet republic will become NATO member.
* That NATO will vacate positions taken after 1997.
* And the US will wind up its deployment in Europe including nuclear missiles.

### Ukraine Joining NATO Solution

* France and Germany maintain their longstanding threat to veto any such bid for membership, Ukrainian and NATO officials have both reiterated that the choice to join lies with Ukraine.
* US supports but forgets its own Monroe Doctrine
* Austria and Finland option: both secured their independence and future prosperity by not joining NATO, as that would have provoked Soviet ire. Ukraine today should show the same prudence.
* NATO would foreswear enlargement into Ukraine, provided that Russia respects Ukraine’s sovereignty and that Ukraine respects Russian security interests

# Relations

## West-Russia

### Policy of Revival and Reassertion

* + Defend its erstwhile USSR sphere of influence (Eastern Europe, central asia, middle east Baltics, asia-pacific)
  + Using military power to increase its significance on global stage; economically weak due to sanctions
  + Hotspots: Ukraine, Belarus, Syria, etc.

### Ukraine

Read [Ukraine conflict](#_Ukraine_Conflict)

### Kazakhstan

* + motives of Russia: Former soviet republic; Russian speaking population; part of motherland; its sphere of influence
  + unlike other soviet republics: **BRI** importance; can’t antagonize China; trade shifted to yuan (rubble value decreased)
  + lesson for west: CSTO’s deployment in Kazakhstan shows that Russia is equal to the US, has its own NATO, and has the ability to expand its influence into large neighbouring countries

### Sanctions

* + Most severe ever witnesses;Swift, against Russian oligarchs wealth in safe heavens, Russia’s tilt towards China
  + Do they work or further worsen? Japan oil embargo; Germany in WW1 tell otherwise

### Germany

* + Regardless of how often Germans and Russians have been at each other’s throats, the enduring reflex goes back to Bismarck, who famously told the country in the middle: “Never cut the link to St. Petersburg.”
  + Energy dependence**:** Russia is Europe’s number one supplier of both crude oil and natural gas.
  + Europe's most divisive energy project, Nord Stream 2 is designed by Russian energy giant Gazprom to double the amount of gas flowing from Russia straight to Germany, bypassing traditional transit nation Ukraine.
  + Washington has for years lobbied Berlin not to increase its energy dependence on Russia.
  + is now seeking to diversify its energy sources, even reconsidering extending the life of its three remaining nuclear power stations.

### Cyber Warfare

* + Russian meddling in US elections, Russian malwares attacking govt agencies, discussed in Geneva meeting
  + Propaganda warfare during Ukraine conflict

### Why Russia problem for west?

* + declining powers are often the most dangerous ones
  + Austria-Hungary, that started World War I by declaring war on Serbia (Graham Allison’s book: Destined for War)
  + Gas war against Central and eastern European countries
  + Migration crisis along Belarus’s borders with Lithuania, Latvia, and Poland
  + Growing arms sales: in Africa top weapon supplier; in the middle east

## Russia-China

* a ‘**marriage of convenience’**, born out of both sides considering the United States their main adversary
* issues ranging from security and global governance to the economy and human rights, the China–Russia relationship is becoming ever closer.
* **Reacting to American unilateralism**, Russia and China have moved increasingly closer through their **bilateral Treaty of Friendship** of 2001, and the **Shanghai Cooperation Organization**, which encompass political, security, military, economic and technical cooperation
* Isolated from intl community Russia has since turned to China as its preferred global partner.
* Both Russia and China have shared security interests when it comes to maintaining stability in Central Asia and the Arctic, and to opposing the US and NATO.
* to show the strength of their military cooperation with joint exercises and drills, which have taken place in the European neighbourhood as well as in Russia.
* They also have **partly complementary economies**, with Russia exporting mostly raw materials to China and importing machinery, equipment and technology from Beijing. Russia also remains China’s top arms supplier.
* Finally, **shared political values** have also driven the two countries closer. Beijing and Moscow largely agree on issues such as the role and sovereignty of the state, their approach to global governance and human rights, and the principle of non-interference, among others.
* Taiwan/Ukraine factor; AUKUS/QUAD/NATO
* On foreign policy, Beijing and Moscow share similar approaches to Iran, Syria and Venezuela, and recently revived a push to lift United Nations sanctions on North Korea.

### Hurdles

* Russia is more isolated now than the Soviet Union ever was, it has become dangerously dependent on China.
* This relationship, however, is at the same time **becoming increasingly asymmetrical in favour of China**
* The Chinese economy continues to grow, and Beijing is becoming a more relevant global actor on a range of issues.
* Russia, on the other hand, suffers from a stagnant economy and deep inefficiencies that are likely to turn Moscow into the junior partner in the relationship in the future, which could hurt Russia’s strategic autonomy.
* With the **growing strength of the Chinese defence industry**, China is less and less dependent on Russian arms imports – one of Moscow’s main points of leverage in the relationship – and it has already joined Russia as one of the world’s main arms exporters
* Many in Moscow are also concerned about China’s expanding presence in Russia’s traditional sphere of influence – the Arctic and Central Asia.
* For now, however, the relationship between China and Russia continues to grow closer in the face of perceived challenges to both regimes from NATO and its partners, creating issues that the Alliance must consider
* For Putin, a far-off and uncertain threat from a more powerful China is more acceptable than the immediate and certain threat he perceives from Washington.
* China supporting Russia in Ukraine conflict

### Troubles for west

* Firstly, Russia and China are amplifying each other’s messages and pushing similar global-governance ideas that threaten liberal democracies and the rules-based international order.
* particularly visible within the UN system, where Beijing and Moscow often vote together in order to help prop up friendly illiberal regimes or to create new cyber norms and standards that would enshrine the principle of ‘cyber sovereignty’.
* China has had less of a military presence in the European theatre so far, not least owing to geographical distance. But China’s investments in European ports, digital networks and other critical infrastructure, together with its political-influence efforts, could allow Beijing to slow down a potential NATO response to Russian aggression or even to dissuade individual NATO allies from taking action against Russian hybrid attacks or interference efforts.
* China’s triangulation gambit: joining with Russia to corner the United States, just as the Sino-American rapprochement 50 years ago successfully cornered the former Soviet Union. The US, the architect of that earlier triangulation, was now being triangulated.

### Geopolitics of energy

* is defined as “the effect that location of resources has on the politics of the states”.
* the very idea of becoming a military power before becoming an economic power cost Russians the disintegration of their Soviet Empire. Have the Russians and the Chinese learnt these lessons?
* Russia’s pivot east is not territorial expansionism but economic, political and energy expansionism with clearly defined strategic intent and strategic aims. The goal of the grand pivot Asia-Pacific is to contain China but Russia’s pivot east is meant to cooperate and collaborate with it. Put it simply — China needs energy and Russia needs markets and both will draw benefit from this mutual collaboration.
* President Putin’s geostrategic and energy alignment is very much clear. Russia cannot solely depend on selling its gas to Europe in future and for that purpose and to ward off and circumvent US sanctions, its energy alignment is pivoting east. This means that oil and gas pipelines will not run only from east to west but from west to east as well — towards China.
* China became the largest energy consumer of the world when it overtook USA in 2009. China in 2014 signed a $400 billion deal with Russia for provision of Russian gas for next 30 years.
* **Winter Olympics**: The two countries signed oil and gas deals worth over $117bn to strengthen the economic dimension of their relationship. The source said the gas deal would be settled in euros, as Moscow tries to diversify from the U.S. dollar and hedge itself against any potential sanctions from Washington.

## India-China

* Another strategic challenge: before Ukraine conflict, the US seemed to be focusing on the global threat posed by China, and on the Indo-Pacific rather than Europe. But America may now revive its adversarial obsession with Russia.
* India’s traditional allies in the region can sense which way the wind is blowing. Nepal has allowed China to build major railway lines and highways across its northern border areas. Bhutan signed a border agreement last October that surrenders territory coveted by China, giving the Chinese an advantage in any future conflict with India. Most of India’s other South Asian neighbors have signed up to China’s Belt and Road Initiative, which India strenuously opposes.
* And to the east, the ruling junta in Myanmar has declared a “special kinship” with China, whereas its predecessor had come to see India as a valuable counterbalance to China.

## Russia’s foreign policy towards South Asia

* Historically, the South Asian region remained under the strict surveillance of the Soviet policy-making apparatus. During the 19th century, a tussle between Russian and British empires emerged, which was dubbed as Great Game, in which Britain sought influence in Central Asia to buffer the crown jewel of its empire, i.e., British India. The Russian empire could not assert its dominance in the region due to the strong footprints of the British empire. During the 1970s, another attempt was made to gain a dominant role in South Asia, which resulted in the Soviet-Afghan war followed by the disintegration of the USSR. However, Russia’s strive to redefine its interest in the region became apparent in the post-Cold War era, specifically, post-9/11.
* Traditionally, Russia has been maintaining friendly relations with India, and most of the time, India remained the epicenter of its foreign policy towards South Asia. However, a strategic shift was observed in the aftermath of the 2014-Ukrainian Crisis, when Russia inclined more towards China for its political support and economic cooperation. Today, Russia’s South Asia policy can be seen as a multi-vectored strategy to meet changing geopolitical realities in the region. The significant aspects of existing Russian foreign policy towards South Asia include seeking peace in Afghanistan, securing energy (gas pipelines) and trade routes passing through the region, and gaining access to warm waters. Afghanistan, therefore, remains a strategically important country for Russians as it provides strategic space to access warm waters in the South through CPEC. Kremlin administration, once hostile towards Kabul, is now keen on reaching a peaceful solution in Afghanistan to reduce instability and in security in the region. Such a major shift in Russian foreign policy is also linked to its Central Asia policy aimed at isolating the US in the Eurasian region.
* Russia has adopted multilateralism as a foreign policy instrument to increase its strategic and economic outreach. In this regard, the Eurasian Economic Union and Shanghai Cooperation Organization have been integral. Also, Russia has joined hands with China on its Silk and Road initiative by reiterating its support to BRI and CPEC. Similarly, Pakistan-Russia relations have seen an upwards trend in the last couple of years. Russia has moved away from defining its relations with Pakistan based upon its relationship with India. Both countries have signed various bilateral agreements and conducted military exercises. Today, Russia is actively engaged with the regional states to counter the US-led western influence in the region, while promoting multilateralism in the international system. However, Russia’s economic and political limitations have made it difficult to maintain its active presence throughout the region.
* Cold War; Pak in US camp

### Russia-India

* Ukraine conflict: poses a fundamental challenge to India’s traditional strategy of non-alignment
* Finds itself between a rock and a hard place, potentially antagonizing the West while still losing Russia to China's embrace.
* India abstained in a succession of United Nations votes – in the Security Council, the General Assembly, and the Human Rights Council – condemning the Russian invasion.
* India did not even object to Russia’s earlier recognition of the independence of the separatist Ukrainian regions of Donetsk and Luhansk.
* The reasons for India’s reticence are easy to discern.
* Russia supplies India with about 50% of its weapons and defense equipment.
* diplomatic relations with the Kremlin have been close since the days of the Soviet Union. Soviet vetoes at the UN frequently shielded India on Kashmir, and the Kremlin’s protection was indispensable during the 1971 Bangladesh War of Independence, when the US and China supported Pakistan.
* while India’s other commercial ties with Russia are much more modest than those it has with the United States, they are still significant
* Russia’s increasing closeness to, and geopolitical affinity with, China has therefore been worrying Indian policymakers for some time.
* Kremlin has also been visibly warming to Pakistan
* India seems to feel that it needs to cling to Russia’s goodwill in order to avoid losing it altogether.

### Pak-Russia

#### Mending of ties

* The first thaw in their relationship was witnessed with mutually exchanged visits of Russian Prime Minister, Mikhail Fradkov, and the then President of Pakistan, Pervaiz Musharraf, in 2003.
* Subsequently, both countries started moving towards a strategic partnership amid changing geopolitical and geostrategic environment at regional and international level.
* The Russian Defense Minister’s visit to Pakistan in 2014, marked a new era of friendship between Moscow and Islamabad. During the visit, the first-ever military deal was signed through which Russia committed to selling Mi-35 gunship helicopters to Pakistan.
* Despite the horrors of the past, both countries have ground of convergences in South Asia, such as bringing peace in Afghanistan, curbing the menace of terrorism and extremism, and working for better economic ties
* 2014: Russia lifted its embargo on selling defense equipment to Pakistan.
* Pakistan-Russia joint military exercises Druzba are enhancing their strategic partnership. Pakistan also participated in the war games, Tsentr (2019) and Kavkaz (2020) held in Russia.
* Kremlin believes that Pakistan can play an important role in the region as the country has an edge due to its geographical location.
* Under SCO-RATS (Regional Anti-Terrorist Structure), Russia seeks Pakistan’s expertise from its successful campaigns against terrorism and extremism in the region, such as Zarb-e-Azb and Rad-ul-Fassad military operations
* The inclusion of Pakistan as a permanent member in SCO also signals the significance of growing reliance and partnership. The economic, trade, technology, and energy cooperation between Moscow and Islamabad is becoming a priority for both countries.
* there has been increasing bilateral interaction at the senior official level. Russian Foreign Minister Sergey Lavrov visited Islamabad last April after nearly nine years.
* Russian President Vladimir Putin has offered Pakistan a “**blank cheque**” offer of support, Lavrov’s exact language was an offer of “any cooperation” that Pakistan needs.
* Also in 2015 Russia posted on its state-funded official Think Tank Website RISS (Russian Institute of Strategic Studies) an article written by Andrew Korybko titled ‘Pakistan is a zipper of Pan-Eurasian integration’. It was in this article that the Russian dream of Eurasian integration was highlighted in detail and it was in the same article that Pakistan was referred to as ‘South Asia’s gatekeeper’ and a country that was at the heart of any scheme designed to extract geopolitical and geo-economic benefits in Eurasia. Far from being a lost cause, Pakistan was termed the supercontinent’s most important economic hope. The importance of Pakistan’s potential was explained in its ability to connect the massive economies of the Eurasian Union, Iran, SAARC, and China, thereby creating a pan-Eurasian economic zone. Therefore, it doesn’t require a doctorates degree from a world renowned university to understand why the Russian foreign minister had visited our country first time in over a decade. Russia recognises Pakistan’s prime geopolitical potential and has thus maneuvered to rapidly increase its full-spectrum relations with a country that it considers South Asian gatekeeper.
* Putin remarks on islamophobia
* PM’s visit to Russia despite West’s warning (first trip of a pak leader in more than 2 decades) and Pak’s neutrality over the Ukraine conflict
* Pakistan may emphasise a position of neutrality but global developments of late, which have also included the Afghan situation after the departure of US troops, have brought it closer to the Beijing-Moscow axis.
* Similar views on afg
* Pak stream gas pipeline: Under the new deal, Pakistan will have a 74% share in the pipeline, with the rest going to Russia. The first agreement for the project was signed in 2015, but was never implemented, partly due to the risk of running foul of US sanctions on Russia.

#### Pakistan’s options

* Technology has fundamentally changed the human history and both these countries (china and Russia) are technological giants. In today’s world, it is technology that fuels the economic growth and both these resurgent powers can help us and our technology-starved industries
* Pakistan has its own place in changing geopolitical dynamics but caution is needed if the country is to safeguard its interests. Improving relations with Moscow is to be welcomed but it is also crucial that it maintains a balance in foreign ties so that it doesn’t end up favouring one side over the other