

Geopolitical Conflicts: Implications for Pakistan's Geoeconomics

There have been major geopolitical shifts in the region that have a direct impact on Pakistan's geoeconomic ambitions. These include continued tensions between China and the United States (US), including the tussle in South China Sea and Taiwan, Russia's attack on Ukraine and US withdrawal from Afghanistan.

When Russia invaded Ukraine at the end of February 2022, the intensity of the conflict and its global ramifications were unknown. The geoeconomic fallout became apparent as the war entered its third month since it disrupted the global food supply chain as well as energy supplies. Both countries are major exporters of agricultural commodities and Russia is a major producer of fertilizer and petroleum. As a result, food and gas prices rose, causing a shortage and forcing millions of people to go hungry (Aizenman 2022). This war-related supply disruption and rise in commodity prices has impacted nearly every region, slowed growth, and raised inflation.

Pakistan is already plagued by political instability, macroeconomic fault lines, weak governance, and overall policy distortions. Since both countries are Pakistan's primary wheat suppliers, the situation is expected to worsen due to disruptions in the food supply chain. Pakistan imports 80% of its wheat from the Black Sea region. As in 2020, wheat mismanagement and export in the false hope of a bumper crop caused severe shortage in the country. To keep prices stable and stockpile, the Government of Pakistan (GoP) imported 1.2 megatonnes (MT) wheat from Ukraine and 0.92 MT wheat from Russia. This resulted in more than 2.1 MT of wheat imports from both countries between 2020 and 2021 (Mirza 2022). The import raised the current price per tonne from USD 380 to USD 400 (ANI 2022). As a result, the wheat import bill increased from 16% to 20% (Khetran 2022).

Similarly, a disruption in energy supply is a significant setback for Pakistan. A decade ago, the country had long-term contracts for Liquefied Natural Gas (LNG) with suppliers from Qatar and Italy. Many of them found profitable demand from European markets and restricted their LNG trade with developing countries. LNG prices have risen by 1000% in the last two years, first due to high post-pandemic demand, and then, due to geopolitical tensions between Russia and Ukraine (The News 2022). In the global market, a lack of LNG supply, high prices, and dwindling foreign reserves have reduced LNG demand in Pakistan by 19%. The textile and apparel (T&A) industry was thrown into a new energy crisis, with high power tariff of 20 cents/kWh. As a result, 1600 textile mills were closed. In the current scenario, due to the recession and price competition, the country's T&A industry would struggle to maintain its share of the global market (Sullivan, Islam and Janjua 2022). This will have an impact on the country's total export earnings.

Pakistan's political and economic situation is extremely complicated. On the one hand, the economy is under enormous pressure due to currency depreciation, rising inflation, debt with heavy foreign payments, high import bills with insufficient foreign exchange reserves, and insufficient export earnings. Whereas, on the political front, the country is dealing with internal and external terrorism threats, as well as a threat from India over the Jammu and Kashmir dispute.

The European Union (EU) and the US have imposed sanctions on countries associated with the Russian regime. NATO and the EU have rejuvenated. Resultantly, newer alliances are evolving, pushing the world in bloc politics. In this regard, the US has formed a new multilateral economic cooperation platform called 'I2U2'. I2U2¹ is meant to counter Chinese and Russian influence. The situation is worrisome and challenging for Pakistan, as on one side, the country is perceived as

¹ In July 2022, four states (United Arab Emirates, India, Israel, and the US), agreed to cooperate in the six key sectors, including food security, water, health, energy, transport, and space.

China's ally, and, on the other hand, it has reliance on Russia for agricultural commodities and energy.

As a result of current geopolitical and geoeconomic tensions, and with the country's economy already vulnerable to COVID-19, Pakistan may face worse current account and fiscal deficits, a halt in economic growth, and increased economic vulnerability amid political insecurity. As a result, the government must carefully assess its strategic position in the global and regional contexts. Based on the assessment, timely decisions need to be made that are critical to its survival.

This plenary will discuss the impact of recent global geopolitical and geoeconomic trends on Pakistan's economic future. It will also deliberate on how economic diplomacy programmes may be strengthened as response option. The shift from being a geostrategic partner of the US to a geoeconomic centre is not only challenging but requires fundamental structural reforms to offer an economic value proposition to the current and future economic powers. The speakers will look at the challenges, opportunities and potential future pathway for Pakistan to use its geographical position as an emerging marketplace for the world.

References

Aizenman, N. 2022, 'The Impact of the War in Ukraine on the Global Food Supply', *National Public Radio*, 15 April, <<https://www.npr.org/2022/04/15/1093121797/the-impact-of-the-war-in-ukraine-on-the-global-food-supply>>.

ANI 2022, 'Pakistan faces Severe Wheat Crisis due to Russia-Ukraine War', 25 April, <<https://www.aninews.in/news/world/asia/pakistan-faces-severe-wheat-crisis-due-to-russia-ukraine-war20220425170120/>>.

Khetran, B. '2022 Russia-Ukraine War and the Issue of Food Security in Pakistan', *Issue Brief*, Centre for Strategic Perspectives (CSP), Institute of Strategic Studies Islamabad, <https://issi.org.pk/wp-content/uploads/2022/08/IB_Khetran_Aug_12_2022.pdf>.

Mirza, A. 2022, 'Ukraine, Russia War: Implications for Pakistan', *The Express Tribune*, 5 July, <<http://tribune.com.pk/story/2364775/ukraine-russia-war-implications-for-pakistan>>.

Sullivan, A. Islam, A. and Janjua, H. 2022, 'Europe's Liquefied Natural Gas Demand Surge hits Asia', *DW News*, 10 November, <<https://www.dw.com/en/lng-european-thirst-for-natural-gas-puts-bangladesh-and-pakistan-in-the-dark/a-63401354>>.

The News 2022, 'Russia-Ukraine Conflict multiplying Pakistan's Energy Woes: Bloomberg', 15 June, <<https://www.thenews.com.pk/latest/966361-russia-ukraine-conflict-multiplying-pakistans-energy-woes-bloomberg>>.

Panel Organisers

Mr Kashif Majeed Salik, Associate Research Fellow, Sustainable Development Policy Institute, Islamabad, Pakistan
Email: kashif@sdpi.org

Ms Khansa Naeem, Project Assistant, Sustainable Development Policy Institute, Islamabad, Pakistan
Email: khansa@sdpi.org