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Pakistan: A Struggling Economy Destroyed by COVID-19

ASIA'S PATH FORWARD

By Dr. S. Akbar Zaidi

INTRODUCTION

On 12 June, Pakistan's annual budget for the fiscal year 2020-21 (beginning 1 July) was presented in Parliament, laying out the government's policies and strategies for the next twelve months.¹ On the same day, Pakistan registered its single highest increase in coronavirus cases in a day, 6,472 new cases, taking the confirmed known cases to 134,667 with a death toll of 2,574, clearly much lower than many countries which have far smaller populations. Pakistan is, after all, the sixth largest country in the world with a population of around 220m. Yet what is worth highlighting is the fact that over the month of May, the daily average death by the disease was 36 individuals, while in the first two weeks of June, on average 77 people died every day and 60,000 people were infected by coronavirus suggesting a major escalation in the spread and death toll in Pakistan.² Although still 15th in a global list of countries with known cases, on 12 June Pakistan's tally of 6,472 new cases was the fourth highest daily total after the US, India and Russia, and the eighth highest in terms of those who died in a single day.³ By all accounts, this trajectory is particularly frightening, indicating a potential major disaster over the coming weeks. The Prime Minister of Pakistan, Imran Khan, stated that Pakistan's peak load of cases is still many weeks away, expected at the end of July or even sometime in August.⁴

While there has been extensive discussion in the press and on social media about which strategy works best for Pakistan – lockdown, social distancing, partial closures, etc. – and much recrimination about how the various provincial governments have handled the epidemic, there is no doubt that the impact of the virus on Pakistan's economy has been devastating. Moreover, given this devastating impact, discussions between citizens and policy makers have centered on the issue of whether Pakistan could 'afford a lockdown' financially. These discussions have become acrimonious overestimating the cost of a life, or whether Pakistan can close down the country while people's economic lives suffer, or where one should impose a so-called 'smart lockdown' with Standard Operating Procedures (SOPs). Regardless of these debates, all signs suggest that Pakistan's economy has suffered immensely, as have many others across the globe. The difference perhaps, between Pakistan and other countries is, that Pakistan's

¹ Pakistan's fiscal year runs from 1 July through 30 June.

² All numbers about the spread of Pakistan's coronavirus are taken from the Dawn newspaper's Live Coronavirus Pandemic page <https://www.dawn.com/live-blog/>

³ https://www.worldometers.info/coronavirus/?utm_campaign=homeAdvegas1?%20#countries

⁴ <https://www.thenews.com.pk/print/669787-corona-to-peak-in-july-august-pm-says-people-not-taking-pandemic-seriously>

economy was already struggling for numerous reasons, and the pandemic has only exacerbated the existing problems. Even if Pakistan's economy were to recover after the virus, 'back to normal', would still be far below optimum.

THE ECONOMY PRIOR TO 1 MARCH 2020

Not surprisingly, Pakistani officials have blamed the pandemic as the main reason the economy has gone into free-fall since the virus hit globally and domestically after the beginning of March this year. However, while true, this elides the policy failures which resulted in Pakistan's economy nose-diving even before the virus hit. Hence, it is best to remind us where we were prior to 1 March when the pandemic let loose.

Pakistan's economy was already performing at its lowest levels in over a decade before the coronavirus disrupted whatever growth potential it could possibly have had. Since August 2018, when the current government of Imran Khan took office, the government has displayed consistent mismanagement and poor economic policies mainly designed to get a loan from the IMF. Pakistan's economy was already in dire straits. GDP growth was at its lowest in almost a decade after having hit 5.8 percent in 2018-19, the highest in 13 years. The inflation rate before the coronavirus hit was 14 percent and, and food price inflation was 24 percent. The manufacturing industry had been contracting for eight straight months with closures in numerous industries. All indicators suggest that unemployment and poverty had grown immensely since the PTI government took over in August 2018 and the growth rate for the economy for fiscal year 2019-20 was being estimated at a mere 1.7 percent below the population growth rate well before the coronavirus struck.⁵ Things have since only gotten worse.

⁵ There have been numerous articles in the newspapers about the performance of the government with regard to the economy, here references to only two suffice. <https://www.dawn.com/news/1533722/destroying-livelihoods>;
<https://www.dawn.com/news/1517022/need-for-course-correction>

FOUR MONTHS AND THEIR CONSEQUENCES: MARCH-JUNE 2020

Even the most dynamic and vibrant economies in the world which were growing at unprecedented rates, such as the U.S., have been hit hard by the coronavirus and are facing a downturn not seen in almost a century. Pakistan's economy was in poor shape before the virus hit and is about to face its biggest crisis in a generation.

The day before the Budget is presented in Pakistan, the Government releases its annual Economic Survey which gives an overview of the previous year's economic performance, projecting what the end-year GDP figures and other indicators should look like. The Economic Survey also shows projections for what to expect over the next year. Estimates suggested that GDP would shrink by 0.38 percent,⁶ that per capita income would fall by 6.1 percent this fiscal year compared to the last year: \$1,366 to \$1,271 as Pakistan's economy shrinks.⁷ In past fiscal year ending on 30 June, almost every sector of the economy has shown negative growth. Perhaps the most startling fact from the government's data is that it estimates that as many as 10 million Pakistanis will fall below the poverty line in one year alone, whereas poverty rates have fallen nearly every single year for the last fifteen years.⁸ One out of four Pakistanis are too poor to meet their basic needs, this figure is now expected to rise closer to one in three.⁹ Even Pakistan's main source of foreign exchange, remittances from the Middle East, which have acted as a major poverty alleviation measure and safety net, have collapsed as the oil price has fallen and economic activity in the Gulf states has come to a halt with many hundreds of migrant workers either losing jobs and income, or already having been sent back – increasing the number of the unemployed at home. Early estimates already suggest that unemployment in the next fiscal year will

6 <https://www.brecorder.com/news/1003393/hafeez-sheikh-unveils-economic-survey-2019-20>

7 <https://www.arabnews.pk/node/1677001/pakistan>

8 <https://www.dawn.com/news/1562982>

9 <https://thecurrent.pk/10-million-pakistanis-to-fall-below-poverty-line/>

rise to an unprecedented 9.6 percent increasing from 3.8 million two years ago to 6.7 million.¹⁰

Even though these figures project a particularly poor situation showing how bad things have become over the last few weeks, two things need to be emphasized. One, the data we have so far is valid and up to date until about March and does not incorporate the worsening economic conditions since then. But more importantly, the economic projections made in May did not capture the huge spike in cases which have taken place in the last few days and are expected to further increase in the next few weeks. Moreover, data in Pakistan tends to be incorrect and underreported, suggesting that the coronavirus numbers are bound to be higher than currently indicated as are the numbers falling below the poverty line or becoming unemployed.

While the PTI government has taken some urgent measures through the Benazir Income Support Programme – a cash transfer scheme – they have not been enough. A very high proportion of the poor and the unemployed fall outside of the BISP net. While a lockdown has been essential, it was also essential to ensure that the poor and the unemployed were guaranteed food, essential items and some income. The two policies must work together. The only way to deal with the virus and to deal with the economic crisis which is upon Pakistan is for the government to take stronger initiatives to ensure that food and essentials are provided to all who need it and to have a short to medium plan to revive the economy.

WHAT TO EXPECT

In its budget announcement last week, the government said that once the virus dissipates in a few weeks, Pakistan will see a V-shaped recovery. However, it did not announce any clear measures which would produce any confidence in such claims.¹¹ Perhaps what is most urgently needed is a clear policy of how to deal with the pre-spike rise in new coronavirus cases, increasing the health budget on an emergency basis, and ensuring better governance in the management and containment of the

¹⁰ <https://www.thenews.com.pk/print/668284-unemployment-rate-to-surge-to-9-56pc-in-2020-21>

¹¹ https://epaper.dawn.com/DetailNews.php?StoryText=12_06_2020_010_007

disease. What is needed are radical and innovative measures to deal not just with the emergency created by the pandemic and its impact on the economy, but to also rectify some of the measures which have been overlooked since the PTI and Imran Khan came into office. The coronavirus and its consequences offered an opportunity to correct the economy's trajectory and to create new possibilities for economic revival and rejuvenation. Instead, the pandemic has become another opportunity to find more excuses why things have gotten so bad. Sadly, the next few months suggest only that things, both in terms of the spread of the virus and its death toll, as well as its economic impact, are going to get far worse.

Perhaps this early realization and awareness that we expect things to get worse allows us to think about urgent mitigation efforts and measures in order to limit further possible damage. The expectation that the government would announce a 'corona budget', substantially increasing immediate health and medical spending for an already under-funded sector, have disappointed many citizens and health professionals, and those who suffering from the economic disruption. Nevertheless, while public pressure on the government to increase as well as improve the quality of spending must be made by civil society and citizens, the last few weeks have also allowed for different ways of dealing with the crisis.

One immediate impact of the coronavirus has been that many INGOs which had been under scrutiny and pressure by the government (for various reasons) to curtail and even close their activities have been given a lease of life to continue operations and support through the crisis. While this is a temporary reprieve, it does allow some support to citizens at a time when most needed. Also, with government services and systems overwhelmed by the health and economic consequences of the pandemic, citizens' groups and charity organizations have stepped in to provide food to those who have been unable to earn incomes. One expects such efforts to continue over the next few months as the infection rates increase.

However, the immediate solutions need to come from government initiatives, and citizens' groups can only supplement government efforts. This is especially the case in reviving and restarting the economy, where government policies will have to take the lead and give direction. Apart from providing income and safety net support, the government will need to increase its development spending – preferably in health and education and in the construction industry, which has links with many other industries and attracts low-skilled workers – and faced with a growing fiscal deficit, it must curtail wasteful

consumption expenditure. An important measure that the government should take is to renegotiate its loan and adjustment program with the IMF, asking for considerable freedom to move away from austerity and to increase spending in key sectors to jump-start growth.

By all measures of understanding we know that these are particularly difficult times for an economy as brittle and precarious as Pakistan's has been for the past two years, with the poor and already vulnerable, having to bear a disproportionate burden. While the human and economic consequences of the coronavirus have been considerable, it also allows small room to maneuver and an opportunity to think differently about the near future, by improving health services, supporting pro-poor policies and initiatives which help the unskilled. Whether the government will make use of this opportunity to correct things, or whether it will use the crisis as another excuse to overlook its own failings, should become apparent soon.

This Asia's Path Forward paper addresses **Restarting Economies**. Visit [CIPE.org](https://cipe.org) for further Asia's Path Forward papers on the six essential themes for an economic recovery roadmap:

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Professor Dr. S Akbar Zaidi is a Political Economist who has had nearly four decades of teaching and research experience in Pakistan and abroad. He has been a Professor at Columbia University, New York, since 2010 and has held a joint position at SIPA (the School of International and Public Affairs), and at MESAAS (the Department of Middle Eastern, South Asian, and African Studies). He is currently the Executive Director/Vice Chancellor at the IBA, Karachi. He is a political economist with interests in political economy, development, the social sciences more generally, and increasingly, History. He has taught at Karachi University and at Johns Hopkins and has written over 80 academic articles in international journals and as chapters in books, as well as numerous books and monographs. Amongst his books, are: *Military, Civil Society and Democratization in Pakistan* (2011), *The New Development Paradigm: Papers on Institutions, NGOs, Gender and Local Government* (1999), and *Pakistan's Economic and Social Development: The Domestic, Regional and Global Context* (2004). His recent books include *Issues in Pakistan's Economy: A Political Economy Perspective* published by Oxford University Press in 2015, and a co-edited volume entitled *New Perspectives on Pakistan's Political Economy: State, Class and Social Change*, published by Cambridge University Press in April 2019. His history manuscript *Making Muslims: Reading Publics and Contesting Identities in 19th Century North India* is to be published by Cambridge University Press later this year.



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