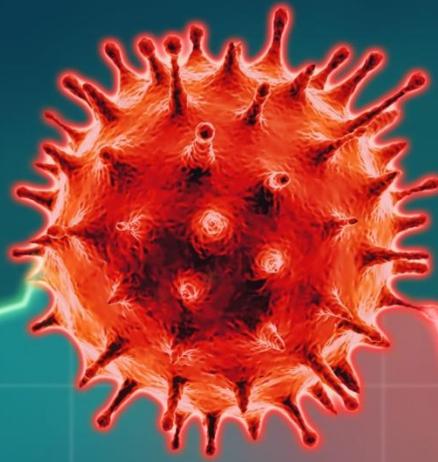


2020



Socio-Economic Challenges in Pakistan amidst COVID-19

Prepared by: Shehrzad (R&D department)
Rawalpindi Chamber of Commerce and
Industry (RCCI)

4/20/2020

Socio-Economic Challenges in Pakistan amidst COVID-19

Coronavirus pandemic started off with far-reaching consequences across continents. From the cancellation of high-profile business conferences to lockdown of more than one third of global population, coronavirus has caused disquiet to world economies. The major concerns have shifted from supply-side manufacturing issues to decreased business in the services sectors. This pandemic has caused the largest global recession in history, after the financial crisis of 2008. The developed nations are now facing massive crisis of health, unemployment and business shutdown, as Europe was declared the new epicenter of coronavirus. While the devastation of this pandemic in lower-middle income developing countries are worse due to lack of resources. The world is now in a global health crisis. With more than 2.4 million cases across 185 territories and 165,939 deaths¹, Pakistan is now preparing itself for the heinous slaughter of coronavirus. It has reached 8,648 and 181 deaths as of April 20, 2020. Pakistan has faced numerous issues from the time of its inception in 1947. But now these issues are being aggravated by the ongoing pandemic. Some of the major socio-economic challenges include:

1. Poverty

United Nations report predicted that due to ongoing pandemic, the developing countries, including Pakistan, will be hit hardest by the economic shockwaves caused by the coronavirus and will need a package of \$2.5 trillion to cope with the current situation.

Poor population of Pakistan will be most affected. As majority of the poor population works in informal sectors such as daily

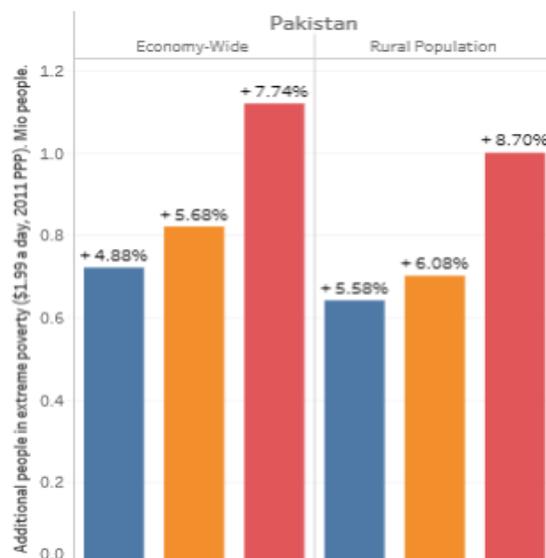


Fig:1: MIRAGRODEP simulations. Apr 16, 2020

¹ John Hopkins University Coronavirus Tracker, updated April 20, 2020: 3:38 AM: retrieved from <https://coronavirus.jhu.edu/map.html>

wage workers and are the sole earners in family. The experts suggest that ongoing pandemic will lead to 125 million people living below poverty line, double than the existing figure of 50-60 million people². According to world bank report 80% of the poor population lives in rural areas. With highest ratio of poor residing in Balochistan where 62% of the people live below poverty line. However, the gap between rural and urban poverty is the widest in Sindh is 30%. In contrast, the urban-rural gap in Punjab and Khyber-Pakhtunkhwa was 13% and 15%, respectively³. The poverty head count ratio in rural areas is twice as compared to urban areas, 36% versus 18%. With lockdowns being imposed and businesses laying off people, Pakistan will face a major challenge to tackle poverty. Figure 1 shows that 1% decrease in economic growth translates into the increase in poverty under 3 scenarios of labor productivity, total factor productivity and trade restrictions. The percentage above each bar represents the % change from the base number of poor people.

2. Unemployment

With millions of graduations on pending and massive job layoffs, coronavirus has created a doom and gloom situation for youth, not just in Pakistan but all around the world. Accessing the demographic profile of people, the direct economic effect of coronavirus will be on young people, as economic damage is likely to be felt through the impacts of restrictions on people going to work due to lockdowns.

Youth is already facing higher rates of unemployment and underemployment and are more vulnerable to falling labor demand, as witnessed during the 2008 global financial crisis. As for sectoral share of employment vulnerability, it exist more than 80% in agriculture, about 50% in restaurants and hotels, about three-fourths in wholesale and retail trade, more than three-fifths in real estate and business; and approximately two-fifths in transport and communication sector⁴. Moreover, pandemic economic freeze could globally cost 47 million jobs and send the

² Haider, Mehtab. *The News*. March 27, 2020. Economic fallout of covid-19 in Pakistan people under poverty line may double to 125 million (accessed April 11, 2020).

³ Mansuri, Ghazala; Sami, Mohammad Farhanullah; Ali, Muhammad; Doan, Hang Thi Thu; Javed, Bilal; Pandey, Priyanka. 2018. *When Water Becomes a Hazard : A Diagnostic Report on The State of Water Supply, Sanitation and Poverty in Pakistan and Its Impact on Child Stunting (English)*. WASH Poverty Diagnostic Series. Washington, D.C. : World Bank Group.

⁴ Employment Trend in Pakistan 2018, Pakistan Bureau of Statistics (PBS)
<http://www.pbs.gov.pk/sites/default/files/Pakistan%20Employment%20Trend%20%20Reprt%202018%20Final.pdf>

unemployment rate past 32%, according to St. Louis Fed projections⁵. The total labor force in Pakistan stands at 60-65 million and estimates calculated by the Pakistan Institute of Development Economics (PIDE), also an affiliate of Planning Commission, highlighted that the ongoing pandemic could cause unemployment ranging from 12 to 20 million. The PIDE also assessed that the monthly average losses of losing jobs stood at Rs180 billion to Rs260 billion, so in worst-case scenario basis, the estimated losses could go up to Rs780 billion in the next three months.

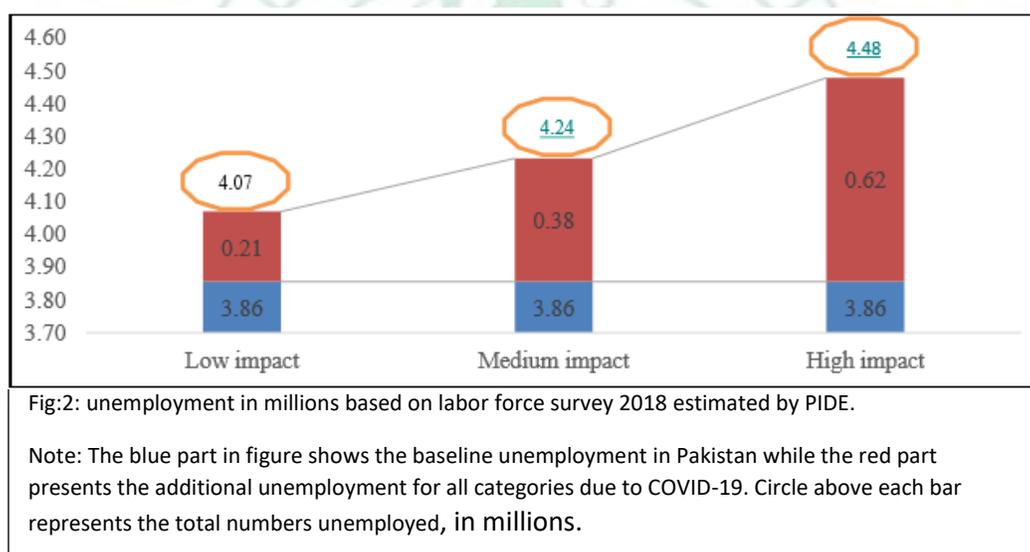


Figure 2 depicts that unemployment will increase by 0.21 million (low impact scenario) to 0.62 million (high impact scenario) from a base of 3.86 million in 2019. Total unemployment ranges from 4.07 million (low impact scenario) to 4.48 million (high impact scenario)⁶.

3. Loss of economic growth

The Asian Development Bank (ADB) has projected that Economic growth in Pakistan is expected to slow to 2.6% this year due to ongoing stabilization efforts, slower growth in agriculture and the impact of the COVID-19 outbreak⁷. Hence Pakistan's economy might face \$16 to \$61 million

⁵<https://www.cnbc.com/2020/03/30/coronavirus-job-losses-could-total-47-million-unemployment-rate-of-32percent-fed-says.html>

⁶Based on ILO estimates retrieved from <https://www.pide.org.pk/pdf/PIDE-COVID-Bulletin.pdf>. The projected GDP growth rate in Pakistan is around 2.5% to 3.5% (As mentioned by State Bank of Pakistan and also international institutions like ADB, WB and IMF). It is used as a baseline scenario with low impact to quantify its impact on poverty and unemployment. These scenarios are assumed by looking at projection rate of global GDP growth after adjusting recession due to COVID-19.

⁷ Asian Development Bank (ADB), Pakistan's Economic Growth Faces Headwinds in 2020, retrieved from <https://www.adb.org/news/pakistans-economic-growth-faces-headwinds-2020-recovery-2021-adb>.

losses due to this pandemic. However, the report gave a “hypothetical worst-case scenario” that highlighted Pakistan’s economy sustaining a whopping \$5 billion loss due to COVID-19. In this case, Pakistan’s GDP loss will 1.57% and 946,000 people will become unemployed.

Pakistan’s initial economic losses in different sectors of the country’s economy have been estimated at Rs1.3 trillion. These losses will be incurred on account of drop in the GDP growth because of reduction in services sector, including airline business and others, FBR’s revenue loss, massive decline in imports, exports, reduction in remittances, disruption in food supplies and other fronts. Moreover, Planning commission of Pakistan envisaged that size of the country’s GDP stood at Rs 4.4 trillion and /fourth stood at Rs 11 trillion, the disruptions caused by coronavirus was expected to cause at least 10 % losses in the last quarter (April-June) that would stand at Rs 1.1 trillion at least.

There will be \$1.5 billion loss to agriculture and mining, \$253.7 million in hotel and restaurants, \$1.94 billion to business and trade, \$565.6 million loss to transport services and \$671 million to light and heavy engineering. In addition to the

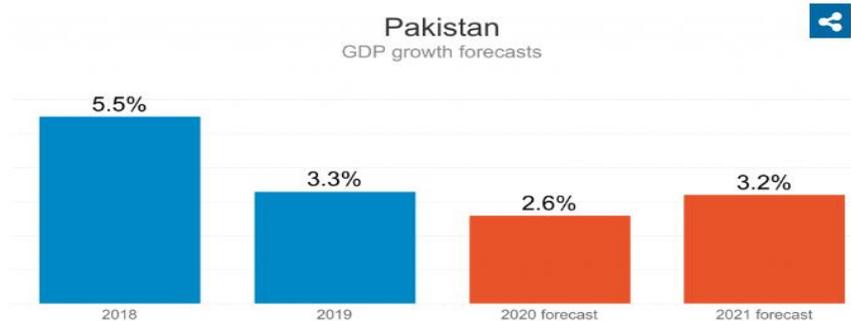


Fig.3: Asian Development Bank. *Asian Development Outlook 2020* (Apr 2020)

Pakistan Pharmaceutical Manufacturer Associations (PPMA) reported that due to lockdown, pharmaceutical industry of Pakistan lost 50% of its revenue during the past two months owing to the spread of coronavirus pandemic in the country. Although medical companies round the globe report higher profits during a health crisis such as this, revenues in Pakistan’s pharmaceutical industry are moving on a downward trajectory.

global economic slowdown, the hysteria due to COVID-19 is going to cause an estimated loss of \$1.5 trillion across the globe in hypothetical worst-case scenario⁸.

Moreover, FBR revenue are already short by 317 billion of the IMF’s target and might have to

⁸ Coronavirus may cause \$61m loss to Pakistan: ADB: March 7, 2020: retrieved from <https://tribune.com.pk/story/2171093/1-coronavirus-may-cause-61m-loss-pakistan-adb/>

face additional revenue loss of Rs 300 billion to Rs 380 billion from March to June 2020 due to Covid-19. This will also hinder the economic growth in upcoming year.

3.1 Disrupted Supply chains

The Covid-19 outbreak is affecting supply chains and disrupting manufacturing operations around the world. The effect of coronavirus on Pakistan's supply chain is no different from that of the rest of the world. Pakistan relies significantly on China as its largest trading partner.

Firstly, looking at the global scenario, some of the biggest manufacturers in the world have already had to throttle back production in their plants outside of China, and the list gets longer by the end of every day. For example, Fiat Chrysler Automobiles NV announced on February 14 that it is temporarily halting its operation in car production factory in Serbia because it can't get parts from China. Similarly, Hyundai, a South Korea based company, said that it has decided to suspend its production lines from operating at its plants in Korea due to disruptions in the supply of parts resulting from the coronavirus outbreak in China. Pakistan can also infer situation in these countries that our auto parts sector will also be adversely impacted.

The United Nations Conference on Trade and Development (UNCTAD) has included Pakistan in the list of 20 economies across the world that have been affected the most after China suffered slowdown. The affected value chain for Pakistan is textiles and apparel which amounts to \$44 million from a two per cent reduction of China exports in intermediate inputs⁹. Moreover, according to Pakistan Bureau of Statistics, Imports are on the road to declining trend, registering a decrease in value of 14.06% in February¹⁰.

Following are the reasons that businesses are struggling to deal with the fallout:

1. Consolidated centers of production
2. Lack of supply chain transparency
3. Manual supply chain management

⁹ Pakistan among 20 states most affected by China slowdown due to coronavirus , Mrch 9, 2020: retrieved from <https://www.dawn.com/news/1539450>

¹⁰ Aadil Nakhoda, *Coronavirus challenge and Pakistan's exports*. Retrieved from: <https://tribune.com.pk/story/2171994/2-coronavirus-challenge-pakistans-exports/>

4. Reduced inventory levels

5. Rigid supply chains

3.2 Declining exports.

With almost half of the world under lock down, exports are getting quite drastic globally. United Nations estimates that global trade in precision instruments, machinery, automotive and communication equipment will be most affected. The exports in Pakistan are on the way to decline, as it can be gauged by the fact that the production of export industry was at 100% in February and now it has alarmingly tumbled to 18%. Pakistan will not be able to catch up the export target of \$24 billion during the March to June period and exports may go down by 50%. Moreover, according to Federal Secretary commerce, that Pakistan's export may face a loss of \$2 to \$4 billion as a result of cancellation of export orders.

Pakistan's exports of fish and fish products to Thailand will decline mainly because the tourism industry of Bangkok has been badly affected by the outbreak. On the bilateral side, Pakistan's trade has been affected adversely during the 24 days of February as exports have declined by \$28m or 18pc whereas imports fell \$137m or 15pc.

The adviser to PM highlighted the fact that the commerce ministry has cleared payment of Rs9.6 billion to exporters in the head of DLT. He also mentioned that the commerce ministry also cleared the payments of Rs17.6 billion in the month of December hoping that this action of commerce ministry will provide solace to exporters¹¹.

¹¹ Coronavirus Damaging Impact on Exports, March 20,2020: retrieved from <https://www.thenews.com.pk/print/631753-coronavirus-damaging-impact-on-exports>

Top declining exports of Pakistan include rice, ethyl alcohol, cotton yarn, chromium ores, cotton fabric, raw leather, natural sands, marble, vegetable saps, natural steatite, flour and meals and sacs and bags¹².

Figure 4 shows the decline in real value added and export constant dollars (with base year 2011) under 3 scenarios of LPS, TFP and TRS. According to simulation results, the agricultural sector will be most badly hit due to this pandemic.



Fig:4: MIRAGRODEP simulations. Apr 16, 2020

3.3 Loss of Remittances

Flows of remittances in the developing countries are also projected to decelerate as unemployment grows in most host countries. According to bloom berg report, In the United States alone, 17 million jobs have been lost since mid-March. Moreover, Waves of job losses among overseas workers and international border closures are sapping the \$690bn annual flow of global remittances.

Pakistan gets 96pc of total remittances from traditional host countries including Saudi Arabia (23pc), United States (16.9pc), United Arab Emirates (20.7pc) and United Kingdom (15.2pc). Kuwait, Bahrain, Qatar, Oman (9.6pc combined), Malaysia (6.9pc) — and Australia, Germany, Canada, Spain and Italy (3.6pc combined).

Additionally, colossal loss in oil revenues is eclipsing growth prospects of Saudi Arabia, UAE and other four GCC nations.

¹² Virus-induced supply chain disruptions to hit industrial activity in Pakistan, retrieved from <https://www.dawn.com/news/1539713>

Bureau of Emigration and Overseas Employment Director General Kashif Ahmed Noor estimates that remittances in 2019-20 can fall by \$1bn to \$1.5bn¹³. The loss in remittances is a blow to economy as it can worsen external-sector problems.

3.4 Turmoil of Financial Markets and Stock Exchange

With ongoing pandemic and price wars between Russia and Saudi Arabia, oil market is badly affected. China is one of the largest buyers of crude oil in the world. Since February the production units in China have been shut down or operating at a very low level. On the other hand, world financial markets are facing real turmoil. Asian equity markets, already deep in the red in reaction to the situation. The equity markets of Tokyo, Hongkong, Sydney, Bangkok, Seoul, Wellington, Taipei and Mumbai, etc. experienced a massive downward trend of almost 3 to 7 percent. The economic slump has begun.

With trade being halted numerous times, Pakistan Stock Exchange (PSX) on March 24, 2020 plunged by 2000 points as KSE-100 index closed at 28,596 points¹⁴. Early in March, nervous investors continued to dump shares and switched to the dollar that saw the KSE-100 index sink to its lowest level (until then) of 35,956.69 point. But that was just the beginning. The index is now range-bound with quick movements in and out of the 30,000-point mark. As the number of infected people surges in the country, investors have their eyes set on temperature readings instead of the trading board. While on April 17, 2020, rupee made a decent stride as dollar dropped by Rs 3.31 in interbank market¹⁵. There is a lot of uncertainty in the stock markets around the world with tech companies, like IBM, enjoying high price shares, as the same time many known business and airline companies (including PIA) around the world are fearing and filing for bankruptcy.

Coronavirus has indeed shaken up the world. This ongoing pandemic will leave a mark on the history similar to “Great Depression of 1930’s and “Financial Crisis Of 2008”. But the important question stands that will Pakistan’s economy be able to rebound and get back on its steps after this crisis.

¹³ Mohiuddin Aazim, *Remittances under clouds of uncertainty*, April 13, 2020: retrieved from <https://www.dawn.com/news/1548666>.

¹⁴ Pakistan Stock Exchange sheds over 2000 points. Retrieved from <https://arynews.tv/en/pakistan-stocks-exchange-sheds-over-2000-points/>

¹⁵ <https://www.thenews.com.pk/latest/645721-rupee-makes-decent-stride-as-dollar-prices-drop-by-rs331-in-interbank-market>