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Policy Review

Economic Impact of Coronavirus and Revival Measures: Way Forward for Pakistan

By: Asif Javed

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1. Introduction

The spread of Coronavirus (COVID-19) has jolted the world economy suspending business activities and forcing millions of people to stay at home.

According to estimates, COVID-19 crisis would leave 25 million unemployed in Pakistan pushing millions towards hunger and poverty. Sectors like tourism and travel, stock markets, entertainment, manufacturing etc. are the worst hit. The global economy projection is 2.9% to 2.4% while China's economic forecast has been downgraded from 6.1% to 4.9% (Organization for Economic Cooperation and Development [OECD] 2020). The world GDP growth is expected to decrease from earlier projection of 2.9% to 2.4%. European Union will be the most affected in terms of trade loss due to COVID-19 which is estimated as $ 15,597 million (United Nations Conference on Trade and Development [UNCTAD] 2020). The United States is the second most affected country with trade impact of $ 5,779 million. India also falls among top 15 affected countries with trade impact of $ 348 million. Chemicals sector, textile and apparel, automotive, electrical machinery, leather products, metals & metal products, wood products, and furniture are the sectors, which received a severe blow in India.

2. Economic impact on Pakistan

The slowdown in Chinese economy will also affect Pakistan through global value chains where most impacted sector is textile and apparel, which will face a loss of $ 44 million (United Nations Conference on Trade and Development [UNCTAD] 2020). The European Union has asked the Pakistani exporters to halt their consignments due to which reduction in exports is expected. Calculated on the basis of decrease in GDP growth contraction in services sector, revenue loss of tax authorities and decrease in trade and remittances, the initial loss to Pakistan's economy is estimated to be around Rs 1.3 trillion (Haider 2020). Services sector in Pakistan is the major contributor towards GDP (Javed 2019) and any disruption in its performance will have severe implications for Pakistan's economy and workers.

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Table 1: Estimated Loss to Pakistan's Economy under Different Scenarios

Worst-case scenario	**Estimated loss**	**Best-case scenario**	**Estimated loss**
Agriculture and mining sector	$ 1.5 billion	Agriculture and mining sector	$ 16.23 million
Business trade, personal and public services	$ 1.94 billion	Business trade, personal and public services	$ 5.54 million
Light and heavy manufacturing	$ 671 million	Light and heavy manufacturing	$ 3.6 million
Transport services	$ 565.6 million	Transport services	$ 0.92 million
Hotels and restaurants	$ 253.7 million	Hotels and restaurants	$ 0.67 million
Total	**$ 5 billion**	**Total**	**$ 16.23 million**

Source: Asian Development Bank (ADB)

Asian Development Bank reported that in the worst-case scenario, Pakistan may face loss of $5 billion whereas in the moderate case, the loss would be around $34.2 million (Table 1). The report also mentioned that the job losses would be around 9,46,000 whereas GDP would drop by around 1.57%. Special Economic Zones and improvement in logistics infrastructure and transport network in Pakistan is observed during last few years (Manzoor *et al.* 2019), however in recent scenario transport services will also be among the sectors that will face financial losses.

According to the State Bank of Pakistan data, all the agriculture exports were on the decline in the month of February due to virus spread and trade restrictions. Live animals export was $68,9982 thousand in January 2020, but it declined to $60,938 thousand in February 2020. Further decline in exports is expected in coming months.

Tourism sector in Pakistan has shown growth signs in the recent past as tourism receipts increased from $79 million in 2016 to $85 million in 2017 (World Development Indicator).

Table 2: Travel Services & Workers' Remittances (Million$)

Description	**FY 20**	**FY 19**
Travel services	320.3	247.1
Workers' remittances	15,126.6	14,355.8

Source: State Bank of Pakistan

Pakistan's travel services based on business and personal travel increased from $247.1 million in FY 19 to $320.3 million in FY 20 showing growth of 29.6% (Table 2). However, this growth trend will be hit by the travelling restrictions which may prolong for few months,

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therefore, there will be a sharp decline in the number of tourists and tourism receipts. This will also affect hotels and restaurant revenues as well. Another sector which is likely to be affected is the remittances in Pakistan which also grew in FY 20. The remittances increased from $14,355.8 million in FY 19 to $ 15,126.6 million in FY 20 showing growth of 5.4%. However, Pasha and Kardar (2020) estimated that 10% to 20% decline will take place in remittances in coming months.

3. Measures to Mitigate Economic Impact

The German government has announced that small businesses and independent operators like artists can get loans for a period of three months to cover their costs of inactivity whereas special funds for larger companies have been allocated. Rules regarding short-term are modified to restrict the enterprises from their workers layoff. Small and Medium Enterprises (SME) sector in Pakistan is facing a financial constraint, which is major cause of lower performance (Raza *et al*. 2018). This crisis situation calls for more attention of the government towards SME sector as Pakistan's economy is mainly driven by the SME sector (Ullah et al. 2011).

The French government aims to support startups through liquidity plan which is based on short-term refinancing scheme, accelerated payment, tax credits and guarantees over cash flow costs to deal with the COVID-19 impact. The German government is passing an emergency supplementary budget for 2020 through which direct grants to those small businesses and self-employed will be provided who have lost the access towards bank credit while a bailout fund for large companies is also being setting up (How major economies 2020). To facilitate its taxpayers, the Dutch government has taken steps, which include the deferral of personal income tax, corporate tax and wage withholding tax. However, the taxpayer has to prove that the virus has created financial challenges for him. Similarly, request for reduction in advance tax payments for professionals such as entrepreneurs can be made. Pakistan government can also provide tax relief and other incentives to entrepreneurs and self-employed persons so that they may continue their business activities. Automation of filing and rapid appeal and grievance addressing mechanism can help resolve the issues of corporate sector (Ahmed and Talpur 2016).

China has adopted lose monetary policy to stabilize its economy (Shostak 2020). Talent-sharing plan by Alibaba and JD.com in China has helped minimize the impact of coronavirus on unemployment. Through this mechanism, they are hiring short-term staff from sectors which are affected temporarily including small shops, bars and restaurants (World Economic Forum 2020). Alibaba, Meituan-Dianping and Pinduoduo are supporting the SMEs through

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their offering of subsidized merchants and couriers and low interest loans in order to reduce the temporary impacts and losses.

Tourism industry in Europe is being incurred around €1 billion losses per month and it affected many SMEs putting at stake millions of jobs. European Tourism Manifesto Alliance (ETMA) proposed that national governments should provide temporary state aid for the tourism and travel sector which may include easy and rapid access to short and medium term loans in order to address liquidity shortages. It was also suggested that fiscal relief for SMEs and workers' protection from layoffs and loss of income through Corona Response Investment Initiative be made available. For long-term, the tourism alliance recommended that taxes on travellers should be decrease or waive off while promotion and marketing should be done to attract tourists towards economically hit destinations once the crisis is over.

Hospitality industry is also among the sectors which will bear the brunt of COVID-19, as events, conferences, hotel room bookings, weddings etc. are being cancelled or postponed. However, companies in UK, Finland and France which are providing services on online-events, their platforms are growing while their support businesses are also in demand. These companies are also providing services to educational institutes through virtual sessions, which will help students to continue their educational session without disturbance.

4. Positive Takeaways

The healthcare sector of Pakistan can attain windfall gains putting some efforts, as the demand of medical products and equipment has rapidly increased and this seems to continue in recent future. Masks are in extensive demand and its bulk production is required, similarly the virus has generated massive requirement for protective clothing and rubber gloves. Pakistan's pharmaceutical sector has shown vibrant performance in recent past (Ahmed and Batool 2017) and many workers which may face layoff situation after the closure of other industries can be adjusted in healthcare sector considering the emergence of demand for medical products. It can be seen from drug retail chains in USA which are hiring new workers to cope up with intensified demand. IT industry can get benefit through investing in communication technologies such as Skype, WeChat through which online communication and business meeting can be held. Startups based on entertainment, biotech, fintech, home workouts and gaming are some of the potential areas where the startups can initiate. 'Instacart' which is on demand grocery startup in USA is hiring thousands of workers to deliver items to customers at their doorsteps.

In order to avoid sales dropout, business chains can rely on ecommerce sites, which will also boost the ecommerce sector. Amazon in the US has recorded increase in online demand of

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products such as antibacterial soap and hand sanitizers. Besides, digital sales of electronic items, apparels and beverages have also increased manifold. This practice will change the consumers' behaviour which may shift more towards online shopping in coming future. Considering this, businesses in Pakistan should also consider it a viable opportunity to pay more attention towards online retailing which can increase their sales in those areas where the physical branches doesn't exist, hence a broader consumer network can be tapped.

5. Conclusion and Recommendations

The coronavirus spread on the one hand has severely affected the human lives while on the other, it has created the massive jolt for world economic markets. Every country is facing hard time to deal with the backlash of crisis situation which has halted all the economic activities. Businesses are looking for this situation to be over as soon as possible but till then there are severe implications. The closure of businesses has affected the workers especially the daily wage earners. Millions of jobs will be at stake, if the crisis prolongs.

Pakistan is also undergoing a difficult time while dealing the economic crunch due to COVID-19 as economic activities are suspended. The government has announced the relief package, but further extensive efforts are required to put the economy on track after the crisis is over. Following immediate measures are required.

- Supportive macroeconomic policies are required in this emergency situation to reinstate confidence and demand recovery.
- Tax credit for businesses should be provided so that they may provide the salaries to workers. Interest-free loans to businesses can be useful to cope with lost revenue situation.
- Despite negative spillovers, there are opportunities for few sectors such as health care industry which can produce bulk quantities of masks, hand sanitizers and other basic equipment.
- Online retail shopping may grow considering which resources can be shifted towards e-commerce sector.
- Pakistan can take advantage of the slowdown of trade flow among China, US and EU in textile sector and can grasp some of the low hanging fruits in textile and apparels.

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