

VITAL ECONOMIC OPERATIONS MANAGEMENT (VEOM)

PLANNING AND DEVELOPMENT DEPARTMENT, GOVERNMENT OF KHYBER PAKHTUNKHWA

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PREREQUISITES TO OPENING OF THE ECONOMY

THE REAL QUESTION IS NOT WHEN TO OPEN BUT WHAT TO DO BEFOREHAND!

• THE WORLD BANK ECONOMIC ASSESSMENT OF SOUTH ASIA

The World Bank released a report on 12th April, 2020 titled "South Asia must ramp up COVID-19 action to protect people, revive economies". In the report, the World Bank has now projected negative growth in the year 2019-2020 for Pakistan. The report notes that workers in hospitality, retail, trade and transport sectors will be the hardest hit. The report further states that:

“Pakistan which has already experienced low growth rates in recent years, could well fall into a recession. With 1.8% population growth rate, that would imply a painful decline in per capita income.”

The report identifies that the sudden loss of low-income jobs is resulting in a mass exodus of migrant workers from urban cities to rural areas.

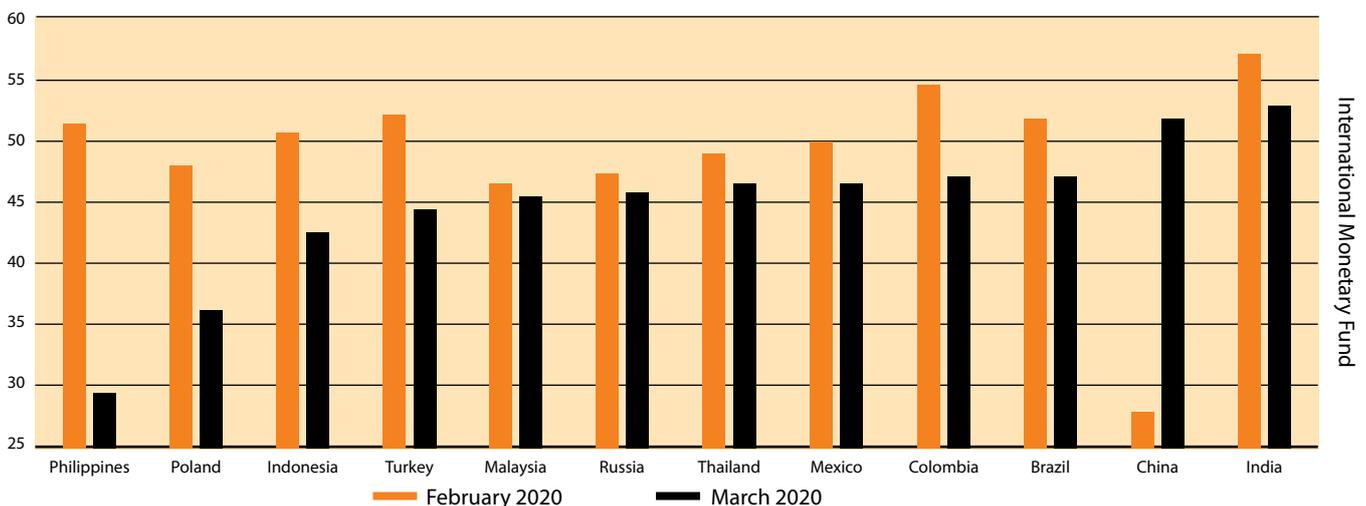
• MANUFACTURING REBOUNDS SHARPLY ONCE RESTRICTIONS ARE LIFTED

An International Monetary Fund (IMF) report published on 6th April, 2020 notes that manufacturing activity across developing countries has slowed down (February 2020 Vs March 2020). However in China, it has dramatically rebounded leading credence to the assumption that once restrictions are lifted, the pent up demand leads to swift increase in production. **(Reference: IMF blog)**

Manufacturing activity

Manufacturing in emerging markets is slowing down sharply but in China it is improving modestly.

(manufacturing output purchasing managers' index, > 50 = expansion, seasonally adjusted)



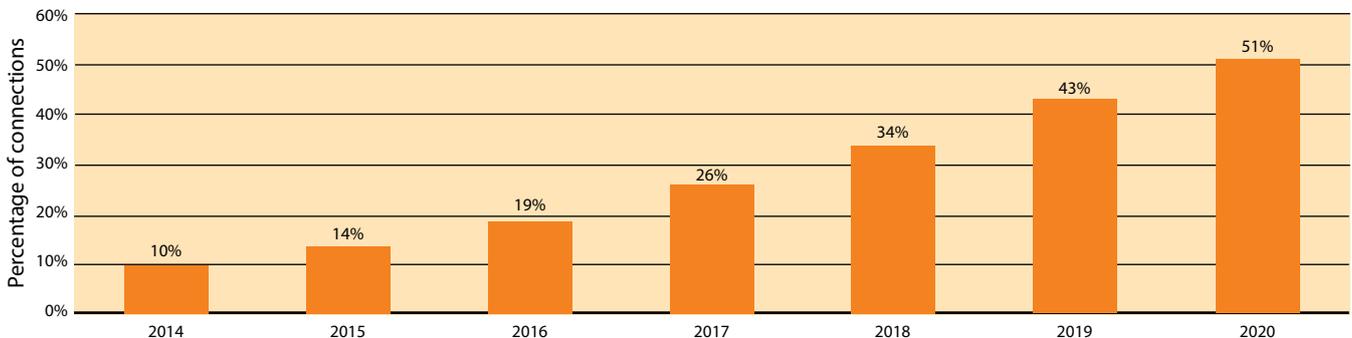
Source: Haver Analytics.

Note: Index for china is a simple average of the PMI provided by Caixin and the National Bureau of Statistics.

• SMARTPHONE PENETRATIONS COULD BE CRITICAL TO OVERCOME CHALLENGES

Pakistan has witnessed a healthy increase in the penetration of smartphones over the past 5 years. Smart phones can be extremely handy in providing information and services to the masses such as online education, health awareness and online financial services.

Smartphone penetration rate as share of connections in Pakistan from 2014 to 2020



Source: GSMA Statista 2019

Additional information: Pakistan; GSMA ; 2014 to 2016

• TOURISM: KHYBER PAKHTUNKHWA PROMISING INDUSTRY FACES BLEAK FUTURE

Pakistan's tourism industry had been on a path of robust growth led by Khyber Pakhtunkhwa. An estimated 40% of all tourists according to travel industry experts had visited the province. The current crisis with travel restrictions could seriously impact the tourism industry in Khyber Pakhtunkhwa.

• RESPONSIVE PUBLIC SECTOR ORGANIZATIONS

"Public leadership through crisis pursue flat, fast and flexible organizing structures" is a blog written by Matt Andrews and published by the Center for International development at Harvard University. It argues that in times like COVID-19, the delegation of authority is key to successfully responding to the crisis.

(Reference: <https://bsc.cid.harvard.edu/public-leadership-through-crisis>)

• OPENING THE ECONOMY: TWIN STRATEGY

Paul Romer (Nobel Laureate in Economics) has suggested that economies can start to open provided they massively increase COVID-19 testing and encourage widespread use of protective equipment. The article published in New York Times titled *"Will our economy die from corona virus"* argues that resources and NOT scientific breakthrough is required to ensure that large sections of public are tested and provided with protective equipment.

Policy Implications for Khyber Pakhtunkhwa

1. Projected contraction of the economy means that the Government of Khyber Pakhtunkhwa faces significant headwinds and may need to drastically change spending priorities for FY2020/21 with focus on health care, online education and strengthening and expanding social safety nets.
2. Stage wise opening of the economy is only an option if the prerequisites of mass testing of population and widespread use of protective equipment can be ensured. All industrial clusters / units can be opened subject to the twin strategy of testing and use of protective equipment.
3. Tourism industry holds great promise but unfortunately, it is likely to be among the top casualties of the crisis and would require imaginative solutions for its revival.
4. Delegate authority to district administration and address it through a legal instrument. Build systems and capacities for rapid translation of provincial policies on COVID-19 mitigation and income replacement programs into action.