

# New National Narrative for all External Audience Centered on Economic Security

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## Positive Economic Indicators complementing Government's Economic Strategy

- **GDP annual growth rate:** The annual growth rose to 3.94%<sup>1</sup> in 2021 from -0.47% in 2020. The value of goods produced, taking inflation levels into account rose sharply reflecting positively on the value of manufactured goods and services. Additionally, an increase in the GDP annual growth rate is a reflection of economic recovery following Covid-19.
- **Gross National Product:** The Gross National Product rose to PKR 15 million in 2022 from PKR 14 million the previous year. An increase in GNP is a reflection of drastic increase in Foreign Direct Investment, from USD 113 million to USD 236 million in 2022. FDI is known to gradually reduce the economic effects on inflation.<sup>2</sup>
- **Remittances:** Remittances recorded an additional increase to USD 8035 million in September 2021 from USD 7957 in 2020. An increase in remittances increases the cashflow into the country and helps reduce the current account deficit. An increase in remittances is often accompanied by increased expenditure on public services including education.<sup>3</sup>
- **Consumer Spending:** Consumer spending rose to PKR 11.2 million last year from PKR 11.1 million which reflects an increase in demand and overall economic activity in the country. Private sector credit increased to PKR 7 million from PKR 6.7 million in the previous year, enhancing the private sector's capacity to produce and compete in the market. Both these factors encourage economic activity in the country.

## Projecting Pakistan's immense Potential in the Corporate sector

- Pakistan's potential growth in the corporate sector is grounded in its connectivity prospects, where the port of Gwadar's inclusion in the Afghan Transit Trade route, the finalization of the '*Smart Port City Master Plan*' and commencement of work on the Gwadar International Airport will contribute significantly to socioeconomic progress.<sup>4</sup>
- Additionally, Pakistan's tourism industry is expected to contribute \$6.2 billion to the economy by the year 2025 which has great potential in addressing shortfalls in revenue which is burdening the economy.<sup>5</sup>

<sup>1</sup> "Pakistan Indicators," TRADING ECONOMICS | 20 Million Indicators from 196 Countries, accessed January 10, 2022, <https://tradingeconomics.com/pakistan/indicators>.

<sup>2</sup> Sayek, Selin. "Foreign Direct Investment and Inflation." *Southern Economic Journal* 76, no. 2 (2009): 419–43. <http://www.jstor.org/stable/27751474>.

<sup>3</sup> Akram Naseem, Fawad Aslam, and Syed Zohaib Hassan, "Impact of Remittances on Reserves," *Global Journal of Management and Business Research* 12, no. 2 (February 2012)

<sup>4</sup> Kashif Abbasi, "Pakistan, China vow to tap full potential of Gwadar Port, free zone," *Dawn News*, 31 December, 2021.

<sup>5</sup> "Tourism to contribute over Rs 1 Trillion by 2025," *The Express Tribune*, 16 December, 2021.

- Special Economic Zones (SEZ's) as part of the CPEC projects will also contribute to key sectors of the economy such as health, trade, the digital economy and green corridors where Pakistan's membership in the Economic Cooperation Organization and the Shanghai Cooperation Organization providing the ideal platform for meaningful contributions to East West connectivity as envisioned in the Belt and Road Initiative.<sup>6</sup>

## Impact of the US withdrawal in Afghanistan on devaluation of Pakistan currency and inflation

- The aftermath of the US withdrawal from Afghanistan, and the subsequent takeover of Taliban, has exacerbated Afghanistan's economic crisis. With the freezing of Afghanistan's reserve funds, the sanctions on the Taliban, combined with the pandemic and severe drought and poverty levels, Afghanistan is recording a historic depreciation of its currency.
- The currency's sliding value has pushed up inflation, and this has had a ripple effect on neighboring countries like Pakistan. As currency exchange rate is extremely susceptible to shocks, the exchange rate of Afghani against Pakistani rupee has consistently fluctuated.
- Afghanistan's burgeoning import bills have particularly placed pressure on Pakistan's rupee, which has depreciated more than 10 per cent since the changing developments in Afghanistan.
- Essentially, Pakistan is no longer receiving inflow from Afghanistan with the withdrawal of international forces and Afghanistan's entire banking system collapsing. The US dollar is in massive demand yet in dire short supply to meet the demand of importers, which in turn, exerts a significant pressure on Pakistan's rupee.

## Prospects of CPEC Projects for Economic Growth in Short to Long Term

- Chinese companies have provided 100,000 direct jobs to Pakistani workers in the first phase of CPEC.<sup>7</sup> Pakistanis would benefit with millions of more jobs in the Phase-2.
- The development progress of CPEC carries a mixed score. 46 projects have been completed (or are in process of completion). Chinese net investments during the period stands to the tune of US\$ 25 million.<sup>8</sup>

<sup>6</sup> Associated Press of Pakistan, "Special Economic Zones: Process of investment simplified: Umar," *The Business Recorder*, 30 December, 2021.

<sup>7</sup> Mian Abrar, "Be Patient Pakistan, Millions of Jobs Coming in CPEC 2<sup>nd</sup> Phase," *Pakistan Today*, January 8, 2022, accessed January 10, 2022, <https://www.pakistantoday.com.pk/2022/01/08/be-patient-pakistan-millions-of-jobs-coming-in-cpec-2nd-phase/>.

<sup>8</sup> CPEC Challenges and Opportunities: The Way Forward, Seminar, organized by *Institute of Regional Studies (IRS)*, Islamabad, December 23, 2021, accessed January 10, 2022, <https://www.youtube.com/watch?v=2kE1N2D3EwQ>.

- The development of Gwadar was slow initially but now the work has taken up pace.<sup>9</sup> The work on Gwadar Free Zone Phase-1 has completed while work on Phase-2 has started.<sup>10</sup>
- The Southern pilot area of Gwadar Free Zone have so far attracted a few score of companies and is operational. Whilst, the Northern area of the Free Zone has been opened for investments.<sup>11</sup>
- Gwadar seaport is operational; the port has been included in Afghan Transit Trade route. The ‘Smart Port City Master Plan’ has been finalized. The Pakistan-China Technical and Vocational Institute, Eastbay Expressway, the Gwadar International Airport and the Pakistan-China Friendship Hospital are other ongoing development projects. Gwadar city’s linking to the national electricity grid, provision of water to Gwadar city (from nearby dams) and establishment of University of Gwadar are other similar initiatives towards the socio-economic uplift of area.<sup>12</sup>
- Chinese enterprises, including Zhejiang Huayou Cobalt Company, China Communication Construction Company, Zhejiang Seaport and Huazhang Technology planned investments in ‘Low Carbon Recycling Park,’ within the Gwadar Free Zone are on the way.<sup>13</sup>
- On the SEZs progress, four are in advanced phase of development. These include the Dhabeij (close to Thatta, Sindh), the Allama Iqbal Industrial City (Faisalabad, Punjab), the Rashakai (Nowshera, KPK) and the Bostan (Balochistan).
- World’s 60 percent of oil is in Gulf area. 16 million barrels of oil (per day) goes through Malacca strait (Southeast Asia) while 64 percent of world trade passes through Asia. With the development of CPEC, Pakistan will become an ideal corridor for oil/ trade routes. For that, Pakistan needs to develop its Shipping industry. At present, Pakistan National Shipping Corporation (PNSC) is the only shipping company the country has.
- The Pakistan-China cooperation in the field of agricultural technology will boost Pakistan’s agricultural capacity and production.
- CPEC is an industrial cooperation project. The third country investment in CPEC is strongly encouraged. To ensure that the foreign and local investors’ participate in SEZs and other CPEC related projects, the Centre and the Provinces need to be in frequent communication. The different governance systems in provinces and the bureaucratic procedures need to be simplified.
- On the whole, doubts raised on CPEC are self-created. The public needs to look at development projects with a broader lens. The narrative of CPEC as a pivotal corridor of BRI is already there and this speaks of CPEC as solid foundation for regional connectivity.

<sup>9</sup> CPEC Challenges and Opportunities: The Way Forward.

<sup>10</sup> 6<sup>th</sup> Meeting of Joint Working Group on Gwadar under CPEC, December 30, 2021, accessed January 10, 2022, [https://www.pc.gov.pk/web/press/get\\_press/695](https://www.pc.gov.pk/web/press/get_press/695).

<sup>11</sup> Abrar, “Be Patient Pakistan, Millions of Jobs Coming in CPEC 2<sup>nd</sup> Phase.”

<sup>12</sup> 6<sup>th</sup> Meeting of Joint Working Group on Gwadar under CPEC.

<sup>13</sup> Ibid.



## Economic Indicators during Covid-19 across South Asia: A Breakdown of South Asian Economies

- **India:** Official data in India's case suggests that economic growth shrank down to over 23 per cent in the first quarter of 2021 fiscal year, whereas, the overall economic growth went down to overall 7 per cent.<sup>14</sup> Among critics, the estimation, towards the shrinking of growth, for worse, was far higher. Professor Arun Kumar in his recent interview, based on the findings of book, reports that the GDP may have shrunk by 50 per cent, in the Quarter 1 and in the Quarter the negative growth stood at 25 per cent and not 7.5 per cent –as indicated by Indian government.<sup>15</sup>
- **Pakistan:**
  - According to the IMF, Pakistan's real Gross Domestic Product (GDP) was projected to grow by -1.5 per cent against the original target of 3.3 for the current fiscal year (FY) and 2.0 per cent in 2021. The GDP recorded a growth of 0.5 per cent in 2020 due to the global pandemic. In 2021, the rise in exports led to a GDP growth of 3.5 per cent.<sup>16</sup> As far as unemployment was concerned, it was estimated that between 12.3 million and 18.5 million people will be unemployed due to the pandemic in Pakistan. According to the Pakistan Workers' Federation, more than half a million workers in the garment and textile industry have lost their jobs in the Punjab province alone.<sup>17</sup>
  - The State Bank of Pakistan dropped down the interest down to 5 per cent. The government launched a stimulus package worth US\$ 6 billion (1.2 trillion in PKR). A breakdown of the plan is as follows.<sup>18</sup> The overall economic package included:
    - PKR 200 billion for relief to daily wage workers;
    - PKR 150 billion for cash transfers to low-income families;
    - PKR 100 billion for accelerated tax refunds to export industry;
    - PKR 100 billion for financial support to support the Agriculture sector and SMEs;
    - PKR 280 billion for accelerated procurement of Wheat;
    - PKR 50 billion for financial support to Utility Stores;

<sup>14</sup> Misra, Udit. "India GDP Growth Contracts 23.9%: What is the Economics Behind the Math?" *The Indian Express*. Last modified September 6, 2020. <https://indianexpress.com/article/explained/gdp-contraction-23-9-the-economics-behind-the-math-6578046/>.

<sup>15</sup> "State of Economy Far Worse Than Govt Admits, GDP Shrank by More Than what Govt. Claims'." *The Wire*, accessed January 10, 2022. <https://thewire.in/economy/watch-karan-thapar-arun-kumar-gdp-covid-economy>.

<sup>16</sup> "Strengthening Exports is Critical for Pakistan's Sustained Economic Growth," *World Bank*, last modified October 28, 2021, <https://www.worldbank.org/en/news/press-release/2021/10/28/strengthening-exports-is-critical-for-pakistan-s-sustained-economic-growth>.

<sup>17</sup> Raashid Wali Janjua, Khalid Chandio, Umar Farooq Khan & Usama Nizamani, "Post-COVID-19 World and Pakistan's Response Strategy," *Journal of Current Affairs* 4, no. 1-2, 29, <https://ipripak.org/wp-content/uploads/2020/08/Article-2-Raashid-W-Janjua-et-al-JoCA-4-1and2-ED-SSA.pdf>.

<sup>18</sup> "Pakistan," KPMG, last modified November 24, 2020, <https://home.kpmg/xx/en/home/insights/2020/04/pakistan-government-and-institution-measures-in-response-to-covid.html>.

- PKR 70 billion for relief in Fuel prices [Rs. 15/liter decline in prices of gasoline and diesel];
  - PKR 15 billion to support health and food supplies;
  - PKR 110 billion relief to people in electricity bill payments;
  - PKR 100 billion for Emergency Energy provision; and
  - PKR 25 billion for transfer to National Disaster Management Authority (NDMA) to purchase necessary equipment to deal with pandemic.<sup>19</sup>
- **Bangladesh:** Bangladesh's GDP was projected to grow over 8 per cent in 2020, which due to breakout of the pandemic recorded, a positive yet, reduced growth of 3.5 per cent. Bangladesh's graduate unemployment, during 2020, went up by 11 per cent to 58 per cent, compared to 47 per cent in the year 2019.<sup>20</sup> In order to mitigate the negative shocks to Bangladesh's national economy, Prime Minister Hasina Wajid announced an emergency stimulus package worth US\$ 600 million, and by April the government scaled up the stimulus amount to US\$ 8.5 billion enabling the economy to absorb the pandemic induced shocks.<sup>21</sup> Courtesy, government's intervention the economy was able to mitigate the overall downturn in the economy.
  - **Nepal:** Economic outlook in Nepal also went in a tailspin after the country's tourism sector was hit strong by the aftershocks of Covid-19. The economy only grew by 0.2 per cent in 2020, and in the fiscal year 2021, the economy was only expected to gain marginal ground with growth of 0.6 per cent.<sup>22</sup> Inflation, courtesy the disruption in supply chain, skyrocketed to 6.4 per cent in 2021 from 3 per cent in the fiscal year 2020.<sup>23</sup>
  - **Bhutan:** The economic outlook was unpromising as national GDP recorded a meager growth of 0.9 per cent in 2020— a sharp decline from 4.3 per cent in 2019. Forced by various measures such as successive lockdowns to contain the spread of pandemic in the landlocked country, Asian Development Bank reported that Bhutan experienced a negative growth of 3.4 per cent in 2021.
  - **Sri Lanka:** Sri Lankan economy has experienced a loss in its foreign exchange revenue, especially from its tourism exports alone dropped by US\$ 3 billion during the eight months of fiscal year 2021. The domestic and accommodation earning have declined significantly by 40 per cent in comparison to 2019-2020. Nearly 0.2 million people were rendered jobless as a result of the pandemic induced shutdown of the hospitality

<sup>19</sup> Ibid.

<sup>20</sup> "GDP Growth (annual %) - Bangladesh," World Bank Open Data | Data, accessed January 10, 2022, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=BD>.

<sup>21</sup> "The Impact of COVID-19 on Bangladesh's Economy: A Focus on Graduate Employability -The Journal of Asian Finance, Economics and Business, <https://www.koreascience.or.kr/article/JAKO202106438543845.pdf>

<sup>22</sup> "COVID-19 Impact on Nepal's Economy Hits Hardest Informal Sector," World Bank, last modified October 8, 2020, <https://www.worldbank.org/en/news/press-release/2020/10/08/covid-19-impact-on-nepals-economy-hits-hardest-informal-sector>.

<sup>23</sup> "Bhutan's Economy to Shrink in 2021 but Expected to Rebound in 2022 — ADB," Asian Development Bank, last modified April 29, 2021, <https://www.adb.org/news/bhutan-economy-shrink-2021-expected-rebound-2022-adb>.

industry.<sup>24</sup> Return of people from overseas also led to a reduction in foreign remittances because of the labor returning to Sri Lanka. The ongoing Sri Lankan outlook is also faced with a major crisis and as a result of it the country has reached out to China to restructure its US\$ 5 billion debt, and ensure convenient terms for access of Sri Lankan goods and services to Chinese markets. Sri Lanka has recently engaged in a barter deal with Iran in order to settle its US\$ 519 million debt with Iran through US \$ million worth of tea exports to Iran.<sup>25</sup>

- **Maldives:** Maldives, as per the World Bank, had its economic growth shrunk by - 19.5 per cent in 2020.<sup>26</sup> As a result of the outbreak of Covid-19 Maldives faced a budget deficit of nearly US\$ 1.2 billion dollars. Almost 70 per cent of national revenue comes from the tourism sector. Due to lockdowns at the early outset of Covid-19 pandemic, the country did not receive tourists from China, which brings in the largest footfall.<sup>27</sup>

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<sup>24</sup> "How Can Sri Lanka Recover from COVID-19? By Promoting Integrated Rural Development - Kenichi Yokoyama," Asian Development Bank, last modified October 13, 2021, <https://www.adb.org/news/op-ed/how-can-sri-lanka-recover-covid-19-promoting-integrated-rural-development-kenichi>.

<sup>25</sup> "Crisis-hit Sri Lanka Asks China to Restructure Its Debt," BBC News, last modified January 10, 2022, <https://www.bbc.com/news/business-59932551>.

<sup>26</sup> "COVID-19 Impact on Nepal's Economy Hits Hardest Informal Sector," World Bank, last modified October 8, 2020, <https://www.worldbank.org/en/news/press-release/2020/10/08/covid-19-impact-on-nepals-economy-hits-hardest-informal-sector>.

<sup>27</sup> "Maldives' Economy Hit Hard by Covid-19 Pandemic," The Strategist, last modified October 13, 2020, <https://www.aspistrategist.org.au/maldives-economy-hit-hard-by-covid-19-pandemic/>.