



ECONOMIC SECURITY CHALLENGES TO PAKISTAN DURING POST PANDEMIC ERA

Samer Fatima
MPhil International Relations
Lahore College for Women University
Lahore – Pakistan
samer.fatima93@gmail.com

Conference paper presented in 1st international conference on contemporary world politics in January 2024 by political science department Lahore College for Women University

Abstract:

Pakistan's economy has faced many challenges since the inception of Pakistan as an independent state. The economy of country was largely dependent on agrarian resources during the initial decades and then industrial bases afterwards. During the past three decades it the economy of Pakistan depends on loans and financial aids from international financial institutions such as, IMF along the industrial growth. The world economy slowed down after the pandemic and it also had consequences on Pakistan economy. Covid-19 caused major disruption in Pakistan economy. As, Before pandemic the GDP growth rate was 2.50% in 2019 and it fell in negative point -1.27% during the fiscal year 2020. The economic challenges to Pakistan raised during pandemic era such as its GDP growth rate decreased in negative points, its fiscal debt increased to 12.74% in 2020 as compare to 2019. Unemployment, shut down of small businesses, increase in job displacement, fiscal deficit, decline in foreign direct investment are the few challenges to name. Therefore, the economic security of Pakistan had faced many challenges during the post pandemic era. The drastic impact of covid-19 forced government to take immediate steps to counter economic challenges. The first national security policy of Pakistan in this regard made economic indicators as a challenge and made economic security a part of national policy.

Key words: *fiscal debt, GDP, COVID-19, economic security, economic growth, IMF program.*

Introduction:

Economic security has become a vital part of Pakistan's security paradigm. The first National Security Policy of Pakistan also included economic security as a main security concern after pandemic. Economic security is the ability of individuals, households, or communities to meet their basic requirements in a sustainable and dignified manner. The COVID-19 epidemic sent jolts across the global economy, precipitating the largest global economic crisis in almost a century. The



crisis resulted in a major increase in inequality within and across countries. Preliminary research suggests that the crisis's recovery will be as uneven as its initial economic repercussions, with emerging nations and economically disadvantaged groups taking far longer to recover pandemic-induced income and livelihood losses. Pakistan's economic troubles were worsened by the COVID-19 outbreak in early March 2020. The Pandemic caused significant uncertainty, human misery, and economic upheaval globally, including in Pakistan.

Research Questions

- What is economic security and its challenges?
- What are the economic security challenges to Pakistan in post pandemic era?
-

Economic Security: Definition

Economic backwardness leads to violence, social disputes, political unrest, and weakened national security. Therefore, Economic security is a foremost concern for every state. The different meanings of economic security are as follows:

- The International Committee of the Red Cross defines economic security as a person, home, or community's ability to meet their basic needs in a sustainable and dignified manner. (what is economic security, 2015)
- According to Paul Kennedy, a nation's military strength rests on its economic strength. (Khan, 2015)

Economic Security Challenges

Economic security challenges refer to the obstacles and threats that impede a nation's ability to maintain stability and prosperity within its economy. These challenges can manifest in various forms and can arise from both internal and external factors. In the context of Pakistan after COVID-19, several economic security challenges have become particularly pronounced:

Decline in GDP Growth Rate

Pakistan's GDP growth fell by 0.4 percent in 2019-20, the first time since 1952-53. Without the Pandemic, Pakistan's economic growth under the existing IMF Program was expected to be around 2.0 percent in 2019-20. Pandemic reduced growth to a negative 0.4 percent.

Increase in Public Debt

The total public debt-to-GDP ratio climbed from 86.1 percent in June 2019 to 87.2 percent in June 2020. The number decreased to roughly 84 percent in December 2019 due to robust growth. in revenue and rigorous management of existing expenses. Prudent economic policies led to a consolidated primary surplus in the first three quarters of FY 2019-20, breaking a long-standing trend. The COVID pandemic has hindered the government's reforms and had a negative impact on the economy. The COVID-19 outbreak had a significant impact on Pakistan's economy, resulting in decreased revenue and increased expenditures, decreased local and worldwide demand, reduced



tourism and business travel, and weakened trade and production links. Supply disruptions, etc. The debt-to-GDP ratio has grown due to a decrease in growth and an increase in the budget deficit caused by Covid-19-related expenses in the last four months of FY 2019-20. The World Bank Group's Global Economic Prospects report published in June 2020 found that Pakistan's economy is more resilient than its peers in South Asia. (Finance, 2020)

Decline in Import/Export Ratio

COVID-19 not only disrupted worldwide trade but also had a significant impact on Pakistan's exports and imports, harming the country's entire economy. Pakistan's exports in fiscal year 2020 fell to US\$22 billion, a 6.36 percent decline from the previous year. Meanwhile, Pakistan's imports fell by 8.56 percent in fiscal year 2020 as compared to fiscal year 2019 - US\$45 billion in 2020 versus US\$50 billion in 2019, for a net difference of US\$5 billion. (Zaidi, 2023)

Reduction in Tax Collection

For fiscal year 2020, the government initially set a tax collection target of PKR 5.5 trillion. Interestingly, even before COVID-19 became a concern, Pakistan's tax collection target was revised twice: in December 2019 to PKR 5.2 trillion and in February 2020 to PKR 4.8 trillion. However, none of these expectations were realized, particularly after COVID-19 hit Pakistan, and only PKR 3.9 trillion in revenue was received, which was the same amount as in the previous three fiscal years. On the contrary, Pakistan's expenditure climbed by PKR 2.1 trillion, further pressuring the already stressed economy. (Zaidi, 2023)

Inflation Rate

During the initial year of the Covid-19 pandemic, Pakistan experienced a rise in inflation, reaching 10.7%, despite crude oil prices remaining at their lowest, averaging \$39.68 per barrel in the international market. Pakistan's inflation rate surpassed that of all neighboring countries, presenting significant challenges for achieving stable economic growth. The monetary policy implemented in Pakistan failed to yield favorable outcomes in addressing inflationary pressures. (anjum, Asghar, & rehman, 2021)

COVID-19 seriously impacted the common person's living conditions in Pakistan, as a record inflation rate was observed and per capita income fell dramatically. In the fiscal year 2016, Pakistan's inflation rate was at an all-time low of 2.86 percent, with low inflation years in the following years 4.15 percent 2017, 3.93 percent 2018, and 6.74 percent 2019, until COVID-19 hit and disrupted life as we knew it, and the inflation rate jumped to a staggering 10.74 percent in the fiscal year 2020. Furthermore, Pakistan's per capita income dropped dramatically from US\$1625 in fiscal year 2019 to US\$1325 in fiscal year 2020.

Debt and Liabilities

The COVID-19 scenario aggravated the country's debt servicing issues. In the fiscal year 2018, Pakistan's total debts and liabilities were US\$95.2 billion, with the exchange rate at Rs 121.54,



however in the fiscal year 2020, these debts increased to US\$112.8 billion, with the exchange rate at Rs 162.2. (Raza, 2020)

Decrease in Small and Medium Size Enterprises

The Covid-19 pandemic has significantly affected small and medium enterprises (SMEs) in Pakistan, which make up 90% of the country's businesses and contribute 40% to the national GDP. As reported by the Asian Development Bank (ADB), Pakistan's economy experienced a negative growth of 0.4% due to the pandemic. The UNDP's response plan outlines short-term measures for government intervention, providing financial support to SMEs. The impact has been severe, leading to employee and customer losses, especially for women-led businesses. Research from the Sustainable Development Policy Institute (SDPI) indicates that approximately 50% of the 3.8 million SMEs are experiencing declines in sales and profits. Furthermore, around 0.95 million SMEs may not survive a one-month lockdown, while 2 to 3 million SMEs will require financial assistance post-lockdown. The ongoing crisis not only threatens the financial stability of SMEs but also disrupts their supply chains. (aftab, naveed, & hanif, 2021)

Increase in Unemployment

A recent study conducted by the Mahbub Ul Haq Research Center at Lahore University of Management Sciences (LUMS) in Pakistan delves into the economic ramifications of the COVID-19 pandemic's first wave on Pakistani citizens. Titled 'COVID-19 Pandemic's Economic Burden in Pakistan,' the study utilizes data from the Pakistan Bureau of Statistics (PBS) to evaluate the pandemic's impact, particularly on employment and income levels. The study reveals that the pandemic-induced lockdowns led to an unprecedented shock for Pakistanis, with the unemployment rate soaring by 34.1% and mean income plummeting by over 42% during the first wave. Interestingly, while urban and rural non-farm workers experienced significant declines in income and employment, those engaged in farm activities faced comparatively lesser shocks. Casual laborers suffered the most severe income and job losses, although employers and the self-employed were also significantly affected. Although there was a period of recovery following the first wave, it was not fully comprehensive. Around 3 million citizens remained jobless even a quarter after the lockdowns ended, and by November 2020, average income levels were still 5.5% below pre-lockdown levels. This study underscores the need for targeted policy interventions to mitigate the pandemic's economic fallout and support affected segments of the population. (Arab News Pakistan, 2021)

Decline in Foreign Direct Investment

Due to the COVID-19 outbreak, the government of Pakistan implemented various unprecedented containment measures, including but not limited to travel restrictions, international trade limitations, and closures of schools, workplaces, and businesses, as well as restrictions on movement between locations. These measures, aimed at curbing the spread of the virus, led to significant economic disruption and a reversal of globalization, ultimately impacting foreign direct investment (FDI) flows into Pakistan. As a result of these containment efforts, the pattern of FDI



inflows into Pakistan exhibited a decline. For instance, FDI inflows amounted to \$2597.5 million in June 2020, but dropped to \$1862.8 million in June 2021, reflecting a decrease of \$734.7 million attributed to the effects of COVID-19. Additionally, international authorities adhered closely to guidelines set forth by the World Health Organization (WHO) to address the COVID-19 crisis, a practice also followed by economies investing in Pakistan. While this approach helped mitigate the adverse impacts of the pandemic, it simultaneously disrupted economic activities globally and hindered the progress of globalization. Consequently, FDI inflows into Pakistan were curtailed as a result of these temporary disruptions to economic activities worldwide. (Chishti, 2023)

Conclusion

The economic security challenges confronting Pakistan in the aftermath of the COVID-19 pandemic are formidable and multifaceted. As the nation strives to recover from the unprecedented disruptions caused by the global health crisis, it must confront a myriad of obstacles ranging from unemployment and poverty to mounting debt burdens and fiscal deficits. Addressing these challenges demands a comprehensive and coordinated approach that prioritizes sustainable economic policies, investment in healthcare and education, fostering innovation, and enhancing international cooperation. Moreover, it necessitates a concerted effort from both the public and private sectors, as well as active engagement with global partners and institutions. While the road ahead may be arduous, Pakistan has demonstrated resilience in the face of adversity before, and with strategic planning and collective determination, it can overcome the economic hurdles posed by COVID-19 and emerge stronger and more resilient in the years to come.



References

- aftab, r., naveed, M., & hanif, s. (2021). An analysis of Covid-19 implications for SMEs in Pakistan. *Journal of Chinese Economic and Foreign Trade Studies* .
- anjum, m. a., Asghar, N., & rehman, h. (2021). Historical Aspect of Inflation in Pre and Post Covid19 Pandemic in Pakistan . *Perennial Journal of History*, 383-401.
- Arab News Pakistan*. (2021, 2 21). Retrieved from Arab News: <https://www.arabnews.pk/node/1837961/pakistan>
- Chishti, M. Z. (2023). COVID-19 and FDI nexus in Pakistan: fresh evidence from QARDL and time-varying casualty techniques. *future business journal*.
- Finance, D. o. (2020). *annual debt review and public debt bulletin FY 2019-20*. government finance department.
- Khan, D. h. (2015). *Pakistan's Economy and National Security*. Islamabad: pakistan institute of development economics.
- Raza, S. (2020, august 27). External debt and liabilities surge.
- what is economic security*. (2015, june 18). Retrieved from ICRC.org: <https://www.icrc.org/en/document/introduction-economic-security>
- Zaidi, S. S. (2023). COVID-19: Exacerbating Pakistan's economic problems – a critical analysis using the dependency paradigm. *Asia Journal of Comparative Poliitics*.