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Stalled Corridor | *Tahir Dhindsa*

The International Monetary Fund has crippled down 'China Pakistan Economic Corridor,' to an extent where development on its framework has become snail slow. The method is simple; put a stopper on commercial loans from China. The 39-month structural adjustment long called the EFF (Extended Fund Facility) has asked the government of Pakistan to bring flow of commercial loans from China to zero by the end of the programme, over the next three years. and significantly reduce the size of other loans from China, in the same lieu. The IMF clearly says that quantum of non-commercial loans on CPEC be reduced to the a third of its size, by the time it ends in 39 months. Starting from the June last year, the results are vivid for the first nine months.

The CPEC phase one was development of infrastructure and energy projects having a sizable pie of G-to-G finances containing sovereign guarantees, so it went on well ahead of schedule on some accounts and projects. The phase two on the other hand is mostly commercial hanging on B-to-B financial transactions, private and commercial in nature. China is encouraging relocation of manufacturing facilities from China to Pakistan, partly to the designated Export Processing Zones (EPZs).

It would be a two-way dependence which is already showcasing its self. The fear of pandemic on the heels of Corona virus infection has slowed down production and productivity in some parts of China. Result is simple, China unable to meet export (supply) agreements to the international byers. Now, a home appliances manufacturer has diverted a supply order to a Pakistani company. China supplying air-conditions to an international buyer under the banner of made in Pakistan, maintaining all standards. After years, the textile sector has booked capacity orders worth more than $25 billion. Here also, the China-Corona factor has contributed. The urgency was such that some of the dormant industrial units in Karachi has to import technical human resource from Bangladesh.

Relocating industry on permanent basis needs new manufacturing facilities to be brewed on commercial loans. China will be the major sources of such commercial loans, if not the only source. Blocking the commercial loan portfolio is stalling the CPEC Phase- II.

This is the principal reason the CPEC Authority has been churned up to improve governance on the ongoing momentum alone in a hope that the financial stimuli snatched away will be restored soon. A retired Lieutenant General has been placed as the head, who has exposure in the South during his uniform days.

At the same time, through the federal budget 2019-20, as a part of the 'Medium Term Budgetary Framework,' to be continue over the next two budgets, the government had announced the principle of its economic policy of 'Fiscal Consolidation.' Pakistan closes its fiscal account with a deficit of 7.1 percent of GDP, with a mammoth shortfall of about Rs. 2,900 billion in revenue between the target and the collection for the fiscal year 2018-19. However, the primary deficit last year came down from 2.2 percent of the GDP to 1.6 per cent last year. The primary deficit had risen sharply during the past few years, from 0.3 percent of GDP in 2015-16 it spiked to 2.2 percent of GDP in 2017-18. Ultimately the government has to look forward to convert it into a primary surplus.

On the other side, the State Bank was geared up to maintain price and financial stability while ensuring some growth. If it was progressive by design then the country was put to work at a gradient of three years, which is the likely duration of the IMF programme.

This was a policy reversal after a decade of progressive slowdown in revenue growth and rise in spending through a complete and careless supply-side policy framework. Now, a total emphasis is on revenue mobilization and curtailing spending, to accrue less. It is a complete shift to demand management policy.

Over the last few years, both federal and the provincial governments have invested in projects with complete disregard to their financial viability needs subsidy on a permanent basis to sustain and as a result score poorly on productivity. On top of that, the bulk of the development portfolio consists of the projects producing no exportable surplus. As a result, trade gap went record high putting pressure on the exchange rate. The government kept the value of rupee artificially high by pumping borrowed dollars in the market keeping the dollar demand at bay. This stock of billions of Dollars is an integral part of sovereign liability making the incumbent government run around in a panic to keep the default at bay. Actually, this had brought Pakistan to the International Monetary Fund. The reduction in the primary deficit came from the proposed tax target at Rs. 5,550 billion, which was an estimated increase of more

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than Rs. 1,550 billion over the previous year. The government has taken an important step for its realization; abolition of the category 'Non-filers.' Now, after any financial exposure as purchase it would be mandatory to come forward with documentation at the FBR.

Another permanent source of monetary hemorrhage is known as Foreign Currency Accounts, FCAs; the Capital Accounts for residents. Sixteen billion Dollars ($16) have been sent out of Pakistan during the fiscal year 2017-18. Pakistan started the facility with the Economic Reform Package of 1992, where the rupee was deemed to be made fully convertible. India followed the suite, but there, this unlimited FCA type facility is not available to the residents. This is one single channel of money laundering, which is legal also.

This brings double jeopardy of regressing growth and mounting inflation. Both, hurting the masses and have a political mass appeal, making the incumbent government unpopular, triggering even a systemic change. So, the government needs to make the sovereign sustainable, consolidate its position and ensure the subsequent growth, which is not nominal. On the other hand persuade and convince public to lose a morsel, bear the brunt and remain calm and convinced of the final resolution. Only an unwavering public faith and confidence in the political leadership can make this happen.

Doing reforms as compensation for the past ten years is the task the government had its hands on. Inflation close to double digit, growth bogged down under the duress of fiscal consolidation and exporters feeling the heat of expensive raw material imports defines the environment.

IMF's recipe to remedy this morass has further brought double jeopardy of high inflation in double digits and stagnated growth called 'Stagflation'.

Now the commercial money is not pouring in from China and the local liquidity has dried-up due to progressive demand management. Pakistan need a political decision to bring back the promised glory to CPEC, Perhaps, this the reason the Asad Umer has been brought back to the planning commission, who was reportedly removed as 'Cabinet Minister for Finance'.

Corona Slowdown | *Hamza Nasir*

Tthe spread of coronavirus has stalled growth to the extent that a major investment in stocks have been shaved off at least for the coming three to four quarters. Earlier in the March, the Asian Development Bank had issued a simulation on the event for the Asian countries. Now it seems it has been topped up and has a major resonation impact due to shifting of the epicenter of the outbreak from China to Europe.

According to leading global experts and premier institutions, the global population of more than seven billion will be infected by the virus over the coming months. According to the disease track record of the last few months, which is the only historical evidence on the mortality rate between 2-3 percent of those infected, will die. This means that 200 million people will die of the pandemic. The developed countries will witness more deaths as they have a major ratio of senior citizen in the demographic distribution.

The countries like Italy and China have faced serious damages due to the virus. On the other sided, the United Kingdom, as a policy admitted by the Prime Minister, Boris Johnson, is adopting a lenient enforcement of quarantine. This will develop herd immunity. No wonder, Sophie Grégoire Trudeau, the wife of the Canadian Prime Minister, attracted virus in London.

As a net impact of these developments and responses, the ADB says, the ongoing novel coronavirus (COVID-19) outbreak will have a significant impact on developing Asian economies through numerous channels, including sharp declines in domestic demand, lower tourism and business travel, trade and production linkages, supply disruptions and health effects.

The magnitude of the economic losses will depend on how the outbreak evolves, which remains highly uncertain. The Bank says, the range of scenarios explored in the analysis suggests a global impact in the range of $77 billion to $347 billion, or 0.1% to 0.4% of global gross domestic product (GDP).

In a moderate scenario, where precautionary behaviors and restrictions such as travel bans start easing 3 months after the outbreak intensified and restrictions were imposed in late January, global losses could reach $156 billion, or 0.2% of global GDP. The People's Republic of China (PRC) would account for $103 billion of those losses—or 0.8% of its GDP. The rest of developing Asia would lose $22 billion, or 0.2% of its GDP.

Estimated Global and Regional Impact of COVID-19, under Different Scenarios

	Best case		Moderate case		Worse case	
	As % of GDP	Losses in $ billions	As % of GDP	Losses in $ billions	As % of GDP	Losses in $ billions
World	–0.1	$77	–0. 2	$156	–0.4	$347
People's Republic of China	–0.3	$44	–0.8	$103	–1.7	$237
Developing Asia excluding the People's Republic of China	–0.2	$16	–0.2	$22	–0.5	$42
Rest of the World	0.0	$17	0.0	$31	0.0	$68

Source: ADB staff estimates

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Pakistan in the Competitiveness 4.0 Era | *Amir Jahangir*

The Global Competitiveness Report provides an overview of the competitive performance of 140+ economies, and thus constitutes to be the most comprehensive assessment of its kind globally.

The World Economic Forum in 2018 introduced the Competitiveness 4.0, which has upgraded the Global Competitiveness Index in line with the parameters of the Fourth Industrial Revolution (4IR); The Competitiveness 4.0 has introduced new pillars like ICT Adoption, Skills, among the other pillars. This methodology was updated after 10 years of completion, creating a huge datasets on more than 140 economies.

The Competitiveness 4.0 has adopted a new methodology for measuring Competitiveness of a country by including indices which represent more knowledge and digital-based ecosystems. Although the new methodology is a reboot of the Index, where Pakistan has been ranked at 110 among 141 economies. The new methodology has been able to capture the business dynamism and innovation capability of Pakistan

Broadband Subscribers by Technology

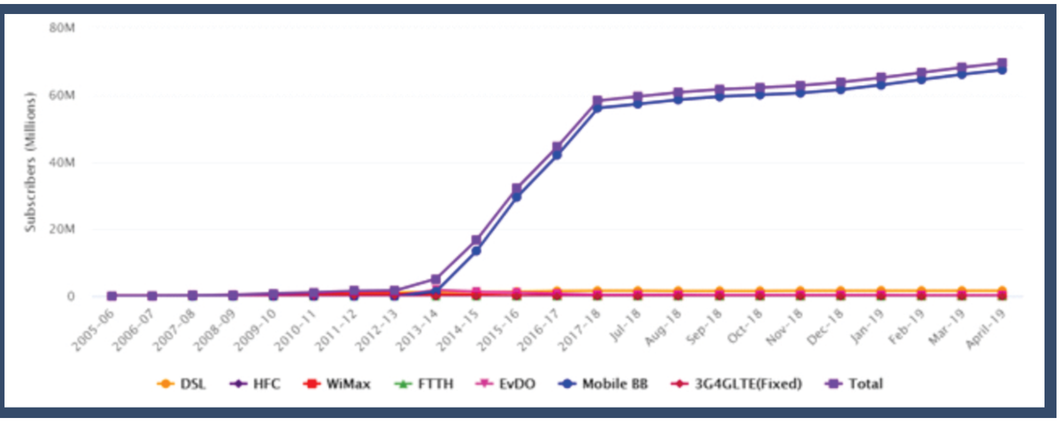

Figure 1
Source: Pakistan Telecommunication Authority

and has helped the country in achieving significant gains; however the factors for enabling environment and the human capital have also identified the competitiveness gaps in the economy with a population of 220 million people in Pakistan, the digital population still falls short of 70 million that includes the mobile broadband users, which means social media and other usage and not necessarily the usage reflects business and economic usage. While the social media population is around 35 million people. This puts the country below the average digital population among the nations of the world, depicting poor influence on global internet socio- economic and political policy impact. With the advent of technological readiness and ICT adoption the country still has opportunity for significant gains.

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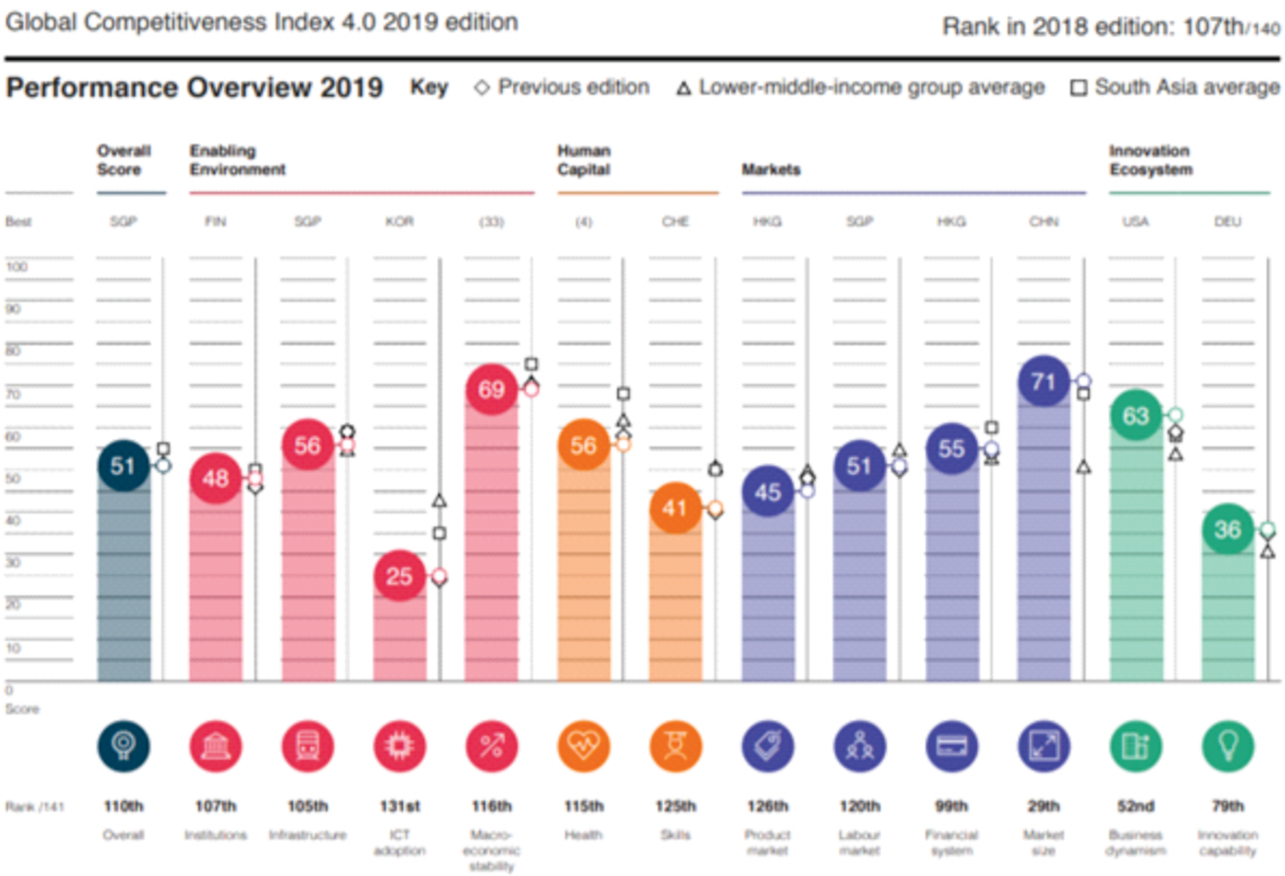

Figure : Source World Economic Forum's Global Competitiveness Report 2019

Pakistan as well as India demonstrates the region's lowest levels of technological readiness, confirming the challenge for large emerging economies to fully integrate their entire population, especially those living in the most remote areas into modernization processes. Pakistan has also shown significant.. Improvements in collecting the soft-data through the Executive Opinion Survey, with a sample size of 437, Pakistan represents the top 5 largest contributors to the Competitiveness 4.0 Index.

On the 12 Pillars of Competitiveness, among 141 countries, Pakistan ranks at 107th on Institutions, Infrastructure (105), ICT adoption (131), Marco-economic stability (116), Health (115), Skills (125), Product market (126), Labour market (120), Financial system (99), Market size (29), Business dynamism (52) and Innovation capacity (79).

Some of the areas where Pakistan has shown its competitiveness advantage and the where the policy makers can take advantage to enhance country's competitiveness are Shareholder governance, critical thinking in teaching, complexity of tariffs, hiring and firing practices. Pakistan has also shown an advantage in active labor policies, whereas Pakistan shows a significant advantage in terms of its Market Size and companies that can embrace disrupting ideas.

The quality of research institutions can be harnessed to improve the competitiveness significantly also.

The areas which need policy makers' immediate attention are Skills development, pupil to teacher ratio in primary schools, which is 44 children to one teacher; this ranks Pakistan at 130 among 141 countries. The trade tariffs as percentage of duty in Pakistan is also among the worst globally, where the country ranks at 139 among 141 economies.

The changing nature of economic competitiveness in a world that is becoming increasingly transformed by new, digital technologies is creating a new set of challenges for governments and businesses, which collectively run the risk of having a negative impact on future growth and productivity, if the government fails to increase tele-density and make governance technologically enhanced.

Among the South Asian nations, Although India is leading at 68, with Sri Lanka 84 and Bangladesh at 105 and Nepal at 108, the position of India saw a setback of 10 ranks due to its institutional weakening and lack of focus on future work force.

The WEF uses a brand new methodology to fully capture the dynamics of the global economy in the Fourth Industrial Revolution, many of the factors that will have the greatest impact on driving competitiveness in the future have never been the focus of major policy decisions in the past.

For Pakistan the key areas for policy makers to concentrate are idea generation, entrepreneurial culture, openness, and agility. The new tool maps the competitiveness landscape of 141 economies through 103 indicators organized into 12 pillars.

One of the Competitiveness 4.0's most concerning findings is the relative weakness across the board when it comes to mastering the innovation process, from idea generation to product commercialization. 103 countries score lower than 50 in this area of the index, which is topped by Germany, followed by the United States and Switzerland. Embracing the Fourth Industrial Revolution has become a defining factor for competitiveness.

The World Economic Forum proposes an approach to assess how well countries are performing against this new criterion. A new global divide between countries who understand innovative transformations and those that don't is in the offing. Only those economies that recognize the importance of the Fourth Industrial Revolution will be able to expand opportunities for their people.

Successive governments have been managing inflation by various means and techniques. Historically, the government had been oblivious to the inflation of the non-food items and selected the basket of commodities to show a politically savvy numbers. After peaking in April, inflation seems to be coming down, but the long-term trend is relies on the demand supply equation. And this brings worry unless tackled with a long-term policy the poorer segments of the society will continue to suffer.

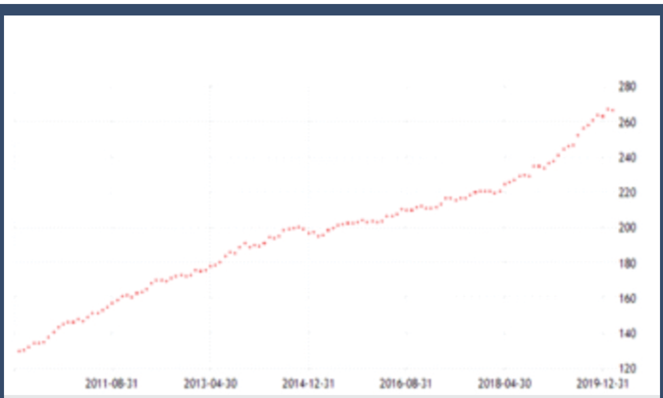

Figure Consumer Price Index 2020 - Pakistan Bureau of Statistics

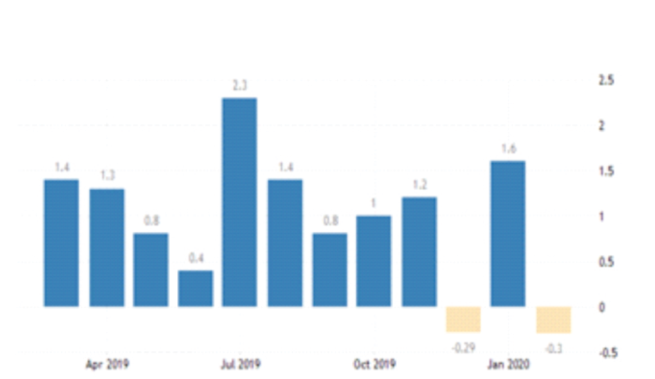

Figure Inflation MoM - Pakistan Bureau of statistics

COVID-19

Coronavirus disease 2019 (COVID-19) is an infectious disease caused by the virus strain severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). Worldwide spread of the disease began for the first time in 2019 and has developed into the 2019–20 coronavirus pandemic.

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