

A new economic model

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The Covid-19 pandemic posed unprecedented challenges to Pakistan's economy and exposed the vulnerabilities of the current growth model of Pakistan based on brick and mortar. The Omicron-driven fifth wave has started with an exponential increase in positive cases of 3.16 percent in the last few days.

The pandemic exposed the resilience of the current growth model and raised questions on its long-run sustainability. Estimates indicate that pandemic reduced economic growth in 2020 to an annualised rate of around -0.4 percent, primarily led by a contraction in services and industrial sectors in Pakistan.

The slow-down of the economic wheel due to pandemics, coupled with double-digit inflation due to rupee deflation, has pushed millions of people into temporary poverty and caused a significant increase in unemployment. The economic recovery from virus-induced economic recession would remain uncertain in the coming years because of uncertainty in pandemic resurgences.

The world was changing, be it production models, technologies, labour skills etc – and the Covid-19 pandemic acted as a catalyst to expedite this change process. The current economic model failed to meet the needs of people in a pandemic-like scenario. The pandemic, on the one hand, revealed the flaws of the economic system in responding to the changing needs of society. And on the other, it presented the opportunity to reinvent a human-centric inclusive 'New Economic Model (NEM)' to promote inclusive development.

Due to the unprecedented changes in the value chain for the production and economic needs of the people, post-Covid economic recovery efforts cannot rely only on the existing development model. We need a NEM to overcome economic challenges and help the economy to pose high and sustained growth. Just like when the laissez-faire economic model failed, it was replaced by the Keynesian model that offered an alternative development model.

However, a broad-based discussion is needed to develop this NEM. As a starting point, the Pakistan Institute of Development Economics (PIDE) presented reforms agenda for accelerated and sustained growth, namely 'Reforms for Accelerated Prosperity and Inclusive Development (RAPID)'. PIDE's estimates suggest that the country must grow at a rate of 7-9 percent per annum for a sustained period of three decades. The NEM should be able to utilize the diverse capacities of our working-age population by building inclusive, equitable, and sustained societies.

According to RAPID, deep-seated structural reforms in almost all areas influencing growth are needed to achieve a high and sustainable growth trajectory. RAPID highlights a transition from a hardware-led development model to a software-led development model for inclusive development. RAPID recognises that investment and entrepreneurial activity cannot happen in markets without the government's enabling and facilitative role. In the NEM, the role of technology and government are super essential to overcome the crisis and prepare the country for a post-Covid competition. Building on RAPID, there are six possible pathways to reinvent the economic model for a post-Covid world.

The transition from physical to virtual economy: Pakistan needs to develop technology-based infrastructure to enable a physical contactless economy. In the future, it is envisaged that daily activities will be conducted with limited physical interactions, supported by technologies including cloud computing, artificial intelligence (AI), and robotics. The virtual economy reduces transaction costs by allowing work from home, matching preferences of buyers and sellers at low cost and

broader coverage, and making online purchases possible. PIDE promoted the 'Internet for All' agenda to give all citizens equal opportunities to reap these potential benefits of technologies.

Shift in demand and industry structure: Covid-19 has significantly changed the demand for goods and services. The pandemic caused a shift in consumer preferences and made them digital-oriented and health-conscious. These changes induce a change in the way industries are structured. During the pandemic, it is evident that the global supply chain shifted from supplying physical goods to more technology-based services. People become more health-conscious and buy health-related products and services. Demand for services that require face-to-face interaction, such as hotels, restaurants, and retail trade, has substantially contracted, while businesses that provide on-demand, to-the-door delivery services have experienced drastic increases in demand.

Need for enhanced federal and provincial and local government coordination: The pandemic signifies a need for empowered local government to deliver public services optimally. Furthermore, well-coordinated efforts are required to address national-level challenges such as Covid-19.

Expanding the social safety net: Covid-19 signifies the importance of a safety net to protect individuals and the economy during economic and health crises. The government must expand social protection initiatives to protect the poor's economy and health by providing direct income support and health insurance at an individual level. At the economy level, the government should continue developing market-friendly policies and businesses, enabling the environment to provide equal opportunities to all to build their businesses. As mentioned earlier, the digital economy is the future to grow. The government must support e-businesses by providing low-cost digital infrastructure, including the internet.

The transition from import dependency to self-sufficiency: The Covid-19 pandemic realised the need for Pakistan to diversify its local production base, strengthen a localised supply chain, and reduce reliance on imports.

Redesigning cities: It is equally important to revisit the urban development model to promote a remote work model. Cities are believed to be the engine of economic growth. Cities that encourage economic activity are dense, high-rise, mixed-use, and inclusive. RAPID recommends rethinking the regulatory environment surrounding city zoning, construction regulations, car use, public spaces, among other things, to unleash such cities that facilitate economic activity to their fullest. Keeping in view the ongoing economic recession and changing world, Pakistan has an opportunity to revisit the economic model. The NEM provides a starting point to rethink development priorities and future needs.

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