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## Issue Brief

# Pakistan as Asia's Emerging Economy: Prospects, Limitations and Policy Options

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It was Jim O' Neil, the famous economist at Goldman Sachs Asset Management, who first identified Pakistan as one of the "Next-11 (N-11)" big emerging economies of the world after the BRICs.<sup>1</sup> After a decade, his economic forecast is proving him right when many international rating agencies have started classifying the country as an emerging economy. The Bloomberg reports, "Pakistan's Stock Market has been declared as Asia's best performing stock market as KSE has showed a gain of 15%."<sup>2</sup> American Stock Index Provider, Morgan Stanley Capital International (MSCI), included it among 10 most emerging economies of the world. And also noted that KSE-100 share index has been performing the best among all Asian markets, therefore, the agency rated it as world's fifth best market. Another American international ratings agency, Atlantic Media Company (AMC), has ranked it as a comparatively stronger economy of South Asia, bound to flourish in years ahead.<sup>3</sup>

An emerging market, generally, is placed between a developed market (such as the UK, US, European Union and Japan) and a frontier market (which is less developed than an emerging markets but its criteria and indicators differ. MSCI classifies Pakistan as an emerging economy by accessing a number of its quoted companies of a certain size (the proportion shares available to an ordinary investors to buy), and openness of its market to foreign capital and investment. Other indicators are fast economic growth, high GDP rate, openness to global capital and investment, human capital, and bright prospects of their economic and business environment. AMC categorized Pakistan as an emerging economy due to its environment that is conducive for business and economics, and continuity of political stability. AMC is of the view that the government's investment in infrastructure and political stability has accelerated the country's domestic growth product (GDP). It acknowledges that Pakistan is surfacing as a 'market leader' and its current economic conditions are attracting foreign investments.<sup>4</sup>

Since 2013, there has been unprecedented investment in infrastructural, energy and industrial projects in Pakistan. All of this has come under the umbrella project, China Pakistan Economic Corridor (CPEC).

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<sup>1</sup> Jim O' Neil, *BRICs and Beyond*, The Goldman Sachs Group, 2007, pg 161-164  
<http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/brics-book/brics-chap-13.pdf>

<sup>2</sup> "Bloomberg declares Pakistan as Asia's no.1 market", *Perspective Bloomberg*, June 29, 2016.  
<http://perspective.pk/bloomberg-declares-pakistan-asias-no1/>

<sup>3</sup> "Pakistan rated among top emerging economies", *The Express Tribune*, July 22, 2016.  
<http://tribune.com.pk/story/1146745/south-asia-pakistan-rated-among-top-emerging-economies/>

<sup>4</sup> Ibid.

Owing to this Chinese mega-investment project, Pakistan stands on the verge of becoming a regional trade hub, both by land and maritime routes, transit-trade corridor and an industrial hub. Moreover, by population, it is the sixth largest country of the world and it will become the fourth largest by 2050. Its middle class is growing and it will expand from 40 million people today to 100 million people by 2050.<sup>5</sup> It has plenty of natural resources and human capital and can, rightly, be called Saudi Arabia of Hydropower or Saudi Arabia of Coal. Having abundant human capital and natural resources, the country has the potential to transform itself into the most emerging economy of the world. Based on this potential, Pakistan is even predicted to become the next Brazil, Indonesia or Colombia.

As Pakistan's economic prospects are getting brighter, foreign capital and investment is likely to increase in the country. So, the companies that invest in emerging markets are, in fact, looking for increasing their profits and dividends rapidly. Arthur Kwong, the Hong-Kong based head of Asia-Pacific equities at BNP Paribas Investment Partners that oversees around €552 billion( \$619 billion) , is of the view that, "Basically people are looking for alternatives, finding markets that are less correlated to the US correlated interest rate-cycle and the China macro-slowdown. Pakistan, no doubt, is one of the outstanding spots."<sup>6</sup> Germany and Hungary are two European economies that are interested in exploring new economic avenues in Pakistan. Hungarian Ambassador, Mr. Istvan Szabo stated that, under the Southern Opening Policy, Hungary has decided to forge economic ties with Pakistan. He further stated that MOL, Hungarian Oil and Gas Company, has invested \$2 billion in Pakistan and also that the country intended to invest more in Pakistan.<sup>7</sup>

These developments indicate that Pakistan has been becoming an attractive place for foreign investment. This has also been endorsed by EFG Hermes, a leading bank in Middle East and North Africa. It has assessed that Pakistan could attract around \$475 million of inflow by the next year by becoming an emerging economy.<sup>8</sup> Foreign investors are interested in emerging economies because

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<sup>5</sup> Daniel Runde, "How US higher education commission can promote development in Pakistan", The Forbes, February 29, 2016.  
<http://www.forbes.com/sites/danielrunde/2016/02/29/us-higher-education-partnership-development-pakistan/#665df776d7dd>

<sup>6</sup> Ibid

<sup>7</sup> Speech by Hungarian Ambassador at ISSI  
<http://issi.org.pk/wp-content/uploads/2016/07/Speech-by-H.E.-Mr.-Istvan-Szabo-Ambassador-of-Hungary-July-26-2016.pdf>

<sup>8</sup> Faseeh Mangi. "Asia's Best Performing Stock May Get Uplift with MSCI Move." Bloomberg, Jun 15, 2016.

these economies have tendency to grow and urbanize fast, have young population and do not have compulsions of a welfare state or dependency culture. But there are risks too. These risks surface from a whole range of issues that emanate from management and governance crises, institutional disorder, corruption and youth bulge with high unemployment rate. Like many other emerging economies, there are many risk factors for foreign investment in Pakistan as well.

### **Risk factors**

- **Security:** Security condition in Pakistan has improved: after the Operation Zrab-e-Azb, terrorist attacks have declined 70 percent and brought the country on the cusp of a surprising turnaround.<sup>9</sup> But Pakistan is still vulnerable, like the rest of the world, to the terrorist organisations active in the South Asian and other regions. Other than these terrorist organisations, precipitation of the espionage network and clones of Indian Commander Kalbhushan Yadhav will keep posing risks to Pakistan's emerging economic profile.
- **Energy Shortage:** The country has been suffering from energy shortage. Though a number of energy projects, including Early Harvest Projects under CPEC, have been installed and policies measures have been taken, they are not sufficient enough to meet its growing energy needs of both local and industrial sector.
- **Imports-Exports Deficit:** Lately, Pakistan's exports plummeted; also there is a huge gap between its imports and exports. If this gap is not reduced, the country will be excessively reliant on external resources that will make its economic growth un-sustainable. Moreover, there is lack of an environment of competitiveness and quality of products which also a big impediment in increasing our imports and in indigenization of Pakistan's local industries and businesses.
- **Pakistan as a Country Brand:** In the past, foreign businessmen have been shying away from calling Pakistan a cherished destination for their investment because, in international media, it has been portrayed as a poor country brand despite the positive developments that merit recognition. There are two reasons behind it: first, the world sees Pakistan through geo-strategic lens, and narratives

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<http://www.bloomberg.com/news/articles/2016-06-14/best-performing-asian-stock-market-may-get-extra-boost-from-msci>

<sup>9</sup> Tim Craig, "in Pakistan, a country and a prime minister rebound, at least for now", *The Washington Post*, September 8, 2015.

[https://www.washingtonpost.com/world/asia\\_pacific/in-pakistan-a-prime-minister-and-a-country-rebound--at-least-for-now/2015/09/07/4661049e-5173-11e5-8c19-0b6825aa4a3a\\_story.html](https://www.washingtonpost.com/world/asia_pacific/in-pakistan-a-prime-minister-and-a-country-rebound--at-least-for-now/2015/09/07/4661049e-5173-11e5-8c19-0b6825aa4a3a_story.html)

on terrorism and nuclear issues; second, Pakistan has also opted for making friends on geo-strategic depth. This has clouded Pakistan's potential that lies beyond geo-strategic assets.

- **Pakistan's Exports Promotion Agencies:** Exports Promotion Bureau Government of Pakistan and Trade Development Authority have been quite active in promoting the exports but they could not streamline Pakistan's exports clusters, at home and abroad. Furthermore, exports promotion is not linked with nation branding campaign.
- **Education:** Pakistan's investment in education and R&D sector is very low. It spends less than 4% of its GDP on education. Without having fully equipped human resources, it cannot fully realize its potential as 21<sup>st</sup> century economy. In addition to this, youth bulge with high unemployment rate, lack of entrepreneurship culture and education- business nexus have always clouded the bright economic prospects. Combined together, these factors have long been holding the country back from becoming even a fully-established agro and textile-based economy. Adviser to Prime Minister on Foreign Affairs, Srtaj Azziz, at the Pak-US Strategic Dialogue on March 1, 2016, highlighted the urgent need to expand Pakistan's higher education system Pakistan. In this session of the Pak-US Strategic Dialogues, the United States and Pakistan decided to build Knowledge-Corridor.
- **Trade Laws:** In Pakistan, trade laws also need to be strengthened. With foreign investment increasing, it is important that effective and comprehensive trade laws must be implemented. Otherwise, it can hamper reaching a fair settlement in case any dispute arises between local and foreign traders.
- **Negligible Share in Global Economy:** Pakistan's share in the world economy is 0.44 percent that is negligible.<sup>10</sup> The country should foster its relationships with Asia's emerging economies, the Middle Eastern and Central Asian countries.

### **Recommendations**

There are certain measures based on non-security engagements that Pakistan needs to take at home and abroad.

1. **Security:** Apart from strengthening army and air forces, Pakistan's naval forces should be made stronger and equipped with modern technology in order to tactfully handling security threats at sea and land routes.

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<sup>10</sup> <http://www.tradingeconomics.com/pakistan/gdp>

2. **Energy:** a three pronged strategy should be adopted to fully meet Pakistan's growing energy needs. First, energy partnerships should be based on cooperation in research and technology, energy efficiency and funding of innovative projects. Second here is also a need for promoting of self-sufficiency in agriculture, industries and universities. Third, a culture of energy conservation must be promoted.
3. **Economy:** Global economic landscape is fast changing because of slowing down of Americana and European economies. China's One Belt One Road(OBOR) initiative, practical manifestation of China's "Go West' policy, has helped make Pakistan an indispensable conduit for larger connectivity with the Middle East, Central Asian states and African countries. Implementing this initiative with full vigor should be our top priority. In this way, Pakistan's economy will be enmeshed in the bigger network of regional and inter-regional connectivity through maritime and land routes.
4. **Education:** Pakistan needs to build education partnership with the USA and other European countries. Furthermore, it also needs to build and education-business nexus at home and with other countries as well. China adopted a Triple Helix model in which it combined education, higher education commission and business sectors. Pakistan needs to do the same. Cooperation with other countries in education sector, thus, becomes more significant. The initiative of knowledge corridors should be implemented fully and utilized to make Pakistan a regional education hub.
5. **(Knowledge) Economy:** Currently, Pakistan has emerged as a success story of IT, global networks and entrepreneurship. Agriculture and Textile industries need institutional reforms. If these industries are combined with IT, specifically, and technology, generally, Pakistan's economy can be transformed into a knowledge-economy that will further brighten the economic prospects of Pakistan.
6. **Exports Promotion Agency:** Pakistan's image should be portrayed positive by running a Nation Branding campaign to showcase Pakistan's potential beyond its geo-strategic assets. To productively showcase our human capital and natural resources, we need to develop a exports promotion campaign on internet, social media and among influential decision makers in various parts of the world.
7. **(Gender) Equality:** Pakistani women have emerged as successful entrepreneurs. Jahan Ara, President of Pakistan Software House Association for IT and ITES (PASHA), Maria Omar, the founder of the Women's Digital League, and Kalsoom Lakhani, the founder and CEO of Invest2Innovate are the few of many such women. 45% students of the Pakistan's higher education institute are women

that constitute a large chunk of Pakistan's human capital and resources. To effectively utilize this human capital, the country should take a "smart women, smart power initiative."

The country needs to engage with the world beyond geo-strategic depth. Geo-politics cannot be ignored but, with the changing nature of power and international politics, economics is emerging as a new tool to exercise geo-political influence as well. One Belt One Road, manifestation of China's Go West Policy, is one such example. It will give Pakistan many benefits: economic, political and geo-political. This initiative can be used to engage economically with the Middle East, Central Asia, Europe and Africa. For Pakistan, many avenues are opening up it but it is just a beginning. Pakistan has the potential to emerge as a bright spot on global economic landscape but it requires hard work, dedication and vision to take measures at home and foster relationships abroad.