

Catching up in a Multipolar World

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In an era of looming paradigmatic shifts in global power structure and growth dynamics, Pakistan's ability to navigate the transition lying ahead requires more than sagacity in diplomacy. It requires also evolving a coherent foreign economic policy that capitalizes on emerging opportunities commensurate with the country's vast economic potential. In international affairs, success in geopolitics hinges critically on the right mix of economic capability at home and clout abroad.

With its economy on the move after several years of lackluster growth, now is the time for Pakistan's policymakers to think strategically about the country's international economic standing and how to close ranks with the dynamic emerging market economies of Asia and Latin America. Some basic statistics give a sense of how far Pakistan is lagging behind. Per capita income of \$1,200 in current-dollar terms places Pakistan alongside countries such as Zambia, Cote d'Ivoire, and Kyrgyz Republic, well short of emerging economies such as Turkey (\$10,666), Malaysia (\$10,432), South Africa (\$7,508) and Indonesia (\$3,557). Over the past three years Pakistan has received an average of \$1.3 billion per year in foreign direct investment (FDI), compared to India (\$27 billion), Indonesia (\$17.6 billion), Turkey (\$12.5 billion), and Malaysia (\$10.4 billion).

Rather than focusing on how Pakistan is lagging behind, though, it is more instructive to view Pakistan's current economic status through the metric of distance to success—that is, what is needed in terms of capital investment, policy reform, and state capability to engineer an accelerated process of economic catch up and leaping forward. Consider electricity consumption per head, an important indicator of economic development and modernization. Pakistan's current level of about 400 kWh/person is comparable to that in Mozambique, Nicaragua, Sri Lanka and the Philippines. Increasing Pakistan's electricity consumption per head to the level of dynamic emerging economies (which average 2,250 kWh/person) by 2035 would require roughly \$81 billion of investment capital and sustained efforts to shift away from costly reliance on petroleum, improve energy sector governance, promote private investment in electricity power generation and modernization, and move toward a market-based system of gas pricing. Other examples could be cited with different capital investment and policy reform mixes.

The good news is that Pakistan seems to be poised for change, and there is much to learn from the history of development.

Whether approached from the vantage point of the nineteenth century growth of the New World, late twentieth century industrialization of East Asia, the recent rise of large populous countries such as China and India, or indeed the small countries such as the United Arab Emirates and Qatar, the historical and contemporary messages converge in highlighting the importance of cultivating deep international ties. Past success stories demonstrate repeatedly that drawing upon capital, technology transfer and manpower from the rest of the world is critical in blazing a path to economic take-off. The catch, then, is determining how Pakistan should best interact with the world in both the economic and political spheres. The capability to pivot the domestic economy in response to changing global economic and political forces is a prerequisite. Equally important is to minimize external economic vulnerability in the first place, and to build the necessary safeguards and alliances to mitigate the impacts of global financial, economic and geopolitical shocks.

The Republic of South Korea provides a prominent example of successful upward mobility through fundamental domestic reforms and building overseas trade and investment ties. Fifty years ago, the country was poorer than Kenya and Bolivia. Today, with a per capita income of \$22,600 and membership in the OECD and G20, Korea is a modern industrial powerhouse with a successful record of technological adaptation and industrial restructuring. Since 1970, when 60 percent of Korea's exports were textiles, clothing and plywood, Korea has become the world's sixth largest exporter, with an export base of \$557 billion, of which only 3 percent are traditional textile and related items.

Catching up also has an international political economy dimension. In the unfolding multipolar world of twenty first century, international relations will take on a much more complex and multidirectional pattern, with South-South trade, investment and finance linkages gaining prominence. More than one-third of FDI in developing countries originates today in other developing countries, with transnational companies from Brazil, China, India, Malaysia and South Africa playing an important role in global South-South investment flows. Indeed, the success of several emerging economies in encouraging their home-grown multinational companies to invest abroad in sectors including banking, manufacturing, mining, telecom, in both advanced and developing countries, is a driving force of regional integration and important evidence of the shift towards a multipolar world economy. Research conducted by the author confirms that emerging-market companies tend to invest in countries with which they have strong bilateral trade links and geographic proximity.

To the extent that the political economy environment of South Asia has failed to provide the necessary context and mechanism of regional trade and investment ties, Pakistan has aligned itself with global economic powers in order to meet the country's national economic security and developmental needs. Such gains are worth nurturing and indeed leveraging to promote regional economic cooperation and integration. Again, history is a guide, in particular the political economy transformation of Asia-Pacific region and the central role of the United States in encouraging integration both at the regional and international level, even though this was not out of benevolence, but as an integral part of post-World War II reconstruction.