MAKING GLOBALIZATION WORK FOR THE POOR
CASE STUDY OF PAKISTAN

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Globalization has several different connotations, meanings and perceptions. In this paper we define globalization to imply the forces of liberalization of investment and trade regimes, financial integration, international labour flows and technological change which are sweeping the world today with fierce velocity.

The beneficial impact of these forces, in a country specific context, takes place primarily through rapid economic growth. The transmission mechanism of globalization to economic growth can be facilitated, moderated or hampered by the mediating influences of international and regional institutions, policies of developed countries and the rules of game.

The second stage of transmission from economic growth to poverty reduction can take place only if other complementary measures such as investment in human development, poverty targeted interventions and social safety nets are put in place. There is strong empirical evidence to substantiate the claim that poverty reduction cannot take place in absence of economic growth. But the rate of growth alone is not sufficient unless the nature and quality of growth also fall in line with the impulses that lead to poverty reduction. Domestic policies, institutions and governance are the important determinants of the transmission mechanism from growth to poverty reduction.

A schematic presentation of the Globalization – poverty reduction nexus is presented in Chart 'I'. It is obvious that globalisation does not have direct linkage with poverty reduction but operates through a two-tier mechanism. The first tier links globalisation with economic growth while the second tier translates economic growth into poverty reduction.

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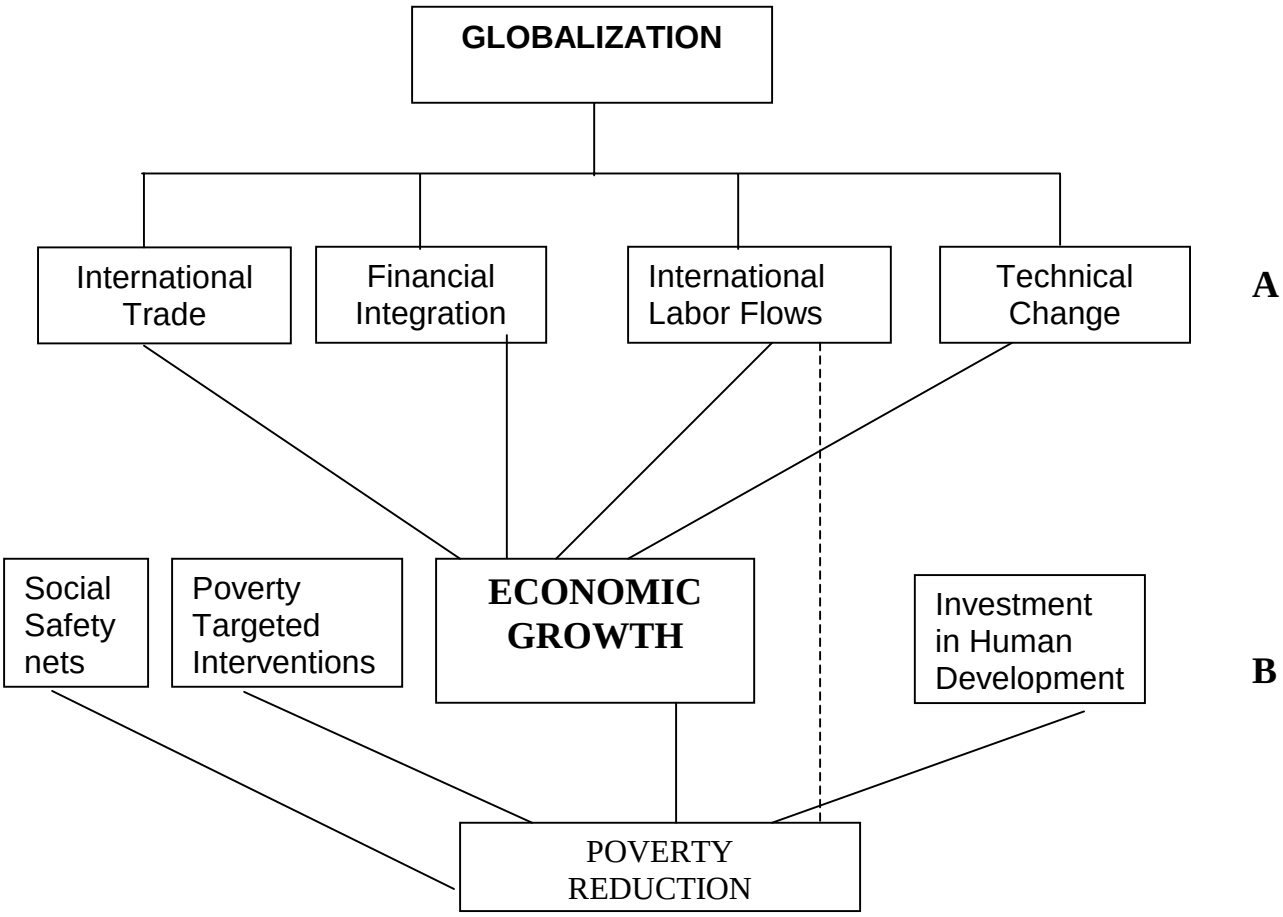
A Schematic Representation of Globalization- Poverty Nexus

CHART-I



Mediating Environment

A- International & Regional Institutions, Policies, Governance

B - Domestic Policies, Institutions & Governance

What are the transmission channels[1] for globalisation to economic growth? This transmission takes place through four distinct channels (a) through international trade, (b) through international capital flows, (c) through international labour flows and (d) technological change particularly in Information Technology(IT) and telecommunications.

[1] For a good discussion of these effects see Husain, Ishrat (1996)

CHART II

Globalization to Economic growth

(a) International trade.

- In the medium – to long-term, trade will help the poor, since labour is the primary asset of the poor which is used in the exportables of developing countries..
- Increased trade will result in gains for relatively abundant factors (labour in most low-income countries).
- Consumers get cheaper products (near world prices) at least in the medium to long-term.
- Shot-term lay offs and retrenchment of labour in inefficient industries.

(b) International capital flows

- Long-term capital inflows (FDI) are beneficial for labour in the developing countries if these are destined towards labour-intensive sectors.
- Short-term flows reward economic discipline and punish policy failures.
- Management of exchange rate becomes critical as external financial flows lead to the exchange rate.

(c) International labour flows

- In both the long and short-run, international migration generally helps the poor.
- With more trade and capital flows, the need for labour to move is, however, lower.
- 'Race to bottom' in the developed world.

(d) Technological change

- Assimilation and adaptation of technology improves efficiency in resource use.
- New products and new processes broaden the choice of consumers
- Solutions are found for gains in productivity
- Short-term dislocation

These effects and channels are not always unambiguous and clear, and a number of caveats should be kept in mind.

(i) Economic growth is the main transmission channel. The effects of globalization and liberalization often work on poverty through higher growth, and only then through the above transmission channels. International and regional institutions such as WTO and the policies of developed countries can facilitate or hamper these flows.

(ii) High economic growth does not automatically result in poverty reduction. Complementary domestic policies, good governance and institutional delivering public services do make a big difference.

(iii) Poverty and inequality are not synonymous. We must always distinguish between the effects on inequality (relative income levels) and the effects on poverty (usually absolute income levels). Recent work by the World Bank shows that poverty declines with growth, but the effect of growth on inequality varies across countries.

(iv) The effects differ over the long and short term. We must also keep in mind that most of these positive outcomes are a result of the long-term effects of globalization but the short-term, transitional effects, and dislocations can be severe and adverse. It should also be recognized that there will be both winners and losers in the process.

(v) There are both partial and general equilibrium effects. The first order responses by economic actors to various liberalization measures are incomplete and do not necessarily capture the full effects, particularly any second and third order effects. A look at three exogenous stimuli import liberalization (domestic trade policy), global agricultural liberalization, and the elimination of the Multifibre Arrangement (Uruguay Round) – helps to illustrate this point (Chart III). In each case, it is possible that the final and total effect may be at variance with the initial effect, depending both on the public policy response and the subsequent actions of affected economic actors – consumers, producers, etc.

CHART III

URUGUAY ROUND EFFECTS ON PAKISTAN

AGRICULTURE LIBERALIZATION

	Food import scenario	Food export scenario
First order	Higher prices for imported food	Increased potential exports without existing barriers
Second order	Increased prices stimulate domestic food production reducing demand for imports	Allocation of resources at the margin to food production may slow down diversification of economy.

Import Liberalization

	Consumption imports	Investment imports
First order	Lower the prices for goods consumed by the poor, e.g. second-hand clothing for the poor	Labour-intensive manufactures and exports – increased employment and higher wages.
Second order	Competition by imports leads to cost-efficiency in domestic textile manufactures	Inflationary pressures and loss of international competitiveness (if labour market is inefficient)

Textile Trade

	Efficient production scenario	Inefficient production scenario
First order	Low-cost textile production would lead to higher market shares, employment and wages expand.	Monopoly rents accruing due to MFA quota may make some inefficient exporters non-competitive and render some employment redundant.
Second order	Increased competition in world market may lead to demand for state subsidies which may negate the benefit of MFA liberalization	Market forces would compel restructuring of industry and reallocation to other sectors in accordance with country's comparative advantage.

We will now assess the strength of each of these transmission mechanisms in the case of Pakistan:

International Trade

Pakistan has endeavored to liberalize its trade regime and integrate its market with the world economy beginning late 1980s.

Pakistan had followed an import substitution strategy since 1950s creating a highly protected environment for industrialization. To protect the domestic production, high tariffs and quantitative restrictions were levied on imports. However, the extent of protection was very large. During the 1960s, the average level of protection provided by all sources (tariffs plus non-tariffs) was as large as 271%. This resulted in an inefficient industrial structure with domestic resource cost rising from around 1.20 percent in 1968-69 to 3.33 percent in 1980-81[2]. However, the nationalization of major industries in 1972 combined with these inefficiencies in the industrial structure frustrated the process of industrial take off as reflected by the sharp deceleration in industrial growth from 9.9% annually in the 1960s to 5.5% in the 1970s.

In the late 1980s, the government made a major shift in trade and industrial policy from the inward looking import substitution to outward looking export promotion and trade liberalization. The following reforms[3] were initiated to liberalize the trade regime since July, 1988:

- In 1987 – 88, most of the non-tariff barriers on imports were replaced with tariffs; maximum tariff rate was reduced from 225% to 100% in 1990-91, tariff slabs were reduced from 17 to 10; and various sales tax rates across commodities was replaced by a uniform sales tax rate 12.5 percent.
- The maximum tariff (except automobiles) was further brought down to 70% in 1994-95, to 65% in 1995-96, to 45% in 1997-98 and finally to 35% in 1998-99. All para-tariffs have been merged into the statutory tariff regime. All items are now allowed to import with the exception of few on religious, health and security grounds.

[2] See Naqvi and Kemal (1991)

- In May, 1999, the managed float exchange rate, operative since 1982, switched over to a market-determined inter-bank floating rate, with currency convertibility extended to trade account.

Though, the liberalization caused to decline domestic resource cost from 3.3 percent in 1980-81 to 1.44 percent in 1990-91, the trade regime remained highly complex resulting from wide dispersion of tariff rates and numerous exemptions. The trade regime relies on non-tariffs barriers rather than on tariff barriers for the protection of domestic production, which has created an anti-export bias.

It is noteworthy that the above tariffs in Pakistan are now well below the bound tariffs under WTO. The general level of binding in Schedule XV of WTO was between 20% to 50% (except in agriculture), while tariff rates in Pakistan presently range between 0-35% (except automobiles). This implies that the actual extent of trade liberalization in Pakistan exceeded the WTO commitment.[4] It is paradoxical that despite substantial reduction in tariff rates, the degree of openness of Pakistan when measured in terms of trade as percent of GDP has declined after the liberalization program. Trade as percent of GDP was 32.5 percent in 1992-93, which went down to 28% in 1998-99. In contrast to this, the degree of openness in 1996 as percent of GDP was 38 percent in Bangladesh, 40 percent in China, 51 percent in Indonesia, 83 percent in Thailand and 183 percent in Malaysia (World Bank, 1999). The reason for this paradoxical behaviour can be traced to the distortions created through statutory regulatory exemptions and other non-tariff barriers which, in effect, provided a greater dispersion and higher degree of protection than suggested by the reduction in nominal tariff rates. The intensive trade liberalization pursued in the 1990 has therefore remained incomplete and not led to an upsurge in exports. Export performance has been dismal particularly in the late 1990s. In contrast to the 1970s and 1980s when exports on average, grew by 18.6 percent and

[3] See Government of Pakistan (1990/99)

8.5 percent per annum respectively, the growth was only 4.5% per annum in the 1990s (Table 1 and Figure 1). This slow down took place during the decade when Asian countries expanded their exports at 14 percent annually doubling them every five years. Thus Pakistan's share in World market has gradually eroded from 0.34% in 1970 to 0.21% in 1980 and to 0.15% presently.

Since 1994-95, Pakistan's exports have remained stagnant at $ 8 billion annually while world exports have expanded at 6% annually. Had Pakistan been successful in retaining its market share at the historical trend of 0.22% its exports today would have been $ 12 billion. Alternatively, in case its export growth rate had grown at an average rate of 5% annually the export level in 1999-2000 would have reached more than $ 10 billion.

The above discussion demonstrates that Pakistan missed the opportunities of rapid growth in international trade during the past decade.

Foreign Direct Investment

Historically, there have been restrictions on foreign direct investment but these restrictions have diminished sharply since the late 1980s (Government of Pakistan, 1990/99). In the early 1990, the government took a number of policy and regulatory measures to improve the business environment so as to attract FDI.

- The requirement for government approval of foreign investment was removed with the exception of few industries.
- Foreign equity participation of upto 100 percent was allowed and foreign investors were allowed to purchase equity in existing industrial companies on repatriable basis.

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[4] See Ali, M. Shaukat (2000)

- Foreign investors were also allowed to negotiate the terms and conditions of payment of royalty and technical fee suited to them as well as acceptable to the multinationals for transferring technology.
- The government also liberalised the foreign exchange regime. Foreigners were allowed to bring in, possess and take out foreign currency and to open accounts and hold certificates on foreign currency. Remittance of principal and dividends from FDI and from portfolio investment made by foreign investors were also allowed without prior permission or clearance from the State Bank of Pakistan.
- To further liberalise foreign exchange regime, Pakistani rupee has been made convertible from July, 1994.
- The Government has also given an extensive set of investment incentives including credit facilities, fiscal incentives and visa policy.
- Import policy has also been liberalised and the maximum tariff rate has been reduced considerably. A large number of quantitative restrictions and non-tariff barriers have been removed.
- In 1997, the government also opened the agriculture, services/infrastructure and social sectors for foreign investment on repatriable basis.

In addition to the above policy and regulatory measures, an extensive set of fiscal incentives and allowances were given to foreign investors to attract FDI. The liberalisation of investment regime has made some difference although not much. Foreign Direct Investment flows which were almost insignificant until 1980s began to increase rapidly in the 1990 partially in response to the policy measures taken by the

Government of Pakistan but also as a result of push factors i.e. acceleration in large foreign private capital flows to developing countries in general. However, the pattern of inflows into Pakistan has been episodic. For example, privatisation of P.T.C.L. led to a sharp increase in portfolio investment to $ 1.0 billion in 1993-94 (Table 2 and Figure 2). Similarly FDI in 1995-96 reached $ 1.3 billion mainly due to investment in private power projects. It appears that although foreign investment increased rapidly in absolute terms in Pakistan this increase becomes insignificant when compared with the South-East Asian countries (South Korea, Indonesia, Malaysia, Thailand and Philippines). The net private capital inflows to these countries before the financial crisis of 1997 were $ 106 billion annually (Burki and Savitsky, 2000).

The nuclear testing in May 1998, the freezing of foreign currency accounts, the dispute over Hubco and the change in the government in October, 1999 have led to a withdrawal and a 'wait and see attitude' on the part of foreign investors at present. The most recent statistics indicate that the FDI inflows during the last two years have come down to less than $ 500 million annually.

Taking broader view and comparative perspective, it appears that despite numerous highly attractive incentives offered to foreign investors and a relatively open door policy Pakistan's performance in attracting foreign investment has been uninspiring. The factors[5] responsible for this poor outcome are the lack of political stability (Eight changes in governments during the last decade), unsatisfactory law and order situation particularly in Karachi – the largest industrial and commercial centre, the slow and unresponsive bureaucratic processes, inadequate infrastructure facilities, macro-economic imbalances and inconsistent economic policies of successive governments. There is still a big dis-connect between policies and good intentions and their implementation. The negative and restrictive attitude of the various

[5] See Khan (1997) for further detail.

government agencies makes it difficult for an investor to move rapidly to respond to economic opportunities.

Thus, like international trade Pakistan has not benefited from the huge tidal wave of $ 170 billion of FDI flows to developing countries every year and has follows an erratic path in attracting foreign investors.

International Labour Flows.

Pakistan has witnessed two major streams and a gradual trickling of out migration during the last five decades. The first major stream took place in the 1960s when a significant number of workers particularly from Azad Kashmir migrated to U.K. The second and more visible round of migration took place in the 1980 in the aftermath of oil price boom in the Middle East. It is estimated that at their peak there were more than 2 million Pakistani workers earning their livelihood in the Gulf, and other Middle Eastern countries. Coupled with this two large scale migrations there has been a trickling of Pakistani students and professional to North America, Europe and Australia.

These out flows have been highly beneficial to Pakistan's economy in several ways. First, they were able to ease the pressure on open unemployment rates as almost 10% of the labour force had found better earning opportunities outside the country. Second, the remittances by these workers to support their families in Pakistan provided a stable non-debt creating source of foreign exchange earnings for the country. At one time they almost exceeded the value of merchandise exports. Third, these migrants created demand for ethnic food and other Pakistani products. Middle East became one of the principal destinations of Pakistani exports in 1980. Fourth, those returned to Pakistan after completing their tenure brought back capital, skills and a new attitude towards work ethic. Finally, the remittances not only improved the living

conditions of the families of migrant workers but also allowed investment in education, nutrition and health of their children.

These beneficial effects have begun to wither away in the last several years for a variety of reasons. Decline in oil prices, emphasis on indigenisation of labour force, competition from other low cost supplying countries and a slow down in construction activities in the Middle Eastern Countries have reduced the demand for Pakistani Workers in the 1990s. But several policies of successive governments in Pakistan have also exacerbated this tendency. The Government of Pakistan introduced Foreign Currency Accounts in 1991-92 offering the depositors – both non-resident and resident Pakistanis – attractive interest rates and guaranteed returns by providing forward cover premium on the exchange rate. Non-resident Pakistanis consequently diverted some of their remittances to these accounts. The successive Governments felt that they had now found a soft option to meet their current account deficits without taking appropriate corrective measures to deal with the structural imbalances in the external sector. There was little realisation that in this process large foreign currency obligations were being built up, huge financial costs were being incurred and the vulnerability to unanticipated exogenous shock was sharply enhanced.

By May, 1998 the government had contracted foreign currency liabilities of $ 11 billion, when the decision to test the nuclear capability was taken it was envisaged that the foreign currency reserves were totally inadequate to meet the demand of the depositors in case even a small proportion chose to recall their deposits. To forestall that eventuality foreign currency accounts of both residents and non-residents were frozen. This act of perceived confiscation has been a major cause for erosion of confidence and led to gradual withdrawal of non-resident Pakistanis from participation in the economic activities in the country. The workers' remittances have actually declined to about $ 1 billion during last two years widening the current account deficit and putting pressure on external payment situation.

The most recent trend of migration, sparked by the shortage of I.T. skills in North America and Europe, is centred on professionals. This phenomenon is in fact a mixed blessing. These professionals who are migrating will provide strong linkages and act as conduit for I.T. exports from Pakistan in the medium to long term but in the short term this exodus is creating substantial gap between the demand and supply of technical personnel within Pakistan. Almost all quality institutions of I.T. instruction and software export houses are hit hard by this unending migration of trained and experienced manpower. Of course, there is no comparison with India whose nationals are in big demand the world over.

To sum up, the country, in fact, benefited from labour flows overseas during the 1980s but this had slackened by the late 1990s. The country is at present ill-equipped for catering to the growing demand of professionals in the fields of I.T. and other high tech. sectors in Western Countries in any significant way/. There will be some trickling migration but not at a scale which may bring about any sizeable benefits in the real terms.

Technological Change

The record of Pakistan in assimilating and adapting technological change has been highly uneven. The country started with a very ambitious program of setting up institutions of higher learning research institutes in almost all sectors of the economy and sending key faculty and research staff for training abroad. This created basic infrastructure and the ground work for absorption, adaptation and application of science and technology for the larger benefit of the economy. But except a few well known break through in nuclear science, wheat and cotton varietal improvement the overall experience during the span of last 30 years has been disappointing. The huge potential of early investment in this infrastructure remained largely unrealised.

The factors responsible for this outcome are manifold but there are a few which have been critical. First, investment in primary schooling and the quality of instruction have been abysmally low. The nationalisation of schools and colleges in the early 1970s struck a fatal blow to the development of education sector in Pakistan. More than half of Pakistan's population today is illiterate. Scientific efforts cannot be sustained under such circumstances. Second, public expenditures on science and technology have been frightfully negligible. Until recently, the country did not have a premier institution which could conform to international standards unlike the five Indian Institutes of Technology which are regarded as premier world class institutions. Consequently, there are only 72 scientists and engineers in R-D per million people in Pakistan. Third, the tradition of import substitution and turn-key projects by foreign suppliers and contractors did not generate any linkages with the domestic economy which, is turn, would have induced demand for local competencies. Learning-by-doing and imitating the advance techniques of foreign experts were seldom emphasised. High-technology exports from Pakistan are a paltry $ 9 million compared to $ 1.3 billion by India. Patent applications by residents are pitifully few and scientific and technical journal articles contributed by Pakistani scientists are in few dozens not even hundreds.

The most challenging area in which globalisation has opened up vast opportunities is the I.T. and Intern-net enabled services. Exports of software and hardware from Pakistan pale into insignificance when compared to India or in relation to the growing demand in the World. The most recent estimate indicates that I.T. enabled services generate business of about $ 142 billion. Low cost educated labour in the Philippines and India with fluency in English language are being utilised in a cost effective way by multinational corporations for data search, integration and management, customer interaction (1-800 calls), transcription, engineering and design, Website services, animation, finance and accounting services, Network consulting and Market research.

Pakistan's software exports are currently a meagre $ 30 million and its participation in I.T. enabled services catalogued above is almost non-existent. This is a growth area among international service exports and capturing even 1% of the market share of these exports can help Pakistan's balance of payments position and provide employment opportunities to thousands of educated youth who are currently unemployed or are migrating abroad.

To conclude this assessment, the transmission effects of globalisation to Pakistan have been weak and the country is now beginning to position itself to take advantage of the tremendous opportunities offered by demand for exports of goods and services, financial integration, labour migration and technological change.

Why has Pakistan failed to build up these linkages and thus strengthen the transmission effects of globalisation for rapid economic growth. The main argument of this paper is that the magnitude, strength and speed of transmission depend upon the mediating influences of domestic economic policies and domestic economic institutions including the nature of governance. The economic policies that facilitate unhindered flows of international trade, capital and participation in labour flows are (i) reduced tariff and removal of non-tariff barriers, (ii) removal of price distortions, (iii) flexible regulations and legislation of labour, (iv) healthy and sound financial sector and capital markets, (v) investment in skill development and technological assimilation and Iv) macroeconomic stability. Chart IV illustrates the nature of this mediating process.

CHART IV

Economic Growth to Poverty Reduction

(a) Domestic macroeconomic stability

- Lower inflation; helps everybody; but probably helps the poor more.
- Investor uncertainty is reduced.

(b) Reduced overregulation and lower relative price distortions

- The removal of price controls on agriculture helps raise the incomes of poor farmers, but higher food prices and the removal of consumer subsidies may hurt the rural landless (in the short-term) (in the short-term) and urban consumers.
- The removal of exchange rate distortions should help agriculture (as most of the poor are in rural areas) since producer incentives are improved.
- Reduced labour regulations will likely lower the price of labour and help employment growth. (This may reduce wages in highly regulated labour markets, but the poor do not usually constitute a large proportion of the formally employed).

(c) Changing public expenditure patterns

- Expenditures on primary health care and education need to be protected as the revenue base falls (in some countries) over the short-term.
- Direct poverty alleviation programmes should be given priority in Public Sector Development.

(d) Rural-urban migration

- Incentives, Institutions and Investment to promote agriculture growth will also lead to poverty reduction.
- The reduced burden on agriculture implies a slower migration to urban areas.

The result is that the influence of poverty in Pakistan has increased during the decade of 1990s (Table 3).

According to some studies, the caloric-based poverty has in fact doubled from 17.4% in 1987-88 to 32.6%

in 1998-99[6]. Similar results are obtained on approaches based on basic needs and poverty of opportunity trends. Social indicators such as literacy rate, infant mortality rate, population growth rate, access to water, nutritional intake etc., all corroborate the above findings that poverty and weak social and human development are not only at an unacceptable level in absolute terms but also have worsened over the last decade.

What are the factors responsible for this outcome?

First and foremost, economic growth rate has declined from the historical level of 6 per cent to 4 per cent and with population growth rate of almost 2.5 percent and more, the increase in per capita incomes has been insignificant (Table 4). A threshold growth rate of 6 percent has been found to bring about reduction in the incidence of poverty in case of Pakistan.

Second, the poor performance on economic growth is accompanied by rising income inequality and high opened unemployment rates. Overall unemployment is estimated at well over 10 percent and underemployment even higher. The Gini coefficient has risen. Thus the redistributive component of poverty reduction has also moved in the same direction as growth component worsening the overall poverty situation.

Third, the high fiscal deficits of public sector inherited from the 1980s have not allowed much space for undertaking redistributive policies and poverty oriented programs. On the other hand, the ratio of development expenditure has consistently declined from 8 percent of GDP to the current level of 3.2 percent. Even considering the leakages, waste and inefficiency of public expenditures this curtailment has led to severe imbalances in the demand and supply of public goods which benefit the poor.

[6] See Anwar (1996), Amjad and Kemal (1997) and Government of Pakistan (2000)

Fourth, the poor governance of public sector institutions and cornering of public goods by the well-to-do segments of the society in a general environment of congestion and shortages have led to reduced access to these services by the poor. The worrisome aspect of this poor governance is that opportunities for human capital formation for those below the poverty line have diminished considerably both for the current cohorts and the future additions to the labour force.

Fifth, as demonstrated above, Pakistan has not benefited very much in the 1990s from globalisation, financial integration and technical revolution.

Why should we believe that globalisation is in our larger national interests? What is the empirical evidence connecting liberalisation, financial integration and technological revolution with the improved welfare and development of poor countries? The two most populous countries in the world, China and more recently India, accounting for almost more than half the population of the developing world and one half of the world's poor have derived enormous benefits from this virtuous cycle. Since China has opened up to foreign trade, to foreign direct investment, and introduced market-based incentives the results have been spectacular. China has increased its exports more than 10 times in the last 15 years; is the largest single beneficiary of Foreign Direct Investment flows (about $ 42 billion last year), has tripled its per capita income during last two decades and has reduced its incidence of poverty from one-third to one-tenth. China has a lot of problems with state-owned enterprises and state-owned banks but the mediating environment for attracting international financial flows, managerial and technical know how and participating vigorously in international trade have been positive and benign. Given its large domestic market of 1.2 billion people it would have been equally tempting to keep itself insulated from the rest of the world and produce and consume for domestic markets but its own experience of the period 1948-78 over three decades persuaded it to switch over to an outward oriented strategy. China's accession to WTO

will support an open trade and investment regime and ultimately lead to further reforms in capital markets, privatisation and currency convertibility. There is little doubt that these reforms combined with a disciplined labour force, high domestic savings and investment rates will enhance the standing of China in the world league of nations.

The other glaring example of opening up its economy comes from our next door neighbour India. Until 1990, Pakistan was growing almost twice as rapidly as India and the incidence of poverty in Pakistan had declined from one-third to one-sixth while the incidence of poverty in India was edging up. Since 1991 when India decided to reduce its external barriers to both foreign trade and foreign investment and begun to dismantle controls of the record of its achievements has indeed been impressive. India's exports have almost doubled; FDI flows are doubling every year; annual growth rates have exceeded 6 percent; IT revolution has engulfed the entire south India region and the incidence of poverty has been lowered. It has been empirically estimated that 87 percent of the observed decline in poverty was accounted for by rapid growth in the country. From all accounts and looking at the bee-line of prospective investors from all over the world knocking at the doors of India, its economic prospects, despite a plethora of political and problems, appear quite promising.

The above evidence is not only confined to China and India but also extends to East Asia and more recently to Latin America. Brazil, which used to be a highly unstable economy in the world, is beginning to show the initial results of its changed economic paradigm which incidentally was adopted by one of the founders of economic dependence theory.

It may be argued that African economies are getting marginalized with increased globalisation and are less integrated financially and technologically. There are a host of factors which explain this unfortunate episode. A number of countries are mired in civil wars, internal conflicts and cross-border tensions. Weak institutions, poor policies, inefficient public service delivery and lack of good governance are some other additional explanatory factors which have not allowed the mediation process for take roots. Natural resource based economies have found markets for their oil and primary commodities all across the world but the backward and forward linkages of these primary commodity based exports are rudimentary and yet to be developed. The benefits of participation in international trade are thus very limited and in some cases have in fact contributed to perpetuation of internal conflicts.

CONCLUSION

The immediate (past decade) track record of Pakistan in deriving benefits from globalization has been disappointing. But the historical (four decades) record in accelerating growth, reducing poverty and liberalisation of economy has been impressive. The potential for Pakistan to realise the gains from international trade, financial integration, labour flows and technological change can be harnessed by improved economic governance, investment in human development, removing bureaucratic impediments, unshackling the entrepreneurial energies of the private sector and maintaining a transparent, predictable policy environment.

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Table:- 1 Foreign Trade Statistics 1972-73 to 1999-00

Years	Exports	Imports	Exchange Rate (% Change)	Exports	Imports	Overall Trade	Trade Deficit	Current Account Deficit	Exports	Imports
	(US $ in million)		Rs/US $	As percent of GDP					Growth Rate	
1972/73	766	891		8.2	9.6	17.8	1.3	1.1		
1973/74	1020	1493	15.4	11.4	16.6	28.0	5.3	5.4	33.2	67.6
1974/75	978	2114	-1.2	8.6	18.7	27.3	10.0	9.4	-4.1	41.6
1975/76	1162	2139	0.0	8.8	16.1	24.9	7.4	6.2	18.8	1.2
1976/77	1132	2418	0.1	7.4	15.9	23.3	8.4	5.9	-2.6	13.0
1977/78	1283	2751	0.0	7.1	15.3	22.4	8.2	2.7	13.3	13.8
1978/79	1644	3816	0.0	8.3	19.2	27.5	11.0	5.0	28.1	38.7
1979/80	2341	4857	0.0	9.9	20.5	30.4	10.6	3.7	42.4	27.3
1980/81	2799	5563	-0.1	10.3	20.4	30.7	10.1	2.8	19.6	14.5
1981/82	2319	5769	0.1	7.1	17.6	24.7	10.5	3.4	-17.1	3.7
1982/83	2627	5616	28.2	9.2	19.6	28.8	10.4	0.6	13.3	-2.7
1983/84	2669	5993	6.1	8.6	19.2	27.8	10.7	2.2	1.6	6.7
1984/85	2457	6009	12.4	7.9	19.3	27.2	11.4	4.1	-7.9	0.3
1985/86	2942	5984	6.5	9.2	18.8	28.0	9.5	2.4	19.7	-0.4
1986/87	3498	5792	6.4	10.5	17.4	27.9	6.9	1.0	18.9	-3.2
1987/88	4362	6919	2.4	11.4	18.0	29.4	6.7	3.1	24.7	19.5
1988/89	4634	7207	9.2	11.6	18.0	29.6	6.4	3.4	6.2	4.2
1989/90	4926	7411	11.6	12.3	18.6	30.9	6.2	3.4	6.3	2.8
1990/91	5902	8385	4.6	13.0	18.4	31.4	5.5	3.0	19.8	13.1
1991/92	6762	8998	10.8	13.9	18.5	32.4	4.6	1.9	14.6	7.3
1992/93	6785	10049	4.5	13.1	19.4	32.5	6.3	6.4	0.3	11.7
1993/94	6685	8685	16.2	12.8	16.7	29.5	3.8	3.2	-1.5	-13.6
1994/95	7759	10296	2.3	12.7	16.9	29.6	4.2	3.5	16.1	18.5
1995/96	8311	12015	8.8	13.0	18.8	31.8	5.8	6.8	7.1	16.7
1996/97	8096	11241	16.2	12.8	17.8	30.6	5.0	5.6	-2.6	-6.4
1997/98	8434	10301	10.8	13.3	16.3	29.6	2.9	2.7	4.2	-8.4
1998/99	7570	9344	16.1	12.5	15.5	28.0	2.9	2.6	-10.2	-9.3
1999/00*	8488	10033	3.2	13.3	15.7	29.0	2.6	2.3	12.1	7.4
Decade's Average 1970s			1.8	9.0	17.8	26.8	8.9	5.1	18.6	27.2
Decade's Average 1980s			8.8	10.1	18.5	28.6	8.4	2.7	8.5	4.4
Decade's Average 1990s			9.9	13.0	17.3	30.3	4.2	3.9	4.5	2.7

*** Projected by the SBP**

Sources: State Bank of Pakistan Annual Reports

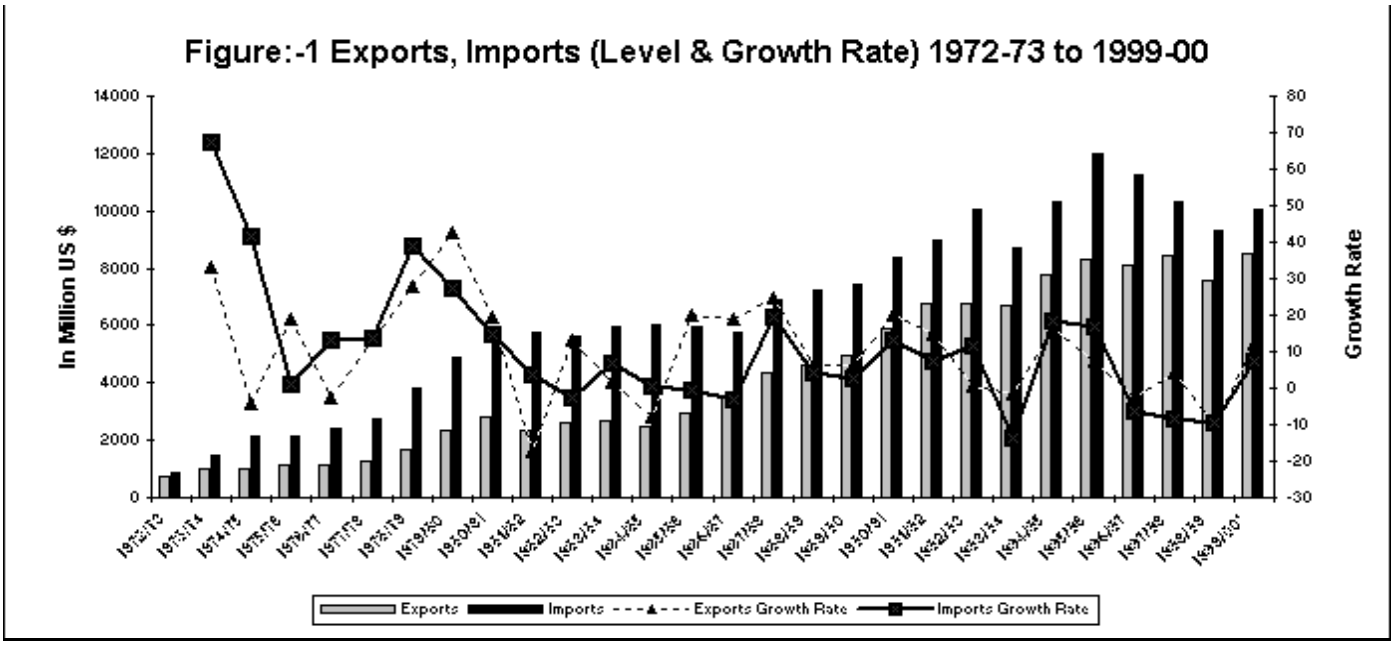
Figure:-1 Exports, Imports (Level & Growth Rate) 1972-73 to 1999-00
In Million US $
Growth Rate
14000
12000
10000
8000
6000
4000
2000
0
80
70
60
50
40
30
20
10
0
-10
-20
-30
Exports
Imports
Exports Growth Rate
Imports Growth Rate

Table 2: Inflow of Foreign Investment in Pakistan

	(In Million US $)			As Percent of Total		
Years	**FDI**	**Portfolio**	**Total**	**FDI**	**Portfolio**	**Total**
1984-85	**70.3**	**23.4**	**93.7**	**75.0**	**25.0**	**100.0**
1985-86	**145.2**	**16.0**	**161.2**	**90.1**	**9.9**	**100.0**
1986-87	**108.0**	**21.0**	**129.0**	**83.7**	**16.3**	**100.0**
1987-88	**162.0**	**10.5**	**172.5**	**93.9**	**6.1**	**100.0**
1988-89	**210.2**	**7.2**	**217.4**	**96.7**	**3.3**	**100.0**
1989-90	**216.2**	**-4.7**	**211.5**	**102.2**	**-2.2**	**100.0**
1990/91	**246.0**	**-9.0**	**237.0**	**103.8**	**-3.8**	**100.0**
1991/92	**335.1**	**218.5**	**553.6**	**60.5**	**39.5**	**100.0**
1992/93	**306.4**	**136.8**	**443.2**	**69.1**	**30.9**	**100.0**
1993/94	**354.1**	**288.6**	**642.7**	**55.1**	**44.9**	**100.0**
1994/95	**442.4**	**1089.9**	**1532.3**	**28.9**	**71.1**	**100.0**
1995/96	**1101.7**	**205.2**	**1306.9**	**84.3**	**15.7**	**100.0**
1996/97	**682.1**	**267.4**	**949.5**	**71.8**	**28.2**	**100.0**
1997/98	**601.3**	**221.3**	**822.6**	**73.1**	**26.9**	**100.0**
1998/99	**472.3**	**27.3**	**499.6**	**94.5**	**5.5**	**100.0**
July, 1999/May,2000	**423.7**	**54.6**	**478.3**	**88.6**	**11.4**	**100.0**

***Source:*Statistics Department, State Bank of Pakistan**

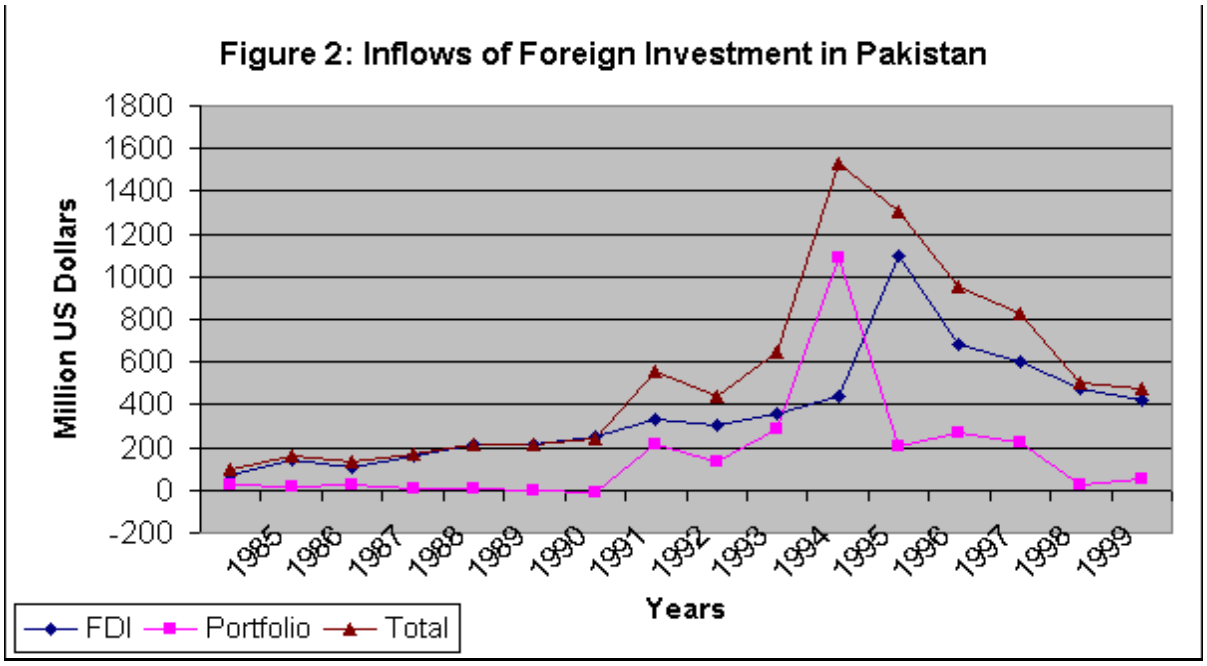

Table 3: Trends in Poverty in Pakistan: Head Counts

Years	Overall Pakistan	Rural	Urban
1963-64	40.24	38.94	44.53
1966-67	44.5	45.62	40.96
1969-70	46.5	49.11	38.76
1979	30.68	32.51	25.94
1984-85	24.47	25.87	21.17
1987-88	17.32	18.32	14.99
1990-91	22.11	23.59	18.64
1992-93	22.4	23.35	15.5
1996-97	31	32	27
1998-99	32.6	34.8	25.9

Source: **1. Amjad and Kemal (1997).**
2. Qureshi S.K. and G.M. Arif (1999).

Table 4: Macroeconomic Indicators, 1970-71 - 1999-00

	Annual growth rates							As Percent of GDP		In Percent
Year	Real GDP	Agriculture	Manufacturing	Large Scale Manufacturing	Services	Per Capita Income	CPI Inflation	Budget Deficit	Current A/C Deficit	Unemployment Rate
1970 71	1.2	-3.1	6.4	6.2	4.9		5.7	-	6.7	1.7
1971 72	2.3	3.5	1.2	-0.5	5.1	-0.2	4.7	-	3.8	2.0
1972 73	6.8	1.7	8.7	9.2	5.2	3.0	9.7	3.6	1.1	1.9
1973 74	7.5	4.2	6.4	6.1	5.4	4.2	30.0	5.2	5.4	1.8
1974 75	3.9	-2.1	0.5	-1.6	5.7	0.9	26.7	9.3	9.4	1.7
1975 76	3.3	4.5	1.4	-0.6	5.7	1.4	11.7	9.5	6.2	2.2
1976 77	2.8	2.5	1.8	-0.2	3.2	1.0	9.2	8.5	5.9	2.6
1977 78	7.7	2.8	10.2	10.9	8.5	7.3	6.9	7.8	2.7	3.1
1978 79	5.5	3.1	8.0	7.9	5.8	2.9	11.2	8.8	5.0	3.6
1979 80	7.3	6.6	10.3	11.0	5.7	4.0	11.2	6.8	3.7	3.6
1980 81	6.4	3.7	10.6	11.5	6.6	2.2	13.9	6.0	2.8	3.7
1981 82	7.6	4.7	13.8	15.7	7.9	2.9	11.1	5.9	3.4	3.8
1982 83	6.8	4.4	7.0	6.6	9.2	6.2	4.7	7.7	0.6	3.9
1983 84	4.0	-4.8	7.9	7.7	7.6	1.1	7.3	7.7	2.2	3.9
1984 85	8.7	10.9	8.1	8.0	8.2	3.0	5.7	8.3	4.1	3.7
1985 86	6.4	6.0	7.6	7.3	5.8	2.5	4.4	8.7	2.4	3.6
1986 87	5.8	3.3	7.5	7.2	5.9	1.6	3.6	8.5	1.0	3.1
1987 88	6.4	2.7	10.0	10.6	6.8	1.6	6.3	9.4	3.1	3.1
1988 89	4.8	6.9	4.0	2.4	3.8	1.4	10.4	8.1	3.4	3.1
1989 90	4.6	3.0	5.7	4.7	4.5	1.6	6.0	7.3	3.4	3.1
1990 91	5.6	5.0	6.2	5.4	5.2	4.6	12.7	9.5	3.0	6.2
1991 92	7.7	9.5	8.1	7.9	6.8	4.1	10.6	8.4	1.9	5.9
1992 93	2.3	-5.3	5.4	4.1	4.6	-0.8	9.8	8.1	6.4	4.7
1993 94	4.5	5.2	5.5	4.3	4.2	0.9	11.3	6.0	3.2	4.8
1994 95	5.3	6.6	3.6	1.5	4.8	3.0	13.0	5.9	3.5	5.4
1995 96	6.8	11.7	4.8	3.1	5.0	1.5	10.8	7.0	6.8	5.4
1996 97	1.9	0.1	1.3	-2.1	3.6	-1.6	11.8	6.4	5.6	6.1
1997 98	4.3	3.8	-1.6	7.6	3.2	-1.4	7.8	7.6	2.7	6.1
1998 99	3.2	2.0	4.2	3.7	4.1	0.4	5.7	6.0	2.6	6.1
1999 2000	4.5	5.5	1.6	0.0	4.5	2.8	3.4	5.8	2.3	6.1
Decade Averages:										
1970s	4.8	2.4	5.5	4.8	5.5	2.7	12.7	7.4	5.0	2.4
1980s	6.1	4.1	8.2	8.2	6.6	2.4	7.3	7.8	2.6	3.5
1990s	4.6	4.4	3.9	3.6	4.6	1.4	9.7	7.1	3.8	5.7
1988-2000	4.6	4.5	4.1	3.6	4.5	1.4	9.4	7.2	3.7	5.3