

Impact of Globalization On Pakistan's Economy

Naima Saeed

1. INTRODUCTION

The term 'globalization' is multi-dimensional. It has economic, social, cultural and political connotations. It is defined as a process of rapid economic integration among countries driven by the liberalization of trade, investment and capital flows, as well as technological change [Torres, R (2001)]. Globalization has become a hotly debated subject in recent years. Although globalization is generally understood to have emerged out of the Uruguay Round of GATT, it is rather an old concept. O'Rourke and Williamson (2000) point out that the world economy even by the late 20th century standard was well integrated in the beginning of the twentieth century [Kemal (2001)]. The tendency towards globalism could be seen during the period of liberalism of the 19th century, the relative stability after the First World War and the golden years of the 1950s and 1960s. The WTO (World Trade Organization) was formed essentially as a reincarnation of the ITO (International Trade Organization) which was born prematurely after the Second World War. With it, the principles of liberalism, multilateralism and non-discriminations were achieved. This then shows a tendency towards globalism [Katsuni Sugiura (1999)].

The objective of this paper is to help improve understanding of the effects of the gradual and selective approach to globalization in terms of trade, wages, employment and social progress in Pakistan.

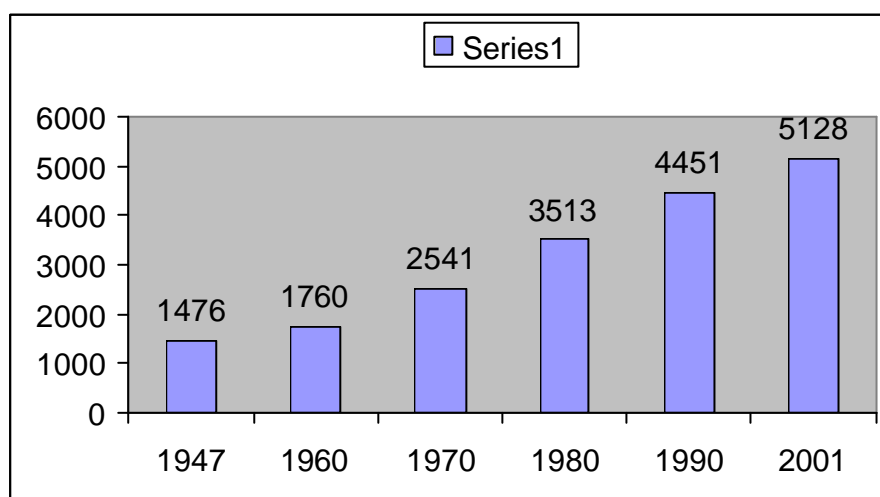
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The lay out of the paper is as follows: After this introductory section, the impact of globalization on growth rates of output, foreign trade and investment, and the effect of these increase on unemployment in Pakistan is discussed in section 2. An overview of labour market trends, income distribution and education is presented in section 3. The last section gives the summary and conclusion.

2. GROWTH IN OUTPUT, TRADE AND INVESTMENT

2.1 Growth Rates of GNP

Real Gross National Product (GNP) per capita is a useful aggregate measure of annual income per person, net of growth in population and prices. Data shows that in 1947 real GNP per capita was Rs. 1,476 which has multiplied three and a half fold to Rs. 5,128 in 2001. In other words, an average Pakistani today commands purchasing power that is three and half times greater than in 1947 [Social Development in Pakistan, Annual Review, 2001].

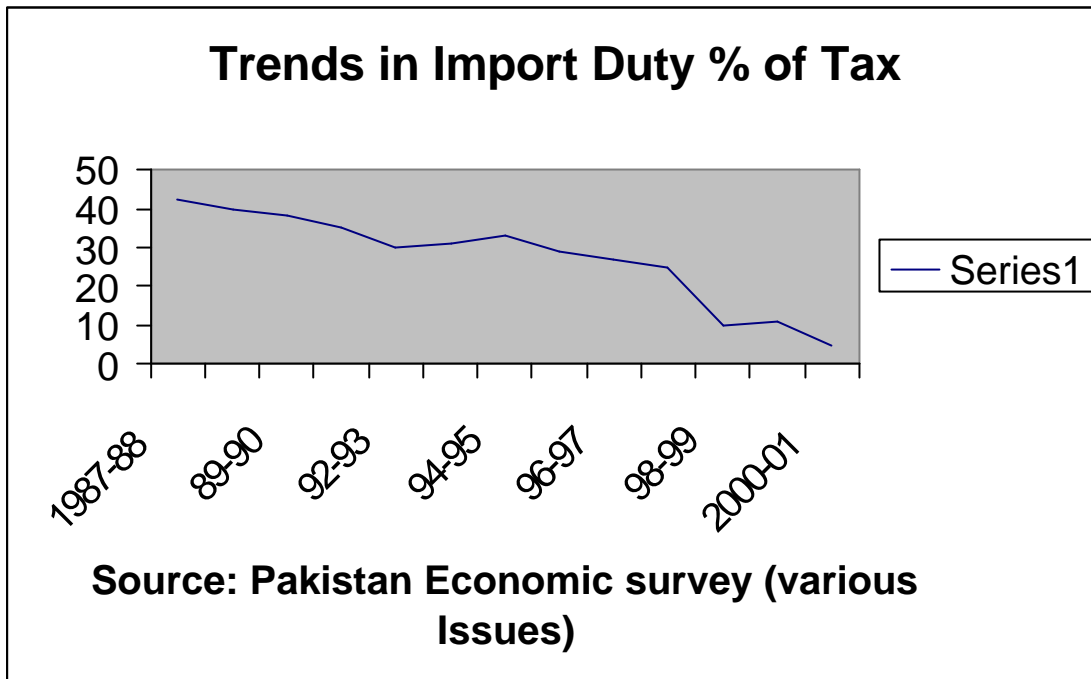


Note: In constant prices of 1980-81

Sources: Fifty Years of Pakistan in Statistics
Pakistan Economic survey (Various Issues)

2.2 The Gradual and Uneven Process of Foreign Trade and Investment Liberalization

Import liberalization in Pakistan has been a rather gradual process, as exemplified by the gentle downward trend in the average import tariff rate.



The decline in import duties as a revenue source can be seen from the fact that their contribution to total taxes has fallen from 50.4% in 1987-88 to 15.9% in 2000-01 [Social Development in Pakistan, Annual Review, 2001].

Table 1
Trends in Manufacturing Production

Year	Maximum Import Duty rate %	Effective Import duty rate %	Share of Import duty in total taxes
1987-88	150	38.4	43.0
1988-89	125	34.5	40.6
1989-90	125	36.2	41.9
1990-91	125	34.1	40.4
1991-92	95	30.3	39.2
1992-93	90	27.7	37.6
1993-94	80	28.9	32.7
1994-95	70	26.9	32.9
1995-96	65	24.9	30.3
1996-97	65	21.1	26.7
1997-98	45	20.1	22.8
1998-99	45	19.2	16.1
1999-00	35	16.3	16.7
2000-01	35	13.3	14.1
Average growth rate	-10.6	- 8.1	- 8.2

Sources: Economic Survey (Various issues)
Energy Year Book (Various issues)

The most rapid dismantling of the 'old' economic regime occurred in the import duty. Within five years, the maximum tariff rate declined 55 percentage points from 150 percent in 1988 to 95% in 1992, reducing the effective import duty rate from 38.4% to 30.3%. By 2001, the maximum tariff rate dropped further to 35% ----- about

one-fifth of the 1998 level ----- and the effective duty rate to 13 percent ----- about one third of the 1988 level.

Pakistan has also made substantial progress in eliminating or reducing non-tariff barriers to trade: at present, there are only 32 products (HS 4 - digit level) on the negative list and import of 28 products is restricted for health and safety reasons. The government has abolished the restricted list, which enlisted products that could only be imported through designated importers, and has lifted the licensing requirements for goods outside the negative list.

To stimulate export-oriented industries, Pakistan provides a variety of incentives including income and sales tax concessions, exemption from customs duty on imported intermediate inputs and capital goods, and easy access to credit facilities. Income from a wide range of export products is entitled to income tax concessions. The duty drawback rates are standardized as a percentage of the free on board value of exports or a specific amount per unit of goods exported. All direct and indirect exporters are allowed the facility to import inputs through no duty no drawback scheme, bonded warehousing facilities, export processing unit scheme, and other temporary import schemes without payment of customs duty, sales tax, and withholding of income tax. Other export promotion measures include provision of loans to exporters at concessional rates of interest through the export finance scheme, and financial assistance to export-oriented industrial units seeking quality certification in respect of ISO 9000 and 14000 series certification. With a view to promoting foreign investment in the export sector, Pakistan has established export processing zones at Karachi and Lahore. These zones

offer better infrastructure facilities as well as various other incentives including tax holidays, and unrestricted repatriation of capital and profits.

2.3 Growth Rate of Exports and Imports

The table shows that the rates of growth of exports and imports have both decelerated between 1999-00 and 2000-01. However, the decline in import growth is significantly greater than in export growth. [Social Development in Pakistan, Annual Review, 2001].

Table 2
GROWTH RATE OF EXPORTS AND IMPORTS

Years	Exports	Imports
1977-78 to 1987-88	14.4	10.3
1988-89 to 1998-99	5.6	4.3
1999-00 to 2000-01	8.8	6.7
1999-00	10.2	9.3
2001-01	7.4	4.1

Sources: Statistical Supplement {2000-01}
Pakistan Economic Survey {various issues}

2.4 Capital Flows

FDI involves the long-term interest of one entity resident in one economy in an enterprise resident in an economy other than that of the foreign investor (United Nations Conference on Trade and Development [UNCTA], 1998).

	1977-78 to 1987-88	1988-89 to 1998-99
Growth in FDI (US \$ million)	-	16.0

FDI, had shown a 16 percent growth during the post 1988 decade.

2.5 Degree of Openness

The degree of openness has increased, both exports and imports have been contributing factors [Kemal, 2001]

Table 3
Degree of Openness

Country	Degree of openness (Trade/GDP)*100			Degree of Openness (Exports/GDP)*100			Degree of Openness (Imports/GDP)*100		
	1991	1995	1997	1991	1995	1997	1991	1995	1997
Pakistan	34.96	31.94	39.95	15.23	13.70	16.14	19.73	18.24	23.80

Source: International Financial Statistics, IMF, 1998, World Development Indicators, 1997, 1998, 1999.

However, the drawback is that the degree of openness has widened the balance of payment deficits, and this problem will continue unless third world country like Pakistan is provided enhanced access to the international market.

Table 4

Current Account Deficit

		<u>Million \$</u>
Country	1980	97
Pakistan	868	3675

Source: World Development Report, 2000.

But in spite of that deficit there is a significant increase in growth rate of output, trade and FDI inflows but the important question is : To what extent increase in these growth have helped the growth of employment in Pakistan?

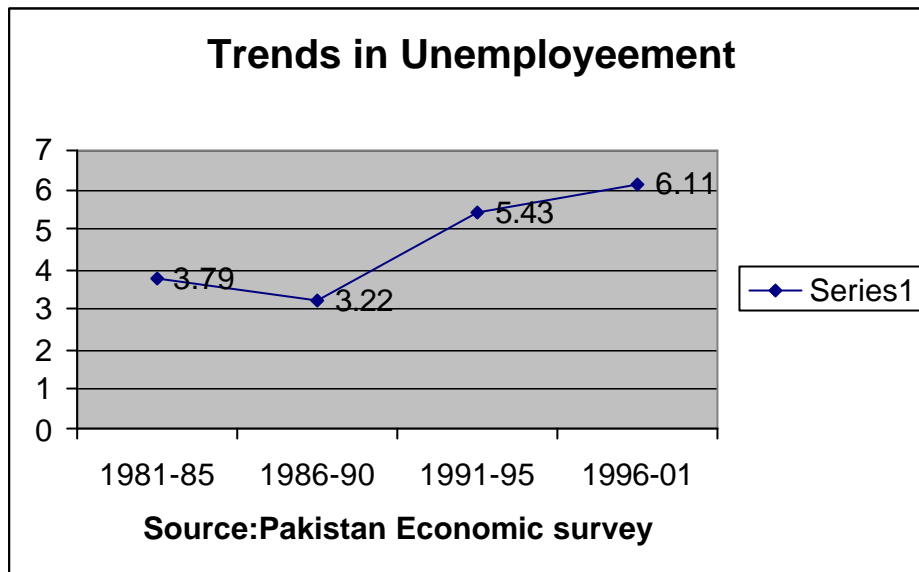
Table 5

Average Trends in Unemployment

Years	Unemployment
1980-90	3.5
1991-95	5.4
1996-2000	6.0
1991-2000	5.7
1999-2000	6.2
2000-2001	6.7

Source: Pakistan Economic Survey (Various issues)
SPDC estimates

Thus despite increase in growth rate of output, trade and FDI. The unemployment rate, increased from an average of 3.5% during 1981-90 to 5.7% during 1991-2000, went up further to 6.7 percent in 2000-01, official statistics, as presented in the Pakistan Economic Survey (Statistical Supplement) for the year 2000-01, actually report unemployment in 2000-01 to be higher at 7.8 percent.



3. AN OVERVIEW OF LABOUR MARKET TRENDS INCOME DISTRIBUTION AND EDUCATION

This section shows that the trade and FDI liberalization process went hand in hand with a substantial improvement in labour market performance and income distribution as well as in the educational attainment level of large segment of the Pakistani population.

3.1 Trends in Inter-sectoral Wages in Pakistan

Irfan and Ahmed (1985) have looked at the trends in real wages of the government servants over the period 1972-83. Their study attributed the rise in real wages to international migration. Balques (1992) covered the period when out-migration

had started to decline after reaching its peak in 1981. By 1985 net return migration was estimated at 54, 835 [ILO - ARTEP (1987)].

The return migrants do not appear to have created a glut in the labour market and the wages have continued to rise because the majority of the return migrants do not want to go back to their previous occupations. They have preferred to start their own business, mainly in trade and service sectors. This has led to the further widening of the informal sector creating more jobs and preventing wages from declining.

Thus during the period 1981-91, except for government employees real wages have risen for informal sector and formal sector workers in the large-scale manufacturing sector. The out migration in the earlier periods led to the adoption of more capital-intensive technology. This phenomenon has not changed with the rapid return migration over the later period. The re-absorption of the return migrants has not been a very serious issue because the majority of the return migrants have preferred to start their own business in the trade and services sector [Bilquees, 1992].

3.2 Real Wages in the Manufacturing Sector

It will be seen from table 6 that the real wages of the production workers increased by 8.8 percent during 1981-86 compared to the previous period. The real wages of non-production workers increased only by 7.9 percent compared to 9.2 percent in the last period. The estimates of real wages of both casual and regular worker reported in the Table 8 show a rising trend for both categories of workers. Both the nominal and real wages peak in 1989-90 with a slight decline in real wages in 1988-89.

Table 6

Nominal and Real Wages in the Manufacturing Sector

	1970-76	1976-81	1981-86
1. Nominal Wages			
All workers	15.8	17.1	15.52
Production workers	17.3	16.6	16.5
Non-Production workers	14.5	19.6	11.7
2. Real Wages			
All workers	1.4	7.1	7.96
Production workers	2.6	6.5	8.83
Non-Production workers	0.1	9.2	7.92
3. CPI	14.4	9.5	9.0

Source:

3.3 Real Wages in the Construction and Agriculture Sectors

Real wages of the construction workers both skilled and unskilled reported in table 7 show a sharp acceleration between 1974-75 to 1980-81, the period of their heavy out-migration. Thereafter they have stagnated until 1985-86. They peaked once again in 1987-88 but did not recover to the 1980-81 level. Both the nominal and real with a slight decline in real wages in 1988-89. Wages peak in 1989-90.

However, the decline in the real wages of the casual workers is more pronounced than the regular workers.

Overall, the wages in the informal sectors have been rising steadily, as well as wages of the production workers. However, the position of government servants has deteriorated sharply [Bilquees, 1992].

Table 7
Wages of Construction Workers Rs/Day

Year	Money Wages			Real Wages		
	Carpenter	Mason	Unskilled	Carpenter	Mason	Unskilled
1969-70	12.25	12.96	5.06	1.4	8.9	3.5
1970-71	13.0	13.50	5.46	12.30	12.77	5.16
1971-72	13.88	14.54	5.37	12.55	13.44	4.85
1972-73	14.16	14.97	5.66	11.67	12.37	4.66
1973-74	18.57	19.01	8.58	11.77	12.05	5.44
1974-75	25.05	25.11	11.83	12.52	12.56	5.92
1975-76	32.11	32.98	13.32	14.68	15.08	6.09
1976-77	37.50	39.09	16.15	15.54	16.20	6.69
1977-78	42.44	43.96	18.04	16.11	16.66	6.04
1978-79	45.33	55.58	20.27	16.29	19.97	7.28
1979-80	52.58	53.33	22.61	17.10	17.34	7.35
1980-81	64.33	64.58	24.65	18.88	18.96	7.23
1981-82	68.75	68.72	26.81	17.79	17.74	6.92
1982-83	68.70	70.84	28.68	17.26	17.54	7.10
1983-84	73.01	74.04	29.84	16.62	17.04	6.87
1984-85	76.31	77.17	32.50	16.60	16.79	7.07
1985-86	79.25	79.75	35.61	16.52	16.62	7.42

1986-87	83.89	80.81	37.40	16.18	16.06	7.51
1987-88	91.89	87.92	39.78	17.40	16.66	7.53
1988-89	99.71	98.08	43.65	17.09	16.44	7.48
1989-90	105.78	106.13	47.79	17.12	17.18	7.73

Source: NESPAK (Various Issues)

Table 8
Nominal and Real Wages of Agricultural Workers

	Nominal		Real (1969-1970 Prices)	
	Regular	Casual	Regular	Casual
1983-84	17.21	20.28	3.96	4.66
1984-85	19.70	21.93	4.29	4.77
1985-86	21.21	23.99	4.42	5.0
1986-87	22.67	25.55	4.56	5.14
1987-88	25.34	27.21	4.80	5.15
1988-89	27.94	29.24	4.79	5.01
1989-90	30.89	32.0	5.00	5.18

Source: Monthly Statistical Bulletins, July 1987, June 1985 and March 1991.

3.4 Income Distribution and Poverty

Table 9 shows that the number of poor as a percentage of population in Pakistan continued to decline from 40.2 percent in 1963-64 to 17.3 percent in 1987-88. Similarly, the share of the lowest 20 percent of the population rose from about 6 percent in 1963-64 to about 7-8 percent between 1966-67 and 1987-88, and then settled back to

about 6 percent thereafter. The Gini coefficient, too, declined from 0.386 in 1963-64 to 0.348 in 1987-88 and then rose again to 0.4 in 1998-99 [Social Development in Pakistan, Annual Review, 2001].

Table 9
Trends in Income Distribution and Poverty

Year	Percentage share of Income			Household Gini Coefficient	Number of poor as % of population		
	Lowest 20%	Middle 60%	Highest 20%		Urban	Rural	Total
1963-64	6.4	48.3	45.3	0.386	44.5	38.9	40.2
1966-67	7.6	44.0	43.4	0.355	41.0	45.6	44.5
1969-70	8.0	50.2	41.8	0.336	38.8	49.1	46.5
1979	7.4	47.6	45.0	0.373	25.9	32.5	30.7
1984-85	7.3	47.7	45.0	0.369	21.2	25.9	24.5
1987-88	8.0	45.3	43.7	0.348	15.0	18.3	17.3
1990-91	5.7	45.0	49.3	0.407	18.6	23.6	22.1
1992-93	6.2	45.6	48.2	0.41	15.5	23.4	22.4
1996-97	7.0	43.6	49.4	0.40	27.0	32.0	31.0
1998-99	6.6*	45.6*	47.8*	0.40*	25.9	34.8	32.6
1999-00	n.a	n.a	n.a	n.a	n.a	n.a	35.9*
2000-01	n.a	n.a	n.a	n.a	n.a	n.a	38.0*

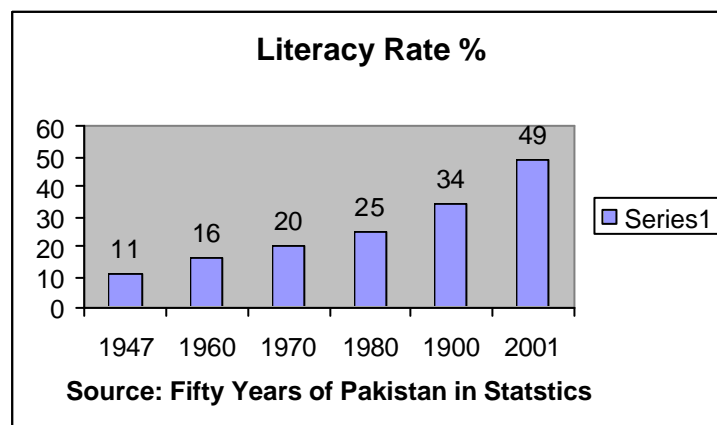
Sources: Pakistan Economic Survey (Various issues)

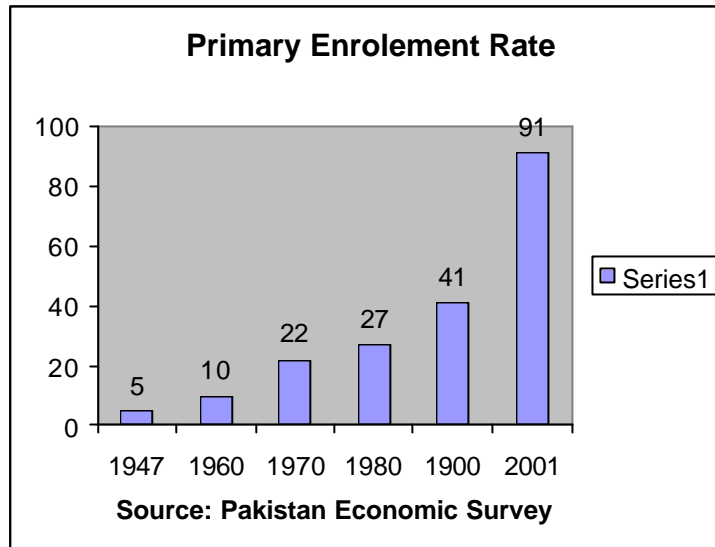
* SPDC ISPM Model estimates.

There is deterioration in the economic situation over the 1990s due to a number of factors not necessarily relating to globalization. There has been a range of opinion which places the responsibility on governance failure. There have, however, been no documented evidence or formal analyses that establish the link between poor governance and poor economic performance. An alternative view is that the adverse trends in economic indicators are the result of policy failure.

3.5 Education

Although the literacy rate is still abysmally low, the number of literate persons in the country has climbed up 17-fold. The number of universities has increased from four to 25 and there are an equal number of private universities, including specialized management, engineering, and medical universities. There is now a large cadre of professionals in every field that can excel by international standards. In 1947, female education was virtually unheard of, except in a few big cities and their vicinities. Today, there are hundreds of thousands of female teachers in the country, including the rural areas. Female primary and secondary enrolment rates have moved up 23- and 27-fold, respectively. Women professionals were once the rare exception; now they are the norm in almost every field, although not in all parts of the country [Social Development in Pakistan, Annual Review, 2001].





SUMMARY AND CONCLUSION

This paper has shown that the Pakistan's economic performance since integration with the global economy can be characterized by a increase in GDP growth rates, decline in import duties, an increase in FDI during the post 1988 decade, a sharp increase in openness leading to a deteriorating balance of payments situation and continued high levels of poverty and unemployment.

As globalization involves enterprises and workers of nearly all the world's countries in the goods as well as in the service sector. Consequently, the majority of the world's labour force is experiencing the effects of international competition. In Pakistan except for the government servants there is increase in the wages in the informal sector as well as wages of the production workers till 1990. As for as education is concerned, although the literacy rate is still low, the number of literate persons in the country has climbed up 17-fold and the number of universities has increased from four to 25.

One clear outcome of this paper has been the recognition of the importance of examining the interactions between globalization, economic development and social progress. Advocates of social progress should acknowledge the key role of trade and investment liberalization in creating new business opportunities and raising living standards.

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Abstract

This paper analyses the effects of the gradual and selective approach to globalization in terms of trade, wages, employment and social progress in Pakistan. Economic performance of Pakistan since integration with the global economy can be characterized by a increase in GDP growth rates, decline in import duties, an increase in FDI during the post 1988 decade, a sharp increase in degree of openness leading to a deteriorating balance of payment situation and continued high levels of poverty and unemployment. There is increase in the wages in the informal sector as well as wages of the production workers till 1990. There is deterioration in the economic situation over the 1990s. However this deterioration is due to a number of factors not necessarily relating to globalization.