

## **Governance, Globalisation, and Human Development in Pakistan**

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### **I. INTRODUCTION**

The controversy over the likely effects of globalisation on economic well-being is well debated in the literature, yet the subject remains open for further examination. One can easily relate anything to the concept of globalisation, as it is so broad, diverse, vague and volatile. The word globalisation has been used in different context and with so many different connotations. When people use the word globalisation they mean what they choose it to mean. A large number of studies have been conducted to ascertain the effects of globalisation on third world economies including Pakistan. Many scholars, despite recognising the need for globalisation as an impetus to economic growth, blame that the process of globalisation has divided the world into two classes: rich and poor. In this paper we attempt to show that bad governance has reduced the benefits of globalisation in Pakistan. We approach this task by first defining the term globalisation and its various components. Second, we investigate the relationship between governance and the benefits of globalisation.

The study is organised as follows: Section II discusses various indicators of governance. Section III defines globalisation and its various measures. Section IV describes the favourable and adverse effects of globalisation. Section V presents the methodology and data analysis. Concluding observations are made in Section VI.

### **II. GOVERNANCE IN PAKISTAN**

The term governance is defined as the traditions and institutions by which authority in a country is exercised. This includes (1) the procedure by which governments are selected, monitored, accountable, and replaced, (2) the ability of the

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government to formulate and implement prudent policies effectively, and (3) the respect of citizens and the state for the institutions.

Table 1 reports aggregate governance indicators for six dimensions of Governance including corruption in Pakistan using methodology developed in Kaufmann, *et al.* (1999, 1999a). The data on governance is organised into six indices corresponding to six basic aspects of governance. These indicators are then combined into aggregate governance indicators.<sup>1</sup> The unit of governance ensures that the estimates of governance have a mean of zero, a standard deviation of one and range from -2.5 (bad) to +2.5 (good).

Table 1

*Measures of Governance*

	Voice and Account- ability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Governance (Average)
1996	-0.93	-1.01	-0.39	-0.56	-0.41	-0.91	-0.70167
1998	-0.62	-0.8	-0.69	-0.15	-0.71	-0.75	-0.62
2000	-1.53	-0.56	-0.48	-0.4	-0.62	-0.7	-0.715
2002	-1.1	-1.26	-0.5	-0.77	-0.7	-0.73	-0.84333

The data is taken from Research Project by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, as described in "Governance Matters III: Governance Indicators for 1996-2002".

The first two governance indices are intended to capture the first part of the definition of governance: the procedure by which those in authority are selected, accountable and replaced. The first index is Voice and Accountability, which includes a number of indicators measuring various aspects of the political process, civil liberties and political rights. These indicators measure the extent to which citizens of a country are able to participate in the selection of governments. We also include in this category indicators measuring the independence of the media, which serves an important role in monitoring those in authority and holding them accountable for their actions. The second governance index is labelled "Political Stability". In this index several indicators are combined to measure perceptions of the likelihood that the government in power will be destabilised or overthrown by possibly unconstitutional and/or violent means, including terrorism. This index captures the idea that the quality of governance in a country is compromised by the likelihood of wrenching changes in government, which not only has a direct effect on the continuity of policies, but also at a deeper level undermines the ability of all citizens to peacefully select and replace those in power.

The next two indices summarise various indicators of government's ability to formulate and implement impeccable policies. The index of Government Effectiveness combines perceptions of the quality of public service provision, the

<sup>1</sup>The data is also available electronically at <http://www.worldbank.org/research/growth>.

quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment into a single grouping. The main focus of this index is on "inputs" required for the government to be able to produce and implement good policies and deliver public goods. The second index, a Regulatory Quality, is more focused on the policies themselves. It includes measures of the incidence of distorted policies such as price controls or inadequate bank supervision, as well as distortions caused by excessive regulations in areas such as foreign trade and business development.

The last two indices measure the respect of citizens and the state for the institutions. In "Rule of Law" several indicators are included, which measure the extent to which agents have confidence in and abide by the rules of society. These include perceptions of the incidence of both violent and non-violent crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts. Together, these indicators measure the success of a society in developing an environment in which fair and predictable rules form the basis for economic and social interactions. The final index, Control of Corruption, measures perceptions of corruption. Corruption is defined as the exercise of public power for private gain. Despite this straightforward focus, the particular aspect of corruption measured by the various sources differs somewhat, ranging from the frequency of "additional payments to get things done," to the effects of corruption on the business environment, to measuring "grand corruption" in the political arena or in the tendency of elite forms to engage in "state capture".

Table 1 reports the point estimates of governance for each of six governance indicators. The data suggests that Pakistan exhibits deterioration in all these indicators except Voice and Accountability. However, the index for Voice and Accountability is still very low (-1.1) in 2002. Table 1 also confirms that control of corruption have deteriorated from 1998 to 2002.

### III. DEFINITION OF GLOBALISATION

At a simple, dictionary level, globalisation is defined as "The act, process, or policy of making something worldwide in scope or application". This simple definition of globalisation highlights the concept of borders. One can envisage three important concepts of globalisation that revolve around the term borders. First, globalisation can be seen as cross border relations. Second, it exhibits open border relations and finally it is considered as trans-border relations.

When globalisation is considered as the spread of cross-border exchanges, it is synonymous to internationalisation. Therefore, the word globalisation is used to show the increase movements between countries of goods, investments, people, money, messages and ideas. Globalisation is nothing but the larger international trade. In this sense the term globalisation is redundant because the levels of cross-

border activity have risen and fallen from time to time throughout the history of international relations.

When globalisation is taken to represent open border relations by removing government restrictions on international trade, travel, financial transfers and communications, it is synonymous to liberalisation. This term signifies the importance of single borderless world. This term is also redundant as the word liberalisation is self-explanatory and we do not need a separate word to explain the concept of liberalisation. Moreover, the idea of liberalisation is not new. Classical liberals advocated the same idea in the nineteenth century.

Although the above two definitions do not give something new about globalisation, there are other concepts of globalisation that show novelty. As I have mentioned earlier that borders are not so much crossed or opened as *transcended*. The globalisation encompasses activities that can be spread across widely dispersed locations simultaneously and can move between places anywhere on the earth pretty much instantaneously. Territorial distance and territorial borders hold limited significance in these circumstances: the globe becomes a single 'place' in its own right. The manifestation of the novelty of this concept is reflected in the field of communications such as air travel, telephony, computer networks, radio, and television that allow persons anywhere on earth to have nearly immediate contact with each other, irrespective of the territorial distance and borders that might lie between them. Second, in the area of *organisations*, the late twentieth century has witnessed a proliferation and expansion of business enterprises, civic associations and regulatory agencies that work as transborder operations. Third, in respect of *trade*, much movement of goods and services between countries today falls within a transworld marketing exercise. Fourth, in terms of *finance*, globalisation occurs with the spread of various monies (e.g., the US dollar and the Special Drawing Right) and financial instruments (e.g. eurobonds and many derivatives) that electronically circulate anywhere and everywhere across the world in an instant.

With this concept of globalisation, A.T. Kearney/Foreign Policy Magazine develops an index of globalisation by including several indicators such as information technology, finance, trade, personal communication, politics, and travel. Each country's level of global integration is determined by grouping the above indicators into four subcategories: economic integration, technology, personal contact and political engagements. Economic integration includes trade, foreign direct investment, portfolio capital flows, and income payments and receipts; technology encompasses number of Internet users, Internet hosts, and secure servers; personal contact includes international travel and tourism, international telephone traffic, and cross-border transfers; political engagements contain number of memberships in international organisation, U.N. Security Council missions in which each country participates, and foreign embassies that

each country hosts. The globalisation ranking is available for 62 countries including Pakistan from 2001 to 2004.<sup>2</sup>

#### IV. EFFECTS OF GLOBALISATION

##### Adverse Effects

Many people believe that globalisation is a continuation of the Western imperialism. In this view, the prevailing capitalism of Western countries in Europe and North America has established rules of trade and business relations that are not beneficial for the poor countries. As a result, people often protests against globalisation or more specifically Westernisation.

According to Sen (2002), globalisation is not related to West. Over thousand years globalisation has played an important role in the development of the world through trade, travel, migration, proliferation of cultural values, and the dissemination of knowledge. According to him, the West had also achieved this tremendous growth through globalisation. Had West at that time did not get technology from China in 1000 A.D and did not learn from Indian and Arabs Mathematicians in the last quarter of tenth century. Western Europe would have not acquired the status that they are enjoying now. Negating the positive aspects of globalisation simply because it represents Western influence and imperialism would indeed be a serious and costly error.

The misconception about the unfair distribution of gains is ubiquitous, however. If an activity benefits all parties, it does not guarantee that the distribution of gain is fair. The critical issue is not whether the poor are getting marginally poor or richer. The real issue is the distribution of gains. The anti-globalisation protesters are in fact demanding fair distribution of benefits and are not against globalisation *per se*. As a matter of fact anti-globalisation protests are most globalise events in the contemporary world.

Many scholars, despite recognising the need for globalisation blame that the process of globalisation has divided the world into two classes: rich and poor. People in developing countries often face acute problems regarding foreign markets access, overseas employment and external debt burden, which eventually lead to abject poverty. Thus it is the rich, not poor who are responsible for this poverty. Globalisation has also contributed to global and regional inequality. The United Nations Development Programme reports that the richest 20 percent of the world's population owns 86 percent of the world's resources leaving only 14 percent to the rest of the world. Because of this severe global inequality, a child dies from hunger on an average of one every few seconds. Children are dying from malnutrition, polluted water and other diseases.

<sup>2</sup>For details about the construction of the index, go to <[http://www.atkearney.com/shared\\_res/pdf/Measuring\\_Globalisation\\_S.pdf](http://www.atkearney.com/shared_res/pdf/Measuring_Globalisation_S.pdf)>

The fair distribution of gains from globalisation depends on external and internal policies. External policies encompass access to foreign markets for LDC' agricultural product, textile and clothing, and the minimal use of anti-dumping and countervailing duties. Internal factors include sound, prudent, and coherent macroeconomic policies in general and anti-corruption policies in particular.

### **Favourable Effects**

Globalisation acts as an impetus to rapid economic growth through international trade, foreign direct investment, portfolio investment, international labour flows and technological advancement in information technology and telecommunications. All these factors contribute to economic growth through increased productivity, better allocation of resources and the provision of required capital for investment. The realisation of the trickle down effect of rapid growth rate in turn depends on foreign and domestic policies and the efficacy of political, economic, and social institutions. Thus, if domestic policies are efficient, impartial, coherent, and consistent, the process of globalisation is beneficial.

Contrary to the above argument, problems that Less Developed Nations are facing cannot be mitigated by merely rapid economic growth. People often justify the ideology of economic growth by saying "A rising tide floats all boats". But what about those who do not have boats or have boats with holes? A rising tide only increases the gap between the poor and the wealthy minority. Recently global economy experienced rapid growth in all major indicators such as production, foreign direct investment, international trade, and international debt, nevertheless despite this rapid growth, the inequality and environmental destruction got far worse.

## **V. METHODOLOGY AND DATA ANALYSIS**

Using various measures of globalisation as discussed in Section III, we attempt to show Pakistan's position on the globalisation ladder. Second, we examine various social indicators to investigate the link between these indicators and globalisation. Finally, we document governance indices including corruption as discussed in Section II and argue that bad governance reduces the benefits of globalisation in Pakistan.

Tables 2, 3, and 4 clearly show that Pakistan over the years has been successful climbing the globalisation ladder. Trade as a percent of GDP, Portfolio flows, and Foreign Direct Investment as percent of GDP are rising since 1998 with trade as percent of GDP slightly fell in 2002. Similarly, Internet users and number of Internet hosts have also been increased over the years. Moreover, Pakistan has actively participated in various activities in the international arena over the past few years. This is also evident from Table 5 where Pakistan recently has achieved a globalisation rank that is better than other South Asian Countries.

Table 2

*Economic Integration*

	1998	1999	2000	2001	2002
Trade as % of GDP	35.6	34.7	36.4	39.6	39.1
Portfolio Flows	57	46	451	192	592
FDI as % of GDP	0.93	0.93	0.52	0.72	1.34

Source: <www. Foreignpolicy.com>

Trade as percent of GDP = Sum to total exports and total imports divided by GDP.

Portfolio Investment = Sum of inflows and outflow (US \$ million).

FDI as percent of GDP = sum of FDI inflows and FDI outflows divided by GDP.

Table 3

*Technology*

Technology	1998	1999	2000	2001	2002
Internet Users as a Share of Total Population	0.05	0.06	0.21	0.34	1.00
Number of Internet Hosts	3096	4735	6467	11319	12707

Source: <www. Foreignpolicy.com>

Table 4

*Personal Contacts/Political Engagements*

	Total International Telephone Traffic	Total International Tourism	Membership in International Organisation
1998	724,400	429,000	49
1999	732,348	432,000	49
2000	994,699	543,000	51
2001	1300,000	500,000	58
2002	1391,000	857,500	60

Source: <www. Foreignpolicy.com>

Total International Telephone Traffic = Incoming telephone traffic + outgoing telephone traffic (minutes in 000). Total International Tourism = Total International Tourism Arrivals and departures.

Table 5

*Pakistan Position in South Asia (Globalisation Ranking, 2004)*

Countries	Globalisation Ranks
Pakistan	46
Sri Lanka	51
Bangladesh	56
India	61
United States	7
Ireland	1

Source: <www.foreignpolicy.com>

\* A. T. Kearney/Foreign Policy Magazine Globalisation index includes rankings of 62 countries including Pakistan.

Despite this entire rosy picture if one looks at the social indicators of Pakistan's economy as shown in Tables 6 and 7, the failure is unequivocal. Table 6 provides various social indicators for Pakistan and for other South Asian Nations on average. We can see from Table 6 that Life expectancy at birth is 60 years in Pakistan compare to 63 years on average in other South Asian Nations. Similarly population growth in Pakistan is 50 percent higher than the population growth on average in other South Asian Nations. Table 7 also presents various social indicators for Pakistan in 2004, which is indeed not very encouraging.

Table 6

*Selected Social Indicators*

	Pakistan	South Asia (Average)
Life Expectancy at Birth (2001)	60 Years	63 Years
Infant Mortality Rate (2001)	84 per 1000	66 per 1000
Annual Population Growth (1996-2001)	2.7%	1.8%
Population below \$1 a Day (1990-2001)	13.4%	32.3%
Adult Literacy Rate (2001)	44%	54.9
Human Development Index (2001)	0.499	0.571

Source: Human Development in South Asia (2003), Mahbub-ul-Haq Human Development Centre, Islamabad.

Table 7

*Selected Social Indicators*

	2004
Poverty (Head Count Index)	23.1%
Population Ever Attended School	57%
Literacy Rate	54%
Population Growth	1.9%
Infant Mortality Rate	82/1000
Unemployment	8.2%

Source: *Economic Survey 2003-2004*.



The above analysis clearly indicates why despite achieving globalisation Pakistan has not realised the positive impact of globalisation. The analysis confirms that the positive impact of globalisation is debilitated due to bad governance in general and pervasive corruption in particular. Moreover, prudent anti-corruption policies should be adopted to catalyse the process of trickle down effect of globalisation as good governance lures FDI in the country.

## VI. CONCLUSIONS

In this paper we explore the link between governance and the benefits of globalisation. The study provides a comprehensive definition of globalisation and shows evidences that globalisation is taking place in the country quite rapidly over the past few years. The data suggests that the entire benefits of globalisation in terms of improved social indicators have not been realised due to bad governance in general and pervasive corruption in particular. Therefore, good governance is a must to enjoy the benefits of globalisation.

Policies should be designed to improve governance by curbing corruption, achieving political stability, and improving regulatory quality, rule of law, and government effectiveness before dreaming any positive impact of globalisation on the living conditions of people in Pakistan. It must be noted, however, that this study is a preliminary exercise. The results must be considered with care because these results, due to paucity of time series data, are not supported by regression analysis and therefore do not address the issue of causality between globalisation and governance.<sup>3</sup> Future research should examine the impact of globalisation on various social indicators in the presence of say corruption when time series data on corruption becomes available. This analysis, albeit partial, shed some light on the importance of good governance in establishing the positive relationship between globalisation and living conditions of people in Pakistan.

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<sup>3</sup>The discussant, Dr Ejaz Ghani, raised these two points in his comments.