

Globalization and its Impact on Poverty in Pakistan

Sohail J. Malik Ph.D.

Islamabad

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The globalization phenomenon

- Globalization is multidimensional and impacts all aspects of life
 - economic social, cultural and political.
- globalization in production and labor markets is leading to increasing outsourcing of parts, components, and services
- the drive towards market liberalization has rapidly accelerated the pace of globalization during the past decade.

From Globalization to Poverty Reduction

- The whole process is predicated on **increased efficiency** arising out of the international competition.
- Requires the poor to **constantly** seek to **improve their skills and human capital**.
- Investment in Quality control and standards
- This also requires a set of specific interventions by the Government.
- **Increasing** competitiveness is at the heart of the whole process.

This requires.....

- Competitiveness of the domestic enterprises in the global economy
- Reasonably good investment climates in which firms can startup, prosper and grow
- Good governance
 - control of corruption,
 - well functioning bureaucracies and regulation,
 - contract enforcement,
 - protection of property rights .
- Strong forward and backward linkages of markets within a country and globally – e.g. transport and telecommunications infrastructure - not just for a good investment climate but also for including the poor.
- Proper ‘management’ of the process of reform including sequencing of reforms

Also requires social safety net policies to catch the marginalized

Because

- the process by definition produces winners and losers
- the inability to protect the losers can not only increase the damage
- It can shatter national confidence and lead to a reversal towards protectionism

Competing in the globalized world requires

- new institutions and processes.
- a new “culture” of doing business
- increasingly sophisticated research requirements in order to stay competitive
- Building awareness and consensus
- Supportive Policy Environment

Theoretically

- globalization opens up markets and ensures competition
- Removes inefficiencies and leading to greater growth.
- ensures specialization takes place in areas of comparative advantage.
- For labor abundant economies this means increased employment as well as growth.

Growth of the “globalizers” is associated with certain other characteristics

These include:

- flexibility of the exchange rate regimes and the ability to exercise fiscal discipline
- investment in research and adaptation
- investment in skill enhancements
- the ability to re-adjust economic structures to bring these in line with comparative advantage
- Safety nets for those that are inevitably marginalized in the short run by this process.

Globalization has led to

- A reduction in the number of poor people in **certain** parts of Asia, but **not** in other parts of the world.
- This **lack of uniformity** in the poverty reduction impact of globalization is tied to the absence of the “other” characteristics

Three Important findings from international review of globalization

- *integration* - not feasible without a wide range of *domestic reforms* covering governance, the investment climate, and social service provision and *international action*, which provided access to foreign markets, technology and aid
- *Inclusion* varies both across countries and within. A number of countries (with around 2 billion people) are in danger of becoming marginal to the world economy over the past two decades.
- *homogenization* popular fears at cultural and social level - despite the fact that societies that are all fully integrated into the global economy differ enormously

International Experience with Globalization

- Examples of Successful integration - Chinese provinces, Indian states, and the countries of Bangladesh and Vietnam.
- Looking at the *number of poor people* rather than average *national* poverty levels, we find that the number of people who live in poverty (defined as those who live on less than \$1 per day in terms of 1985 PPP) decreased significantly over the past two decades, **but most of this decrease occurred in China**

Most important barriers to globalization

- “institutional and jurisdictional discontinuities” and the diversity of national institutional arrangements
and not
- traditional border-type measures such as import tariffs, quantitative restrictions, and restrictions on the flow of foreign capital

Elimination of these
discontinuities, especially those
in the area of **labor mobility** can
provide large benefits

Globalization creates pressures to increase public spending to:

- upgrade the countries' infrastructures
- improve institutions
- finance eventual costs of corrections in policies
- compensate some of those most affected by rapid globalization and retrain some of them
- replace the traditional primitive and inefficient system of social protection with a minimum, modern safety net

Increased efficiency of resource use and reform of the tax systems to increase revenues to finance this increased public spending are important preconditions

Pakistan's Experience with Globalization

- Pakistan liberalized its economy as part of the structural adjustment conditionalities of the IMF program and World Bank lending.
- Pakistan's expansion in trade has not been as spectacular as that of some of the fast globalizers.
- Pakistan's exports merchandize exports have not kept pace with that of the rest of the world.

Pakistan's Experience with Globalization

Between 1990 and 2002.

- Pakistan's share in the world merchandise exports **has fallen** from 0.16 to 0.15
China's share in world merchandise exports **went up** from 1.80 to 5.04
- Malaysia's share in world merchandise exports **has increased** from 0.85 to 1.44

Is there a Relationship between Globalization and Poverty Reduction in Pakistan?

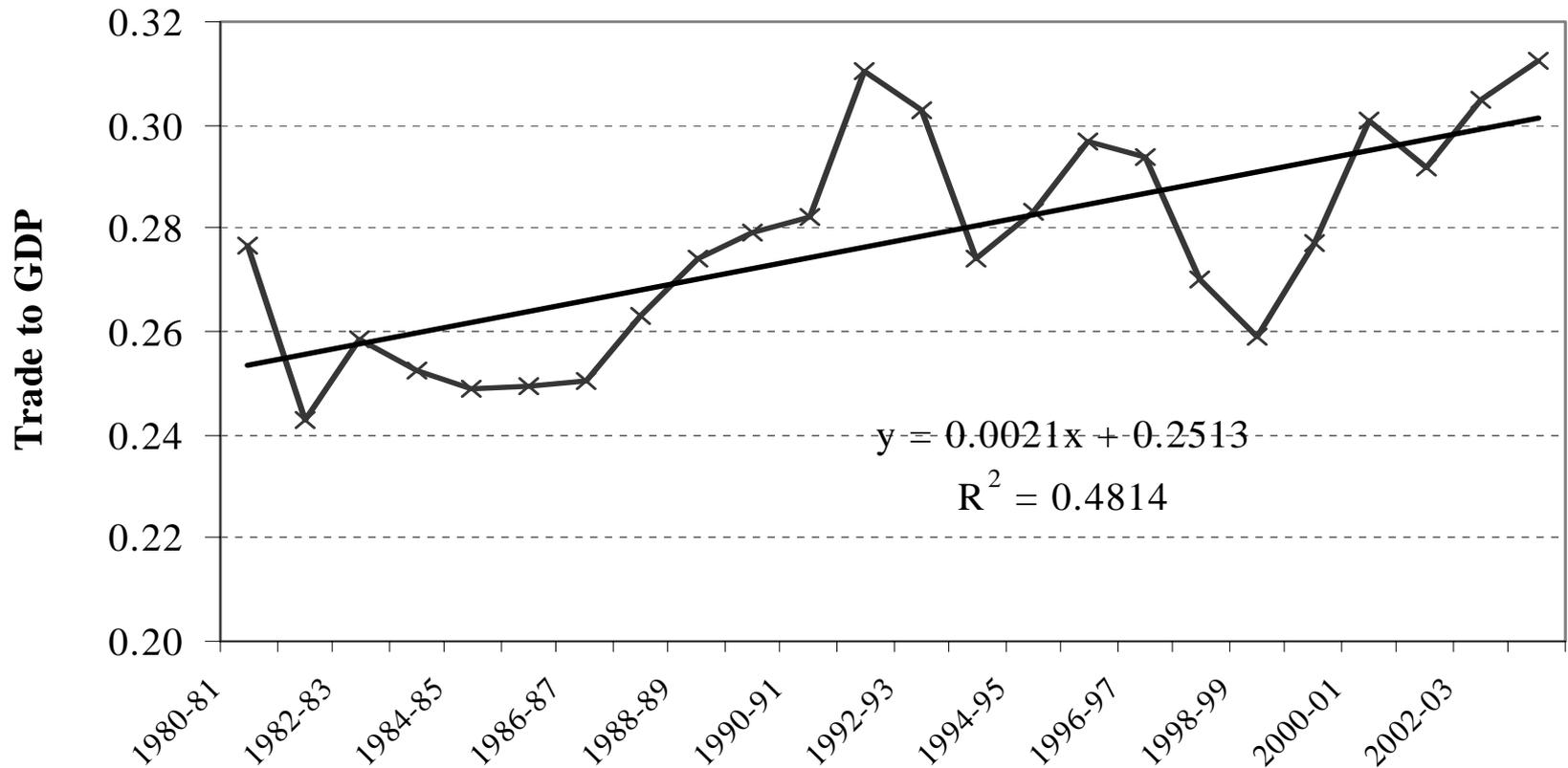
- Very little rigorous empirical analysis is available
- Studies include Kemal and Siddiqui (2003), Anwar (2001), Kemal and Hyder (1997), Orden et al (2005)

Studies confirm that globalization has not yet led to significantly increased growth and/or poverty reduction in Pakistan.

Pakistan's Trade Sector

- While the size of the trade sector relative to GDP has grown from about 28 percent in 1980 to about 31 percent in 2003 it has been subject to large year to year variations

The Degree of Openness of the Economy 1980 to 2003



Pakistan's Experience

- The trade sector has on an average grown only slightly faster than the growth of the economy.
- The overall growth of the economy and the social sector development indicators, particularly for the decade of 1990s, **do not show any significant gains** from the liberalization process.
- Poverty which was declining till the early 1990s started to increase thereafter till the end of the decade.
- The increase in the openness of the economy did not translate significantly into any enhancement of growth and subsequent decline in poverty

Why did Pakistan's trade sector not grow significantly during the 1990s despite the liberalization?

- narrow range of export markets and export products;
- modest short-term demand responsiveness for major Pakistan export categories;
- small foreign direct investment in tradable sectors;
- anti-export bias in the trade policies of Pakistan;
- inadequate infrastructure in certain potential growth sectors;
- absence of trade risk mitigation structure to support the entry of new exporters and
- inadequate development of non-traditional markets

As the Commerce Minister stated in this years Trade Policy Speech the inability to develop an “export culture” characterizes a major impediment – development of the right market oriented attitudes is required

Things are looking up!

Exports have picked up in the last few years

Grew by 54.4 percent at a compound rate of 11.6 percent.

Exports in 2004-05 were recorded at \$14.1 billion and

Projected to grow to \$17.0 billion in 2005-06

Gender perspective - important that trade policies, programs and mechanisms.....

- promote sustainable human development
- enhance social policies that protect the most vulnerable sectors
- promote economic and social advancement of women and men taking into consideration differences and special circumstances in countries' needs, activities and ability to compete
- recognize and develop processes that seek to overcome the special constraints that women face in the economy and trade relations due to gender biases and gender inequalities.

Direct Poverty Reduction will come from Increased employment - The Labour Content of Pakistan's Trade

- Economic growth and poverty reduction are linked through employment and the real wage rates.
- A rising trend in wages is also likely to result in better income distribution.

The World Trade Organization has

- formalized the global trading system
- provided, in principle, a structured framework for ensuring a level playing
- And a mechanism for dispute resolution
- Several WTO agreements have a direct bearing on Pakistan poverty reduction effortssome examples are:

Rationalizing the Tariff Structure

- Some Progress has been made but the focus for trade liberalization during the next one to three years should be on reducing tariff dispersion, increasing transparency, making indirect taxes trade-neutral, and closing loopholes in exemptions

The Agreement on Agriculture provides significant opportunities for

Protecting Food and Livelihood Security and Rural Development Opportunities through the designation of Special Products and Special Safeguard Mechanisms

Why have we not been able to take advantage of Pakistan's Agricultural potential in Trade

- Inadequate Research
- Structural problems within Pakistan's agri-food economy;
- Barriers encountered in accessing export markets; and
- Competition from other countries' exporters.

Implications for Pakistan of Abolishing the Textile and Clothing Export

- *the overall short run impact of MFA abolition will be positive on the textiles sector and negative on clothing.*
- This will result from the improvements in efficiency of its resource allocation and in world market prices outweighing the loss of quota rents

Despite liberalization/WTO there are several challenges to increased market access:

- exceptionally high tariffs on the products of the export interests of the developing economies;
- tariff escalation impacting adversely the exports of value added products;
- subsidies on agriculture sector,
- indiscriminate use of anti-dumping and countervailing duties, etc.

The Biggest Constraint

- Significant absence of capacity to analyze the emerging issues in WTO agreements and the implications for Pakistan.
- The *general* knowledge of the Agreement and its provisions is high among officials, traders and non-governmental organizations.
- However, *detailed practical understanding* of the Agreements and the consequences, particularly for market access, is lacking.

Maximizing Gains from the WTO

- Very few institutions in Pakistan where different stakeholders can interact on the WTO issues
- Most of the positions taken on WTO issues in Pakistan lack an empirical research basis and are most often based on assumptions.
- A clear policy perspective emerging through consultations is necessary before the country commits itself to any position at the international level.

And before it does any of the above
Pakistan needs to improve its
competitiveness situation.....

Pakistan should:

- Set out a clear national competitiveness strategy
- Improve the general business climate
- Upgrade Pakistan's technological capacity
- Promote skills development
- Reduce anti-export bias

Thank you so much