

# Globalization and Pakistan's Economy

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## **Abstract:**

*The International Monetary Fund (IMF), World Bank (WB) and US Treasury view globalization of economies as a mathematical and scientific problem and not as a socio-cultural phenomenon. To these institutions it is monetarist economics that should govern economic globalization. This study analyzes Pakistan's economy in the context of globalization by using the yardsticks of trade in general and Foreign Direct Investment (FDI) in particular. The inferences drawn are further reinforced by looking at stock market, external debt and liabilities (EDL), poverty, unemployment, inflation etc. Globalization is leading to growth in China but for South Asia, South East Asia and for Africa, it is perpetuation of poverty, hunger, disease and inequality. Revision of Millennium Development Goals (MDG) is a clear indication of that. Apart from successes in some areas, globalization has failed to bring positive change in the lives of millions of Pakistanis living below poverty line. It has rather added to their insecurities and vulnerabilities.*

## **1. INTRODUCTION**

Globalization as a whole is the new center of gravity. It is an emerging consciousness. The discoveries in the field of quantum gravity as 21<sup>st</sup> century science unfolds will have great impact on the American led west and its worldview. Globalization has at last given it the possibility of finally shaking off the Ptolemaic inheritance and of moving decisively to a Copernican system of thought in which the perception of reality comes less from preconceived notions than from scientific observation [1].

The Ptolemaic inheritance of western civilization is rooted in Aristotelian cosmology and by extension in deductive method and process of reasoning. The problem was not with cosmology but with the method. Globalization is scientific and inductive process of reasoning. The governing principles of the economic globalization are, the apparently scientific, neutral mathematical codes of monetarist economics i.e., the idea that macro-economic problems such as inflation and indebtedness derive from excessive government spending driving up the quantity of money circulating in a society [2].

It is already there and permeating into epistemology where perception of reality is now linked with an answer that is not known. If 20<sup>th</sup> century science was "What Science" i.e. what is particle? The 21<sup>st</sup> century science is going to be "Why Science" i.e. why particle is like this? As complexity of the networking nation-states increases, the concept of sovereignty is also redefined. The death of the state has often been reported and globalization is the latest in a long line of assassins [3]. It is the birth of the

quasi-state which is autonomous but lacks economic sovereignty. Economic globalization is a transcendent force breaking down national boundaries, merging national economies into a single global whole, and rapidly eroding the authority and functions of national governments [4].

Globalization and Pakistan's economy are interconnected in more than one way. The term national economies is increasingly becoming irrelevant. The economic and financial control of the developing world's economies along with frequent references to infrastructure is the sign and indicator of the economic dominance of the west, led by America. The two great symbols of economic globalization i.e. foreign direct investment (FDI) and trade are the missing links of developing world economies, for investment and trade is a game that rich and developed play among themselves. The same is true for Pakistan. In the post 9/11 world, FDI and trade for Pakistan is becoming increasingly difficult for security reasons.

According to the Governor State Bank of Pakistan, there has been no new investment in Pakistan since last six years [5]. The booming Pakistan's stock market is referred to as nothing but a bubble [6]. Although the government is taking great pride in financial sector reforms yet whatever investment already existed is experiencing a general withdrawal. Moreover, Pakistan's economy continues to be plagued by unemployment and inflation despite a GDP growth rate of 5.3 percent [7]. The claims of economic takeoff are mere political statements. This study analyzes Pakistan's economy within the framework of globalization.

This study is :

- To elucidate upon the nature of globalization.
- To analyze whether globalization, in case of Pakistan, is leading towards economic development.
- To look into the future prospects of Pakistan's economy.

## **2. GLOBALIZATION: AN OVERVIEW**

Globalization is a multi-dimensional phenomenon. It is all encompassing. To perceive, consider different dimensions involved: epistemology, territorial remapping, academic disciplines, theories and political geography, geo-political world order, politics, migration and immigration, multiplicity of states, the issue of sovereignty, nuclear issue, telecommunications and its regulation, intellectual property rights, gender, feminism and women's rights, north-south relations, governance, culture and economic development.

Globalization in essence is American *gestalt* thinking. It is an expression of American global power. At the start of the new millennium conservatives accepted and endorsed the idea of an American empire [8]. America becomes the world [9]. The world becomes America [9]. America remains America [9].

The economic aspect of globalization is the advanced stage of American capitalism reflected in the global institutional arrangements. The control of high and low politics by these institutions is an expression of the security, political, cultural, normative and economic aspects of globalization. Crucially, the conceptualization of globalization refers to the reordering of time and space [10]. In short, globalization is the compression of the world and the intensification of consciousness of the world as a whole [11].

Economic dimension of globalization involves the international financial institutions i.e. the IMF & WB. *Stabilization* and *adjustment* are sponsored by the two respectively and are rooted in the ideology of free market. At the other end of the spectrum, protesters see globalization in a very different light than the treasury secretary of the United States, or the finance or trade ministers of most of the advanced industrial countries [12]. The difference in views is so great that one wonders, are the protestors and the policy makers talking about the same phenomenon? [12]. Are they looking at the same data? [12]. Are the visions of those in power are so clouded by special and particular interests? [12]. Many of the people protesting in the streets against globalization are protesting against capitalism, which they accuse of oppressing workers, exploiting the poor and making only the rich richer [13].

Stabilization and adjustment were initiated by the IMF and WB to tackle the debt problem of the developing world in early 1980s. The problem has worsened instead of getting resolved. The total external debt of the developing countries rose from less than \$ 100 billion in 1970 to \$ 561.7 billion in 1980 and continued to rise even after the onset of the debt crisis, reaching \$ 1,220.9 billion in 1990 [14]. In 1997, the total debt of developing world reached \$ 2.2 trillion [15]. The recent newspaper reports suggest that the debt of the developing world as a whole has crossed \$ 2.5 trillion.

To a military strategist, economic globalization is a two pronged pincer movement in which one flank is overturned by capital exit; the other by rising debt as contesting the relevance of the nation state does frontal fixation, the only mobile force being capital [16]. The capitalist world economy is a system socially structured by an integrated axial division of labor, whose guiding principle is the ceaseless accumulation of capital and profit as a consequence of higher degree of monopolization [17].

Every single month, from the outset of the debt crisis in 1982, debtor countries in the South remitted to their

creditors in the North on average \$ 6.5 billion in interest payments alone and if payments of the principle are included, then debtor countries have paid creditors at a rate of almost \$ 12.5 billion per month as much as the entire Third World spends each month on health and education [18].

Collectively, the Cancun collapse was the first major consequential North – South fissure for GATT/WTO system [19]. Opposition to globalization in many parts of the world is not to globalization—to the new sources of funds for growth or to the new export markets—but to the particular set of doctrines, the Washington consensus policies that the international financial institutions have imposed [20]. And it is not just opposition to the policies themselves, but to the notion that there is a single set of policies that is right [20].

Globalization is rooted in neo-classical school. The neo-classical school promotes human rights, property rights and particularly intellectual property rights are its central core. It relies on markets and technology to increase economic productivity. It is an outward looking strategy to promote economic development. This implies export oriented industrialization (EOI) as opposed to import substitute industrialization (ISI) which was the main economic paradigm till early 1970s. The EOI strategy is competitive. It is capital accumulation and efficiency in the greater context of the market. Rationality of the market, investment and market determined prices are its governing principles. Neo-classical strategy is a response as well as prescription to the debt crisis of the developing world. To tackle the debt problem of the developing world the agreed upon policy between the IMF, WB and US Treasury was “Washington consensus”. Pakistan being a part of the developing world and its debt problem is no exception.

### 3. GLOBALIZATION & PAKISTAN'S ECONOMY

Pakistan's exposure to globalization is manifold. It is visible through media, information technology, trade, finance, politics and geo-politics, culture, international security regimes and of course global capitalist system as a whole. There are two views about globalization in the framework of Pakistan's political economy. Some believe that globalization will bring modernization and openness to the economy. Others are of the view that globalization is to the advantage of industrialized world and developing world is suffering economically as well as environmentally. The later view appears to be more close to Pakistan's economic reality. Indeed, economic development is an uphill task for Pakistan. The demands of the post 9/11 world make it even more difficult. Economic mistakes, corruption and geo-political aspirations further aggravate the case of Pakistan's economy. Economic development in Pakistan is under pressure both internally and externally.

The external demands wither social cohesion and dismantle state led economic structures. The rise in

poverty and unemployment are the direct consequences. Before 9/11 Pakistan went through different sanctions and was almost bursting at its seams. In the post 9/11 world, Pakistan has developed new and serious stresses. However, present government's claims of macro-economic stability and economic take off would be exposed to its falsification in the days to come.

The military takeover in October 1999 did not change much and the economic situation inherited was precarious. Never before in Pakistan has there been such a deep and protracted economic recession, such a sharp increase in poverty and such a critical debt servicing burden, for example: (a) GDP growth declined from 6.1 percent during the 1980s to 4.2 percent during the 1990s; (b) growth of the large scale manufacturing sector declined from 8.2 percent during the 1980s to 4.4 percent during the 1990s; (c) the percentage of population below the poverty line increased from 18 percent in 1987 to 34 percent today; (d) debt servicing as a percentage of foreign exchange earnings increased from 18 percent in 1980 to about 40 percent in the year 2000 [21]. Successive governments being unable to reduce their unproductive expenditure chose instead to reduce development expenditure which fell from an average of 7.4 percent of GDP during the period 1973-1977 to only 3.5 percent of GDP in the period 1997-98 to 1999-2000 [22].

Then 9/11 happened. Pakistan took a U-turn on Taliban and joined the war on terror. The external environment for Pakistan's economy has changed but Foreign Direct Investment (FDI) continues to be the missing link of Pakistan's economy. Foreign

Direct Investment (FDI) fell by 43 percent in the first seven months of this financial year (2003-2004) ending January; investment by the US in the seven month period declined by \$ 140.8 million, by the United Kingdom \$ 58.3 million and by United Arab Republic \$ 107.2 million [23]. The average FDI inflows into Pakistan during last ten years are \$ 548 million a year, which of course is far below the desired level [24]. Table 1 shows data on FDI from 1992-93 to 2002-2003.

Table 1: data on FDI from 1992-93 to 2002-2003

Year	FDI (value in million US dollars)
1992—93	306.4
1993—94	354.1
1994—95	442.4
1995—96	1107.7
1996—97	682.2
1997—98	601.3
1998—99	472.3
1999—2000	469.9
2000—2001	322.40
2001—2002	485
2002—2003	798

Source: The News, Business & Finance Review April 12, 2004. p.20

Globally, FDI fell by 21 per cent during 2002, reaching the lowest level for the last five years and the reasons are: (i) relatively poor economic performance in major economies, (ii) non- satisfactory performance of stock

markets, and (iii) drastic political changes in the world [25]. In absolute terms, Pakistan's 2002 FDI stands at a mere 0.72 per cent of the total FDI to Asia – Pacific region during the period [26]. The FDI to the tune of \$ 306.3 million withdrawn by USA, UK and UAE in the first seven months of the current financial year speaks for itself. The US government has refused to stop issuing negative travel advisories for its citizens unless Pakistan improves the law and order situation and removes political instability in the country [27]. US government also asked Pakistan to effectively enforce the intellectual property rights before expecting a sizable American investment in Pakistan [27]. That means unless the privatization of some major enterprises take place with the strategic partners coming from outside instead of their shares being sold to the Pakistani public, the \$ 1.4 billion target or over a billion dollars more than invested so far may not be realized [28].

As a result the last four years of economic performance has not been able to make a dent in poverty and unemployment. According to World Development Report (WDR) Pakistan's exports touched \$ 10,206 billion [29]. Yet, the imposition of 13.1 percent anti-dumping duty by European Union (EU) is a setback for growth, economy and textile industry which had already been feeling the effects of a 25 to 30 percent increase in raw cotton and yarn prices [30]. The European parliament's vote in favor of new trade and cooperation agreement with Pakistan will not result in any additional aid or trade benefits [31]. Almost two-third of Pakistan's export cargo worth about \$ 7.50 to \$ 8 billion will come under a close scrutiny of an international tight security code from July next [32]. Pakistan's compliance with this security code apparently looks a remote possibility [32].

Problems for the sitting government and Pakistan's political economy in the context of nuclear issue would multiply. In a global political economy, geo-political issues are as important as GNP, GDP or growth rate. Therefore, the nuclear issue and its resolution to the satisfaction of American led West are central to Pakistan's future economic prospects, prosperity and security. In the post 9/11 world, Pakistani perception was that it will be able to pull along with what was going on in the Indian occupied Kashmir. But then global, regional and economic factors forced it into ceasefire across the line of control (LoC) prior to SAARC summit. In the same way the nuclear issue will not go away. The observation is that not only Pakistan but the Indian and Israeli nuclear program also will have to absorb massive restraints. The hypothesis is that possession would be allowed, use would not be sovereign.

In Pakistan's stock market, from amongst its 699 listed companies, only 15-20 companies account for 90 percent of the total trade volume, indicating that the vast majority of the market is, in fact, dormant [33]. The claims of stock market success are wonderfully fictitious and increasing liberalization has removed almost all barriers to foreign

investors with little loyalty to the locals who may soon find the egg on their face [33]. The present government is taking great pride in completing financial sector reforms without realizing that on the very basis of these reforms, a fax would be sufficient to pull back assets from the Pakistani stock market.

There were three main motivations behind Pakistan's decision to approach the IMF in 2000 (i) as the country was on the brink of a default on external payments, it needed quick infusion of funds to sustain and support balance of payments situation, (ii) to find a permanent and durable solution to external debt problem and (iii) to restore the lost credibility of Pakistan in the international financial community [34]. Pakistan gained on all three fronts of the economy but it was a decision Pakistan had to make in the war on terrorism, and the macro-economic stability came with it and was not a planned achievement.

One indicator of these gains is that, four years ago debt servicing claimed 66 percent of government revenues, today in 2004 this ratio has significantly declined to 31 percent and the future projections show it will attain 25 percent [34]; still a very high percentage. But the interesting development is Pakistan's initial refusal to accept a demand of the WB to introduce new taxes and substantially increase development expenditure in the next Budget [35]. However, Pakistan has agreed to these demands and it has already raised its debt to \$ 36.2 billion from \$ 35 billion, since immediate substantial increase in development spending will have to be through international borrowing. The official perception is that, it is a conspiracy to ask Pakistan to go back to the regime of unsustainable debt [35]. Although Pakistan formally conveyed its decision to the IMF that it does not wish to enter into a successor agreement with the fund on the completion of the current Poverty Reduction Growth Facility (PRGF) yet it subsequently agreed to accept WB loan for Pakistan Poverty Alleviation Fund (PPAF II).

The whole thing is very tricky and is turning out to be a game of nuances. And in this the central issue is Pakistan's nuclear program. The breathing space available to Pakistan and its economy is because of war on terror. The lost sense of protest of the masses is another reason for this breathing space. However, the second phase of Pakistan poverty alleviation fund (PPAF) was launched by finance minister with a credit of \$ 238 million announced recently by the WB [36]. The intriguing part, however, is the justification for causing the country to incur a further debt burden of WB for phase II when it is claimed that the net worth of PPAF had grown substantially in the first phase: from Rs. 559 million in June 2001 to Rs. 710 million in June 2003 [36].

Every country has aspirations and objectives. In case of Pakistan its aspirations and objectives always exceed its resources. Both aspirations and objectives have to be reformed or resources have to be increased. Historically, Pakistan has used foreign policy as a tool to fill the gap

between its objectives and resources. This attitude has led Pakistan to an economic and social situation in which it finds itself in today. Pakistan's domestic political policy and its foreign policy outlook will, therefore, be feeding additionally and importantly to its state of economic and political development currently and in times to come [37]. With 34 per cent of the population living below poverty line and state stuck in the quagmire of global geo-politics, Pakistanis will have to decide as to what type of people, nation and state they want to be. The oligarchy needs to realize is that this time coefficient of the unknown is really great.

#### 4. CONCLUSION AND RECOMMENDATIONS

Globalization is an expression of scientific consciousness. Monological science variously including positivism, empiric analytic reason, dynamic process theory, systems theory, chaos theory, complexity theory, and technological modes of knowing would completely dominate serious discourse in the western world [38]. Seeing a thing in its totality is its basic assumption. This is true for the economic aspect of the setting as well. The disciplines and models offered are those of development studies and sustainable development. Critical, postmodern and feminist scholarship has been summoned to serve the new found causes. As always they are ready to oblige. The development economists have already floated their model of economic development. The data generated would serve the purpose but not the cause. It will go on until some other economic model comes up.

Capital exit in combination with debt makes the demands of economic development very difficult for the developing world in general and for Pakistan in particular to meet. Instead of equity, conservation and sustainable use, it is poverty, inflation and unemployment that are on the rise, the market has failed. The present generation of Pakistan is suffering in more than one way. Conserving something for the coming generations is a far off cry. The same is true for the rest of the developing world.

After one and a half decade of free market policies, Pakistan's performance indicators are: domestic debt Rs. 1699 billion, external debt \$ 36.2 billion, poverty 34 percent, unemployment 8 percent and rising and GDP growth rate 6.3 percent (post-budget). Initially the citizen was told that free market would do the trick. In the absence of FDI, the latest in the line of tricks is *new growth theory*. The new growth model is an add-on to the traditional neoclassical model Pakistan received from across the Atlantic whether it comes through international financial institutions or through those sponsored by them or through bilateral communication [39]. Academics at schools of development studies, for instance, often aspire to highly paid jobs in the United Nations or the WB and can be forgiven for not biting too hard a hand that may be about to feed them [40]. Pakistan is no exception. The only thing good that can be given to the citizen around the developing world in general and Pakistan in particular is

education. A good quality education is the best antibody against globalization.

Although the post 9/11 scenario has helped Pakistan's economy in a limited and superficial way, the major rescue is yet to take place. Evasions will not work. These never worked in the past. Reinforcing failures would be suicidal. No amount of economic or political reform will work in the absence of critical core that is political party. It is the arch of reform. No country in the world history has been able to do it without it, not even the dictators in Germany, Italy, China and the former USSR. The present day Pakistan needs charisma as well leadership.

The American led western perception is that; the second half of the last century seemed to have settled the debate over economic systems; capitalism is by far the best system for the production of wealth [41]. In trade, as in philosophy, the best should not be allowed to become the enemy of the good [42]. And the good of the citizen is economic development, through trade in general and FDI in particular in this age of globalization. A just global division of labor is required.

The multidimensional crisis of Pakistan involves state, society and economy. It needs reforms on a broad front. The recommendations include: improved public finances, institutional development, efficient management of public resources, strengthened governance, economic growth particularly in rural areas, improving human and material security, education, health, economic opportunity, exports, public – private partnership, political stability, equity and redistribution, investment, embracing new technologies, skill development, agricultural research, infrastructure, legal and institutional environment, building management capacity, cost effective services, tackling bad governance and corruption, better aid usage and reducing unsustainable debt.

Economy continues to be Pakistan's Achilles' heel. The burden of antecedents Pakistan carries now includes poverty and economy as well. Reforming Pakistan --- economically and politically --- is a near impossible task [43]. The disharmony of interest between the ruling oligarchy and masses makes it rather totally impossible. This is travail. The oligarchy needs to ask itself as to what is the myth it lives by.

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