

## Prospects of Globalization

Muhammad Mahmud<sup>1</sup> and Madeha Almas<sup>2</sup>

## ABSTRACT

Modern world has shrunk into a global village. The ever-expanding and multifarious links in communication, transportation, trade, services and myriad of other factors have rendered the world a single market. The trend has, no doubt benefited the people all around, but it entails the inevitable pros and cons as well. Globalization and one of its premium ingredients i.e. Free Trade has inter alia proved incremental in raising per capita income as per the predictions of the international trade theorists. Countries with open trade policies also have superior labour rights, and labour rights improve over time in countries that adopt open trade policies thereby signaling general raise in the purchasing power of the people. Pakistan's economy is still very primitive and is dependent on agriculture. The sector contributes 25% to GNP but employs nearly 50% of the labour force. Industry contributes approximately 18% to GNP and services about 50%, of which wholesale and retail trade account for 15%, and transport and communication for 10%. As a result of the importance of the agricultural sector, climatic conditions and water resources have a significant impact on the yearly economic performance. Over the period 2000 to 2003, GNP growth has increased from an average of 3% per annum to nearly 5% in fiscal year 2003. Pakistani economy has really to take off, and for that all the hurdles in the way of industrialization and investment are to be removed. Not only step are to be taken to make Pakistan more attractive destination to the foreign investors, but also providing the much needed subsidies and incentives to the local investors and the industrialists to enable them to survive and compete in the 'Brave New World'.

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## 1. INTRODUCTION

Globalization refers to the closer integration of countries and people around the world. It is the product of numerous factors, including reduced trade barriers, lower transportation and communication costs, and increased movements of capital, knowledge, technology, culture, and people across borders. Globalization is the reigning reality of the 21st century. The growing importance of economic ties, innovations in transportation and the revolution in communications have sped the global transmission of new technologies,

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<sup>1</sup>Dr. Muhammad Mahmud, Dean, Faculty of Management Sciences, KASB Institute of technology, Karachi

<sup>2</sup>Madeha Almas, Lecturer, Faculty of Management Sciences, KASB Institute of technology, Karachi

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new ideas, and new diseases. In the 1990s, globalization was often seen as predictable and largely benign. Prospects for a global nuclear war have receded, but traditional war is existing in current world, conformist arsenal are still destroying the man and his birthright at present in conventional war. European colonization is over, but a new and worse exploitation in the field of economic is raging, the powers to be using their financial strength as under umbrellas of the IMF and WTO. The economic war is neo-colonialism lynching the last blood drop of developing countries of Asia, Africa and South America by sucking hard currencies via technical assistance, service charges, mark-up on loans and imposing unilateral conditional ties of their preys with the help of financial agreements under the cloak Globalization using WTO as front faceless entity.

Globalization of economy has serious and often harmful effects on the peoples of the developing countries yet it is beyond control. The World Economic Forum (WEF) at Davos, Switzerland held in January 26-30 2011 is perhaps best known to the world at large simply as "Davos". The Annual Meeting provides a rethinking of our systems and exploration of strategies and solutions that have positive transformational implications. For more than four decades, the Annual Meeting has provided leaders from industry, government, academia, civil society and the media with an unrivalled platform to shape the global agenda and catalyze solutions at the start of each year. A big number of countries developed serious financial problems, which led to an increase in the income gap between developed and developing nations. The World leaders want more financial transactions cleared and settled so there is an electronic audit trail showing who is exposed when anything goes wrong, as it did with the crash of U.S. bank Lehman Brothers in 2008. The 41st World Economic Forum Annual Meeting closed on a note of hope, progress and optimism. On the final day of the meeting, the Co-Chairs of the World Economic Forum Annual Meeting 2011 expressed broad optimism that the global economy will grow, but not without some volatility. Paul Bulcke 2010, Chief Executive Officer, Nestlé, said, "We didn't fall off the cliff, and there is growth worldwide." Wei Jiafu 2010, Group President and Chief Executive Officer, China Ocean Shipping Group Co., People's Republic of China said "The economy is on a clear track of recovery."

Globalization has significantly boosted economic growth in East Asian economies such as Hong Kong (China), the Republic of Korea, and Singapore. But not all developing countries are equally engaged in globalization or in a position to benefit from it (Donato 2006). In fact, except for most countries in East Asia and some in Latin America, developing countries have been rather slow to integrate with the world economy. The share of Sub Saharan Africa in world trade has declined continuously since the late 1960s (Mostert 2003), and the share of major oil exporters fell sharply with the drop in oil prices in the early 1980s. Moreover, for countries that are actively engaged in globalization, the benefits come with new risks and challenges. The balance of globalization's costs and benefits for different groups of countries and the world economy is one of the hottest topics in development debates (World Bank 2004).

A review of the key economic indicators shows that Pakistan's economy has performed well after the introduction of trade reforms. Due to the exogenous shocks, the economic growth registered a downward trend in the late 1990s to 2002. From 2002-03 onwards GDP growth picked up significantly, and was on average 6.8% between 2002-03 to 2005-06, reaching a peak of 8.6% p.a. in 2004-05. Per capita income grew at an average rate of 4.8% per annum during the first six years of the nineties. From 1996-97 to 2001-02, per capita income fell by an average of 3.1% per annum. During the last three years the per capita income in dollar terms has registered a phenomenal average growth rate of 13.6% p.a. rising from \$582 in 2002-03 to \$669 in 2003-04 and further to \$742 in 2004-05. The per capita income for the year 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 is \$ 736, \$847, \$ 925 , \$1042, \$ 1046 and #1051 respectively (Economic Survey of Pakistan 1998 to 2010)

## 2. COST AND BENEFIT OF FREE TRADE GLOBALIZATION

The main benefits of unrestricted foreign trade stem from the increased access of their producers to larger, international markets, for a national economy that access means an opportunity to benefit from the international division of labor, on the one hand, and the need to face stronger competition in world markets, on the other (Weidenbaum 2011). Domestic producers produce more efficiently due to their international specialization and the pressure that comes from foreign competition, and consumers enjoy a wider variety of domestic and imported goods at lower prices.

In addition, an actively trading country benefits from the new technologies that “spill over” to it from its trading partners, such as through the knowledge embedded in imported production equipment. These technological spillovers are particularly important for developing countries because they give them a chance to catch up more quickly with the developed countries in terms of productivity (Economic Review 2000). Participation in international trade also entails risks, particularly those associated with the strong competition in international markets.

In addition, governments of developing countries often argue that recently established industries require temporary protection until they become more competitive and less vulnerable to foreign competition. Thus governments often prohibit or reduce selected imports by introducing quotas, or make imports more expensive and less competitive by imposing tariffs (Hameed 2009). Over the past 30 years exports have grown about twice as fast as GNP. In 1996 the ratio of world trade to world GDP (in purchasing power parity terms) had reached almost 30 percent—on average about 40 percent in developed countries and about 15 percent in developing countries. However the current purchasing power parity \$451.2 billion (EST 2010).

## 3. AGENDA FOR GLOBALIZATION

As a member of WTO, the most powerful trade body in the world, with some, 153 members has yet to make a strategy for combating the Globalization. Pakistan as developing country has to be vigilant on this front.

Pakistan along with other developing countries adopted liberalization of imports and reduction of tariff due to strong arm tactics of global giants and partly due to coercion by the IMF and World Bank under the umbrella conditional ties. Now Pakistan need to align with strong regional powers with common interests. North America has NAFTA to guard their interests, Europe has EU, ASEAN countries have AFTA; what does Pakistan have? An indolent and earthbound ECO! We need something stronger, vibrant, vigorous and better(Hussain 2001).

In the emerging new situation, it is absolutely vital for a developing country, Pakistan – in order to escape from turning into an “economic colony” – to harness all its resources and capabilities to become globally competitive (Saeed 2003). A task easier said than done. Pakistan, like developing countries which are afflicted with poor quality of governance, economic bankruptcy, and political instability, decay of almost all important state institutions, pervasive corruption, terrorism and countrywide breakdown of law has an uphill task to accomplish.

Pakistan can do well to follow in concert with other developing countries an agenda to combat the effect of Globalization advocated by WTO a faceless, undemocratic organization that put the interests of corporations above everything else. Such an agenda should keep the following aspects of economic and human development foremost:

- A) Democracy at every level of government from local to global with human rights for all people.
- B) Sustainable development throughout the world.
- C) Capital controls to safeguard the underdeveloped economies.
- D) Reforms in IMF and World Bank for their democratization.
- E) Reforms of international trade agreements.
- F) Accountability of transnational corporations.

#### **4. ENCOURAGING DEMOCRACY**

Multilevel global economy that strengthens their capacity to meet the economic needs of peoples requires a democratic government; giving due regard to Human Rights, including labour, social, environmental, economic, and cultural rights.

The following steps can prove effective in encouraging democracy:

- 1) Economic policy that supports democracy and human rights would encourage devolution of power. While humanitarian aid being available to all in need, financial support that encourage democratization and grass root participation can modernize the condition of oppressed.
- 2) Democratizing international institutions including the IMF and the World Bank, and international groups including G-20 can go a long way in breaking the international financial cartel.
- 3) Shift in economic policy making from G-20 to a renewed North/ South dialogue for articulating the demands of poor countries.
- 4) Make international financial institutions transparent and accountable. The IMF, the World Bank and the WTO need to be open to public scrutiny.
- 5) Participatory decision making .Instead of closed door negotiations with top government and corporate officials, decisions about international economic agreements and loans should require participation by Labour unions, environmental groups, women's organizations, development organizations , and other sectors of society in each affected country.
- 6) Ending "crony capitalism" by reducing the domination of political system and media and by increasing the domination of political system and media and by increasing the capacity of people to organize at the grass roots.

#### **5. SUSTAINABLE DEVELOPMENT**

Government can counter inequality, poverty, and destructive competition by:

- 1) Encouraging development that enhances the environment as a long term resources.
- 2) Encourage economic measures, globally and locally such as
  - (1) Ensures wages commensurate with respectable living standard;
  - (2) Make credit available for small and medium sized locally owned businesses and farms;
  - (3) Pursue progressive taxes that reduce the burden on the poor
  - (4) Promote long term investment rather than short- term investment that skims off speculative profits.
  - (5) Encourage spending on primary health care, basic education, and other social services that improve the lives of people;

(6) Empower people in local communities to use their resources to address their needs

C) Pressuring creditors to write off the debt of the poorest countries and to assist other debtor countries making sustainable development rather than debt repayment their first priority.

D) Pursing co-operation among rich and poor countries to reduce world poverty recognizing that the existing gap between the global rich and poor is unacceptable and it is unconscionable to act as if the existing gap can be a permanent features of the global economy (Mehmood & Farhanda, Hussain 2001).

E) Encourage people at the grass roots to organize themselves in strong and independent trade unions and other organizations to insure their participation in economic decisions and distribution of benefits.

## 6. CAPITAL CONTROLS

National controls on capital inflow and outflow to reduce the destabilizing impact of international financial speculation are a prerequisite for stable economy. The following measures can be effective for capital controls;

- 1) Levies on currency exchange transactions to discourage speculative transaction by international fund managers as they threatened Malaysia's financial stability.
- 2) Currency stabilization in developing countries without drastic devaluation and increase in exports.
- 3) Discourage high- risk speculation by eliminating international bailouts, which have insulated large banks and investors from the consequences of their actions. When assistance is provided for economies in trouble, the assistance should benefit the people, not the international investors who lured them in to trouble in the first place.

## 7. REFORMS OF THE IMF AND THE WORLD BANK

Reorienting programs by World Bank and IMF from the imposition of austerity and destructive forms of development to support for labor rights, environmental protection, rising living standards is the need of the hour. International loan policies that decrease the availability of credit for small and medium –sized locally owned businesses and farms result in decreased real per capita spending on the part of the borrower government on primary health care or business education.

IMF's efforts to amend its articles of agreement to give itself new powers regarding liberalization of the capital accounts need to be freed of.

### **Reform of International trade agreements**

All agreements regulating international trade, including the WTO, the NAFTA, and bilateral trade investment treaties, should be renegotiated to reorient trade and investment to be a means to just and sustainable development.

### **Accountability of transnational's**

The countries of the world should establish a binding code of conducts for Transnational corporations (corporations that acts in more than one country) requiring them to disclose toxic emissions, to disclose all their facilities , hazardous materials they import .These corporations must be required to disclose financial

information and report on their investment intentions, offer employees education and job training and provide social and environmental standards no less than required in their home country.

Government should not be subject to trade or other reprisals for efforts to enforce the code of conduct. Country laws should be amended so those firms are operating there can be held liable for harms caused abroad.

## **8. CONCLUSION**

International financial organizations and economic and financial hurdles are in the business of protecting the interest of those who make money available without regard to the interest of the third world countries or the people who sink further in to debt and starvation.

Pakistan has made excellent progress in liberalizing its trade and reducing poverty, there are still many challenges ahead. Some of the most important challenges are listed below:

Pakistan's trade deficit is now between \$9.423 billion. In addition, the Pakistani government had not managed the country's agricultural sector properly and has failed to invest in the power sector. For instance, the government maintains insufficient buffer stock and it has no fund to manage the import and export of agricultural commodities. The poor management of the agricultural sector is further compounded by the smuggling of wheat into Afghanistan. Additionally, the Pakistani government has not carried out a serious analysis of the impact of the country's economic growth on the increased demand for energy. Demand elasticity for power tends to be in the range 1.4 to 1.5. This means that there is a 1.4% increase in demand for electricity for every 1% increase in GDP growth. Since the government has not invested in improving power generation, parts of Pakistan experience up to 8 hours of load shedding.

During the last three years Pakistan has improved its export to GDP ratio, but to a modest extent when compared to imports to GDP ratio. There is a need to direct the Foreign Direct Investment towards export promotion.

A high rate of inflation, particularly inflation in food prices, is a constant danger to the wellbeing of the poor. There is no doubt that the present high rate of Inflation (14.0% in 2010-11), if not checked effectively, will undo most of the effects of the pro-poor policies of the last 4 years.

An adverse exogenous economic or political shock might weaken the resolve of the Government to continue with its trade reform and poverty reduction policies. A shift in the domestic balance of power could not only stop further liberalization but even reverse the progress already made. It is therefore important for a liberalizing government to estimate carefully the protectionist power of a coalition which comprises: a traditional bureaucracy reluctant to lose its power to intervene in economic activities as a result of deregulation and liberalization; the interests clustered round import-substitution industries (e.g. automobiles); and trade unions. Coalitions of this kind have sufficient power by themselves to block liberalization but, when combined with spurious economic nationalism, they can become a serious threat to the forces that seek greater integration with the world economy. Government must therefore be ready to exercise leadership, initiate educational and capacity-building programs, and where necessary, introduce adjustment assistance measures to reduce the pain of change.

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