

Opportunities and Challenges for Pakistan in an Era of Globalisation

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Abstract

The study analyses the degree of integration of Pakistan's economy in global trade and financial flows. Pakistan's integration into the global economy gained momentum in the late 1980s and early 1990s when it adopted more open and liberal policies as part of stabilisation and structural adjustment programmes negotiated with the IMF and World Bank. The paper presents an overview of Pakistan's economy in the before and after period, it will specifically examine the trade performance from the 1980s onwards to see the progress made towards the integration of the Pakistani economy into the world economy. It will look into the opportunities that Pakistan is likely to gain in a more globalised world, with special focus on the textile and clothing sector and the potential growth in this sector after the abolition of the Multi Fibre Arrangement (MFA) in 2005. New challenges that may emerge in a more open trading environment will also be discussed.

1. Introduction

Globalisation broadly defined as the free movement of goods, services, people and information across national boundaries has become a widely debated topic in recent years. Developing countries embrace Globalisation for a variety of reasons. Firstly, foreign investment provides more jobs, new production technologies, infrastructure improvements and a source of capital for local entrepreneurs. Domestic businesses gain access to both cheaper inputs and much larger markets for their products. The removal of trade barriers expands the range of choices available to consumers and places downward pressure on prices thereby raising the real

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value of workers' earnings. Globalisation and liberalisation present many new opportunities for developing countries such as Pakistan, viz. higher growth through export expansion and improvements in their balance of payments situation. A World Bank study (Dollar and Kraay 2001) shows that countries with higher integration in the world economy over the past two decades ending in the late 1990s achieved higher growth in incomes, longer life expectancy and better schooling.

Pakistan has traditionally pursued a mixed economy approach to development focusing on import substitution with a dominant role of the public sector. The 1960s saw a period of more open and liberal policies being followed where the private sector was encouraged to play a greater role. However, this trend was reversed in the seventies which was characterised by an increasing domination of the public sector in the economic activities of the country. By the second half of the eighties, Pakistan was faced with high macro imbalances as a result of the growing inefficiency and losses in the public sector. It was against this backdrop that the government was forced to enter into stabilisation and structural adjustment programmes with the International Monetary Fund (IMF) and the World Bank in 1988. These reforms encompassed a wide range of measures comprising stabilisation, structural adjustments and institutional reforms aimed at reducing the fiscal and balance of payments deficits. The stabilisation measures recommended included reduction of subsidies, upward adjustment of user charges, expenditure curtailment and tax reforms, sharp credit restraints and a reduction of the monetisation of the fiscal deficit. Structural adjustment worked towards removing the distortions present in the economy due to the excessive role of the public sector in economic activities through deregulation and opening up the economy to foreign investment.

The paper will present an overview of the level of integration of Pakistan's economy into the world economy and look into the opportunities and challenges that are faced by the country. Section 2 will present a brief overview of Pakistan's economy during the past two decades, i.e., the eighties and the nineties. It is widely accepted that Pakistan's integration into the global economy gained momentum in the late eighties and the early nineties so it will be instructive to have a look at the economic performance of the country before and after this phenomenon. The trade performance of the economy will also be reviewed with special reference to the textile and clothing sector to export growth. Different indicators like the trade to GDP ratio, tariff rates, etc will be used to analyse the current and past level of trade and financial integration of Pakistan in Section 3. Section 4 will look into the opportunities that will accrue to Pakistan in a

more open trading environment with a specific focus on opportunities likely to arise in the textile and clothing sector after the elimination of the Multi Fibre Arrangement (MFA) in 2005. New challenges that may emerge for Pakistan with reference to the textile and clothing sector will be examined in Section 5. Section 6 will end the paper with some concluding remarks.

2. Review of Pakistan's Economy (1980-2000)

Pakistan is part of the South Asian region, which was home to over 1.3 billion people in 2000 (UN 1999). South Asia is regarded as one of the most underdeveloped regions of the world, where the average per capita income was just \$ 440, slightly higher than the average for the low income countries at \$ 410 but even lower than the average for Sub Saharan African countries (World Bank 2002). The region's GDP represented just 1.9 per cent of the world GDP in 2000, whereas its share in world population was around 22.4 per cent.

Pakistan with a population of 138 million was the seventh most populous country of the world in 2000 (Table 1), its population representing around 11 per cent of South Asia's population. Pakistan's economy averaged a GDP growth rate of only 3.7 per cent during the 1990s, as compared to 6.3 per cent during the eighties. While the growth in the agricultural sector remained the same during the nineties, the period saw a substantial decline in the growth in other sectors, i.e., industry, manufacturing and services, contributing to the overall decline in the GDP growth for the 1990s. A structural transformation can be observed in Pakistan's economy over the past two decades with the contribution of the agricultural sector steadily declining and the value added by the services sector rising during this time period. Presently, the services sector is the largest contributor to GDP adding 51 per cent to the national income of the country (Table 2) and is the sector with the greatest potential for future growth. This is followed by the agriculture sector, which added 26 per cent of value to the GDP in 2000.

In 2000, Pakistan had a per capita GDP of around \$ 440 placing it in the low income category¹. The real GDP per capita in Pakistan grew at an average of only 1.2 per cent during the nineties, which was much less than the population growth rate during that decade. This brought an increase in the poverty levels prevalent in the country; in 1990-91, 21 per cent of the households were below the poverty line while by 1998-99 the poverty level had increased to 33 per cent (MHHDC 2001).

¹ According to the World Bank classification, countries having GNP per capita of less than \$ 755 are considered low income countries.

Table 1: Basic Economic Indicators of Pakistan

Population (millions)	
1990	106
2000	138
Population growth (%)	
1990-1995	2.7
1995-2000	2.6
GDP per capita (US \$)	
1980	300
1990	
2000	440
Real GDP growth (%)	
1980-1990	6.3
1990-2000	3.7
Real GDP per capita growth (%)	
1990-2000	1.2

Source: World Bank (2002), MHHDC (2001), UNDP (1993 & 2002).

Table 2: Structure of Production

Value Added to GDP by	1980	1990	2000	Average annual growth (%)	
				1980-1990	1990-2000
Agriculture	31	26	26	4.3	4.4
Industry	25	25	23	7.3	3.9
Manufacturing	16	17	15	7.1	3.5
Services	44	49	51	6.8	4.4

Source: World Bank (2002).

Trade Performance of Pakistan

It can be seen clearly from Table 3 that throughout the past two decades Pakistan's imports have exceeded its exports. Pakistan's exports stood at \$ 9.6 billion by the year 2000, while its imports stood at around \$ 11.8 billion, implying a trade deficit of \$ 2.2 billion. However, the trade deficit as percentage of the GDP has come down significantly from 12 per cent in 1980 to 3 per cent by 2000, as exports have increased while at the same time imports have declined. During the eighties, Pakistan's exports recorded a high growth of 11.1 per cent per annum, as a result of which exports had grown

from 12 per cent of the GDP in 1980 to 16 per cent of the GDP by 1990. The growth in exports fell to half that rate in the nineties, while imports grew by an annual average rate of just 0.7 per cent during this decade.

The share of merchandise exports in total exports has been steadily rising during the past two decades; merchandise exports accounted for about 96 per cent of total exports in 2000. A further breakdown of merchandise exports reveals that manufactures were 85 per cent of merchandise exports in 2000. In 1980, manufactures formed only 48 per cent of the merchandise exports, while 24 per cent were food exports and agricultural raw materials were 20 per cent. Thus, we can see a shift away from food and agricultural raw materials towards manufactures during the past two decades. Food and agricultural raw materials formed only 11 and 3 per cent respectively of merchandise exports. However, the bulk of the manufactured items still fall into the category of traditional labour intensive goods.

Table 3: Trade statistics for Pakistan

	1980	1990	2000	Average annual growth (%)	
				1980-1990	1990-2000
Total exports (\$ million)	2958	6217	9575	11.1	5.4
Total imports (\$ million)	5350	9351	11762	7.3	0.66
Imports as % of GDP	24	23	19	4.1	1.1
Exports as % of GDP	12	16	16	0.3	-0.9
Trade balance (% of GDP)	12	7	3	-	-

Source: World Bank (2002).

Table 4: Structure of Exports

	1980	1990	2000
Total exports (\$ million)	2958	6217	9575
Merchandise exports (\$ million)	2588	5589	9173
Merchandise exports as % of total exports	87.5	89.9	95.8
<i>% of Total Merchandise Exports</i>			
Food	24	9	11
Agricultural raw materials	20	10	3
Fuels	7	1	1
Manufactures	48	79	85

Source: World Bank (2002).

Increasing trade integration requires a well-diversified export base, both geographically and by product. Dependence on a few export products and markets increases the risks associated with market fluctuations. Pakistan's export base has however, not seen the level of export diversification that is typical of a globalised economy during the past ten years after it opened its economy with the introduction of liberalisation and trade reforms. It is still concentrated on a few low value added commodities, namely the textiles and clothing products. Here it can also be seen that the major part of Pakistan's textile exports is of cotton yarn while the leading exporters of textile and clothing have increased their share of value addition (Javed and Haseeb 2001). This lack of export diversification has resulted in rising concentration indices during the 1990s (Husain 2001).

Export diversification can also be seen in terms of the destination of exports. Here also it can be seen that the major share of Pakistan's textile exports goes to the United States, European Union, Canada and Japan. Exports to these economies are mostly in the form of quotas with the exception of Japan.

The Importance of Textile and Clothing Exports for Pakistan's Economy

Pakistan is heavily dependent on its textile sector for export earnings. As shown in Table 5, the share of textile and clothing sector in the exports of Pakistan has been steadily rising during the past two decades; it was 46 per cent of total merchandise exports in 1980-84 while by the next 5 years its share had risen to over 53 per cent. In the first half of the nineties, the share of the textile and clothing sector had reached around 70 per cent of Pakistan's total exports, while the second half of the nineties did not see a significant increase in the share of this sector in total exports. The abolition of the MFA is thus very important for the textile sector of Pakistan, as Pakistan will be in a position to increase its textile exports and consequently its export earnings in a quota free world after 2005.

Table 5: Shares of Textiles and Clothing in Total Exports of Pakistan

Year	Share in Total Exports		
	Textiles	Clothing	Textile and clothing
1980-84	39.824	6.32	46.144
1985-89	42.458	13.34	53.366
1990-94	49.212	19.886	69.098
1995-99	52.062	21.524	73.586

Source: Malik (2000).

The share of Pakistan's textile and clothing exports in the world total has been rising moderately. The textile exports during the eighties were around 2 per cent of the world's textile exports, which increased to over 2.9 per cent in the nineties (Table 6). The share of Pakistan's clothing exports on the other hand, have seen a higher increase in the past two decades. Between 1980-84 they accounted for just 0.4 per cent of the world's total exports of clothing, while by the first half of the nineties they had grown to around 1.1 per cent. However, in the later part of the nineties, clothing exports registered a slight decline.

Table 6: Performance of Textile and Clothing Exports of Pakistan Internationally

Years	Textile Exports % Share of Pakistan in World Total	Clothing Exports % Share of Pakistan in World Total
1980-84	2.03	0.41
1985-89	2.03	0.72
1990-94	2.92	1.08
1995-97	2.9	1.06

Source: Malik (2000).

The world trade in clothing has been governed by the Multi Fibre Arrangement since 1974 encompassing a range of quantitative restrictions and has fallen outside the purview of the General Agreement on Tariffs and Trade (GATT). The MFA has been used by the developed countries to restrict exports from selected developing countries including Pakistan but it does not restrict exports across the developed countries (Mahmood 1999). In order to protect their domestic textile and clothing industry from exports of developing countries, the developed countries followed restrictive trade policies in the form of high tariffs, tariff escalation and non-tariff barriers (Musleh-ud Din and Abbas 1999). One of the main obstacles in the growth of textile exports from the developing countries towards the developed countries has been an array of quantitative restrictions mainly in the form of a regime of quotas on exports and imports.

3. Level of Trade and Financial Integration of Pakistan between 1980-2000

Trade Integration

One of the main indicators used to measure the level of trade integration of a country into the world economy is the trade to GDP ratio, also known as the “openness ratio”. Countries that are highly integrated in the world economy tend to have a high trade to GDP ratio. However, bigger countries tend to have comparatively lower trade to GDP ratios than smaller countries because they have higher endowments of natural resources and greater opportunities for internal trade (World Bank 1997).

In Pakistan this ratio was 34.3 per cent during 1981-89 which increased to 38.7 per cent by 1990-98 (Table 7), signifying Pakistan’s higher level of trade integration during the nineties. It can also be observed that Pakistan’s openness ratios during both the nineties and the eighties were considerably higher than the South Asian average. Overall, as the figures show, South Asia was one of the least integrated regions in the world, its trade ratios even lower than those for the low income countries during both the eighties and the nineties. The East Asia and Pacific region had trade ratios in excess of 60 per cent during the nineties showing the higher level of trade integration of these countries.

Table 7: Trade to GDP Ratios of Pakistan

	1981-89	1991	1997	1990-98	Average Annual Change (%)	
					1981-89	1990-98
South Asia	19.4	-	-	26.3	0.1	3.6
India	14.5	13.94	27.08	21.9	1	4.7
Pakistan	34.3	34.96	39.95	38.7	-0.2	0.3
East Asia & Pacific	45.8	-	-	60.1	1	5
Low income	26.5	-	-	40.3	1.9	5.3

Source: MHHDC (2001), Kemal (2001)

Trade to GDP ratios measured in nominal terms, however, are highly sensitive to movements in real exchange rates. A depreciation in the real exchange rate of a country would increase its trade to GDP ratio as it would lead to higher prices of exports and imports relative to the GDP price

deflator and vice versa. Therefore, comparisons among countries using market exchange rates may be misleading as non-tradable goods tend to have lower relative prices in developing countries than in developed countries (World Bank 1997). The trade to GDP ratios can be re-estimated using purchasing power parity adjusted (PPP) GDP to overcome this problem. A moderate rise can be observed in the trade to GDP ratios adjusted for PPP for the South Asian countries as most of the region's currencies including the Pak Rupee have undergone depreciation during the nineties. In Pakistan's case, a very slight rise is observed in the trade ratio (Ibid).

Another indicator of the degree of trade integration is the import tariff rate, which serves as a proxy for the difference between domestic and international prices. The maximum tariff in Pakistan came down from 225 per cent in 1986-87 to 70 per cent in 1994-95, which was further reduced to 35 per cent by 1997-98 (Kemal 2001). The average tariff rate has come down to 11 per cent in 2000-01 from 51 per cent a decade earlier (Husain 2001).

Pakistan has also made progress in eliminating and reducing non-tariff barriers to trade. Import licenses have been abolished for all goods except those on the negative list² or restricted list³. The scope of lists specifying restricted/ prohibited imports has been sharply reduced. Presently, there are only 32 products on the negative list and import of 28 products is restricted because of health and safety reasons (Kemal 2001).

Financial Integration

The degree of Pakistan's integration into the global financial and capital markets can be measured in several ways. The most widely used indicator of financial integration is the ratio of Foreign Direct Investment (FDI) and portfolio flows to GDP.

Pakistan's efforts to integrate into the world economy have not only encompassed trade reforms but also the liberalisation of the financial sector. The opening up of the domestic financial markets is very important to attract increased levels of foreign capital to ease the balance of payments situation and provide increased capacity to import. Financial integration can boost growth by raising domestic investment, which can be financed by foreign savings. It can shift the investment mix towards projects with a

² The negative list allows free imports of capital goods and industrial raw materials.

³ Restricted list contains importable products by specified importers and industrial consumers only.

higher rate of return, through knowledge spillovers (especially from FDI). It stimulates financial sector deepening, competition and development. Financial sector integration allows individuals and firms to insure themselves against adverse developments in their home markets thereby smoothening temporary declines in income.

FDI flows to Pakistan have increased markedly during the 1990s. From an average of \$ 120 million in the 1980s, it reached an average of \$ 483 million during the 90s (Table 8), as a result of the liberalisation efforts and opening up of the economy during the early part of the nineties. Despite the higher flows of FDI during the nineties, the FDI to GDP ratio for Pakistan was considerably low in that time period although it had improved significantly from the ratio during the 80s. However, cross country comparisons reveal that in 1980 Pakistan received 34.1 per cent of the FDI flows to the South Asian region which had declined to only 13.7 per cent by 1999 (MHHDC 2001).

FDI flows to Pakistan have mostly gone to natural resource exploration mainly in the oil and energy sector. FDI flows to export oriented industries have been limited in the case of Pakistan, e.g., by the mid nineties less than \$ 100 million had been invested in the Karachi Export Processing Zone since it was set up in the early 1980s (Ibid).

Table 8: Foreign Direct Investment in Pakistan

	US \$ million		% of GDP		Average annual growth in value (%)	
	Average 1980-89	Average 1990-99	Average 1980-89	Average 1990-99	1980-89	1990-99
South Asia	256.2	2151.4 ^a	0.08	0.44 ^a	25	31.3 ^a
India	104.7	1424.3 ^a	0.04	0.37 ^a	85	57.1 ^a
Pakistan	107.9	500.7	0.33	0.88	27	13
East Asia & Pacific	3966.8	41326.5 ^a	0.67	2.67 ^a	26.9	26.2 ^a

a: 1990-98

Source: MHHDC (2001).

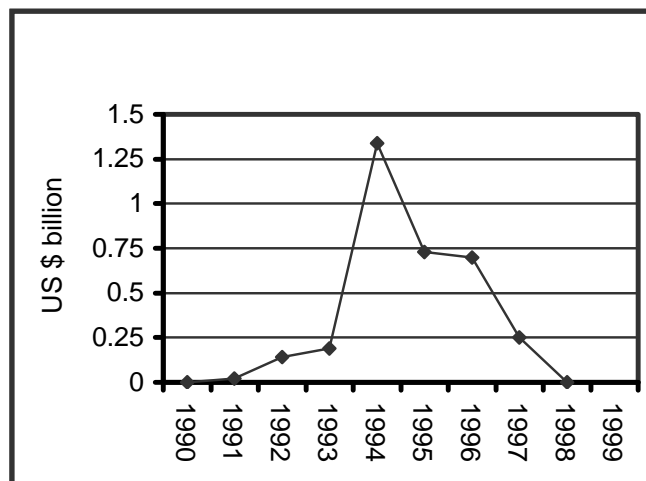
While the main source of capital flowing into the developing countries is Foreign Direct Investment (FDI), portfolio equity flows form another

component of private non-debt capital coming to such countries. While the benefits of FDI inflows to the economic growth of host countries is clearly acknowledged empirically (Blomstrom *et al.*1992), evidence on the role of portfolio flows is not so clear (Claessens *et al.* 1995). Portfolio investments are more volatile than FDI; they are mostly short-term assets that can be withdrawn quickly. Moreover, equity flows due to their volatility render countries more exposed to shocks and disturbances in international markets, such as changes in interest rates and exchange rates. The East Asian financial crisis of 1997 clearly illustrated that countries with high levels of portfolio investments are more vulnerable to quick outflows of capital.

In Pakistan, portfolio flows were negligible in the early part of the nineties, until 1993 (Figure 1). They reached a peak of \$ 1.35 billion in 1994 but have seen a declining trend since then due to the worsening macroeconomic situation and political instability prevalent in the country.

Portfolio flows coming to Pakistan formed only a negligible 0.01 per cent of GDP in the early part of the 1990s (Table 9), much below the average for developing countries. This ratio had improved to around 1 per cent of GDP by the nineties due to the greater inflows of portfolio investments coming into the country resulting from the liberalisation of the financial markets.

**Figure 1: Portfolio equity flows to Pakistan
(US \$ billion)**



Source: MMHDC (2001).

Table 9: Ratio of Portfolio Inflows to GDP

	1980-84 (%)	1990-94 (%)
South Asia	0.00	0.33
India	0.00	0.62
Pakistan	0.01	0.94
Developing countries	0.08	0.42

Source: World Bank (1997).

4. Opportunities for Pakistan

Globalisation offers many new opportunities for a country such as Pakistan. It would have greater opportunities to increase its growth through higher exports and inflows of investment, transfer of technology creating jobs for the people. The greatest gains for Pakistan will come from trade liberalisation in products, in which it enjoys a comparative advantage, namely, the textile and clothing sector. This sector is presently contributing more than 70 per cent to the export earnings of the country and providing employment to about 38 per cent of the industrial labour force (Javed and Haseeb 2001). The abolition of the Multi Fibre Arrangement in 2005 thus presents Pakistan with opportunities to expand its export base and diversify its export markets.

World trade in textiles and clothing has been governed by the Multi-Fibre Arrangement (MFA) for the past several decades. The MFA was a system of bilaterally negotiated agreements under a multi-lateral framework which was primarily meant to restrict textile and clothing exports from the developing countries to the developed countries. While tariff barriers were clearly a part of the MFA, quantitative restrictions in the form of a strict regime of export and import quotas on trade in textiles and clothing were the main instruments used by the developed countries to restrict exports from the developing countries. Another feature of the MFA was that the tariffs on textile and clothing products tended to increase with the stage of processing. For example the average tariff on fibers in industrial countries was about 1 per cent while that on clothing was often as high as 20 per cent. Such tariff escalation was intended to protect high value added industry in the developed countries (Musle ud Din and Abbas 1999).

The key element of the Uruguay Round Agreement on Textile and Clothing is the phased elimination of the MFA over a 10-year period proceeding in four phases. According to this formula, by 1 January 1995, 16 per cent of imports of textiles and clothing should be quota free. By 1 January 1998, another 17 per cent must be made quota free and by 1

January 2002, 18 per cent more fall outside the quota regime. The final 49 per cent will be integrated on 1 January 2005 (SCCI 2000). With the implementation of the World Trade Organization (WTO) Agreement, Pakistan's exports would receive significant tariff reductions from the developed countries (DCs) and less developed countries (LDCs). Tariffs on textile and clothing in LDCs will decline by 8.9 per cent, in agricultural products by 5.1 per cent, minerals and fuels by 13.3 per cent and miscellaneous manufactures by 7.5 per cent (Mahmood 1999). In the DCs tariffs on basic manufactures are expected to fall by 2.2 per cent, in agriculture by 3.6 per cent and in miscellaneous manufactures by 2.5 per cent. Thus the average post Uruguay Round tariffs for these products are likely to be 3.4 and 10.8 per cent respectively (Ibid).

Pakistani exports would, therefore, face a weighted average post Round tariff of 6.9 per cent in DCs' markets and 9.1 per cent in LDCs' markets. Pakistan's total merchandise exports to the DCs and LDCs would thus gain a weighted average tariff reduction of 2.4 per cent in agriculture and 6.9 per cent in miscellaneous manufactures (Mahmood 1999). Ingco and Winters (1995) estimate that the gains for Pakistan will be more than \$ 500 million with the removal of the MFA. Mahmood (1999) puts these gains at \$ 1-1.3 billion taking into account the tightness with which the MFA has bound Pakistan.

An important change expected from the ATC will be the reduction in non-tariff barriers. The dismantling of the MFA will do away with the quota system which presently hampers Pakistan's textile and clothing exports that are mainly directed towards quota countries and whose quota utilisation rates are very high (Mahmood 1999). The major share of Pakistan's textile exports goes to the United States, European Union, Canada and Japan. Exports to these economies are in the form of quotas with the exception of Japan. Pakistan will thus be in a more favourable position to increase its exports of textiles and clothing to these markets. Low and Yeats (1994) show that the proportion of Pakistan's exports to be affected by existing NTBs should fall from 60 per cent in 1992-93 to 8 per cent as a result of the implementation of the Agreement on Textile and Clothing (ATC).

Box 1: Agreement on Agriculture (1994)		
Proposals for Reduction in Support & Protection		
	Developed Countries	Developing Countries
Import Tariff:		
Average cut for all agricultural products	36 %	24 %
Minimum cut per product	15 %	10 %
Domestic Support		
Total cuts for the sector	20 %	13 %
Export Subsidies		
Cut on value of subsidies	36 %	24 %
Cut on subsidized quantities	21 %	14 %
Time allowed for implementation	1995-00	1995-04
	6 years	10 years

Source: *The Nation*, December 30, 2002

5. Challenges

The year 2005 will mark the end of the Multi Fibre Arrangement, which has restricted textile and clothing imports from the developing countries into the markets of developed countries. The system of quotas under which exports of textiles and clothing were subjected to quantitative restrictions will be abolished and will be replaced by a tariff based system. The developed countries will have to cut their import tariffs on agricultural imports by an average of 36 per cent, while the developing countries will have to cut their import tariffs by an average 24 per cent (Box 1). The domestic textile industry should be prepared for a more competitive environment after 2005, both in the local market as well as in international markets. The industry must strive to enhance competitiveness by promoting efficient utilisation of resources like raw materials and financial and human capital.

Pakistan is one of the leading producers of raw cotton providing it with a strong base for the growth of its textile and clothing. However, Pakistan has not been able to fully exploit its traditional edge (Musleh ud Din and Abbas 1999). The main emphasis in the textile industry of Pakistan has been on spinning activity. The major share of the yarn produced is exported to countries such as Japan, Hong Kong and South Korea. These countries having well developed textile industries convert this yarn into high value added products which fetch a high price on the international markets.

There is a need to diversify the export base away from the traditional cotton based products to synthetic fibers. To maximise gains from trade, Pakistan should focus on value addition rather than intermediate products.

The textile and clothing industry in Pakistan has mainly grown under an umbrella of high tariffs, subsidies, concessionary finances, subsidised cotton prices and other incentives which the government has been providing from time to time. However, despite enjoying this high level of protection, the industry has not been able to improve its efficiency and competitiveness. In order to be competitive at the international level the cost structure needs to be rationalised, productivity increased and the quality of the final product needs to be improved (Musleh ud Din and Abbas 1999). With the implementation of the Agreement on Agriculture, Pakistan will have to reduce such subsidies to the textile sector.

Under the Agreement on Agriculture there is also a minimum market access commitment that 3 per cent of consumption of agricultural products of developing countries must be importable without any quantitative restrictions. This percentage is supposed to rise to 5 per cent over six years beginning from 1 January 1995. However, Pakistan is so far exempted from this requirement as it has invoked Article XVIII B, under which a country having balance of payments problems is exempted from this prohibition.

Market access for the textile and clothing exports of the developing countries to the developed countries' markets can be restricted after the abolition of the MFA by the use of the safeguards agreement. Under this agreement temporary deviations from WTO disciplines are permitted during the period of transition if an import surge hurts or threatens to hurt domestic industry (SCCI 2000). Imports from developing countries can be prohibited if they are made using child labour. It is feared that developed countries will resort increasingly to these types of tactics to restrict imports from developing countries such as Pakistan in the post MFA period. The issue of child labour has been used to curtail the exports of stitched footballs from Pakistan, for instance.

Market access can also be denied to developing countries on the basis of non tariff barriers like Technical Barriers to Trade (TBT) which relates indirectly to environmental issues, for example, bans on use of azo dyes (Ibid). The Agreement on Sanitary and Phytosanitary (SPS) measures which encompasses a range of health standards applicable to agricultural commodities will pose problems for Pakistan. It will have to adjust to such standards in order to gain opportunities in the agricultural sector (Mahmood 1999).

To fulfil its commitments on Trade Related Intellectual Property Rights (TRIPS), Pakistan will have to modify its existing regime of intellectual property rights protection and establish an effective enforcement mechanism, which can prove to be quite challenging. Furthermore, with the implementation of TRIPS, it is feared that protected firms (mostly multinationals) working in the pharmaceutical sector will use their market power to raise prices and licensing fees. This will also reduce the access to technology for developing countries such as Pakistan, reducing its access to scientific and technological knowledge. Pakistan needs to promote indigenous technology by investing more in research and development.

There continues to be problems with the anti dumping agreement which may work against the interests of South Asian countries. For example, South Asian countries do not yet follow international accounting standards which are necessary to present defenses against anti-dumping investigations.

6. Conclusion

The level of Pakistan's trade and financial integration has increased during the nineties as it has opened up its economy and followed a more liberal trade regime. However, this level of integration is still far lower than that achieved by similar developing countries. It can also be observed that the performance of Pakistan's economy during the nineties (the period associated with greater integration into the global economy) has been lackluster as the economy was plagued with macro imbalances. In spite of this, exports have registered an increase while imports have declined during this period. A shift towards manufactured goods in the export basket can be observed but the export base continues to be concentrated in a few low value added items, namely textile and clothing products.

The greatest gains in globalisation for Pakistan will come from trade liberalisation in products, in which it enjoys a comparative advantage, namely, the textile and clothing sector. This sector is presently contributing more than 70 per cent to the export earnings of the country and provides employment to about 38 per cent of the industrial labour force. The MFA which has restricted exports of textiles and clothing from the developing countries such as Pakistan will come to an end in 2005, when the non tariff barriers like quotas will be replaced by tariffs. This will remove the quantitative restrictions on exports of these products currently in place and would thus afford greater opportunities for Pakistan to increase its exports to the developed countries. However, this sector will become highly competitive after 2005 and Pakistani textile products will face increasing competition from the products of countries such as Bangladesh, China and India.

In order to survive in this more competitive environment, Pakistan needs to restructure its textile industry on modern lines while emphasising the quality of finished goods. In this regard, the government should implement international quality standards like ISO 9000 and ISO 14000 in the production of textile products. Efforts should be made to diversify into high value added products such as garments/ apparels making use of the cotton yarn currently being exported and synthetic fibres which fetch higher prices in international markets.

Overall, the potential gains from globalisation are numerous for a country such as Pakistan. In order to capture these gains, the textile industry would have to improve its efficiency levels to produce at lower costs than it presently does, while on the other hand it must also be prepared to face competition in the domestic market in which it presently enjoys a monopoly.

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