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Impact of Globalization and Liberalization on Growth, Employment and Poverty

A Case Study of Pakistan

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Abstract

While globalization is viewed as a key to future economic development, it is also argued that it increases poverty, threatens employment and living standards of the poor. Like many other developing countries, Pakistan also attempted to integrate its economy in the global economy through liberalizing its investment and trade regime within the framework of the IMF and the World Bank. A review of literature indicates that although a number of cross-country studies have shown a positive association between trade openness and economic growth, the recent work suggests that openness has no robust link with long-term growth. Thus, positive effects of liberalization on growth remain controversial. Evidence shows that despite numerous highly attractive incentives offered to foreign investors, Pakistan's performance in attracting the foreign investment has been poor. Similarly, despite the intensive trade liberalization, the trade performance has been dismal. The stabilization initially achieved proved to be short-lived due to the slippages in reform process occurred in the form of spread of tax exemption and concession leading to implementation of further stabilization measures. The repeated attempts to stabilize the economy together with liberalization and persistent devaluation of domestic currency pushed the economy in a vicious circle. The lowering of tariff rates led to a considerable loss of revenue and resulted in stagnant tax GDP ratio, resulting in reduction in…/…

Keywords: globalization, liberalization, economic growth, employment, poverty, structural adjustment, Pakistan

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*State Bank of Pakistan, Karachi.

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development expenditure to reduce the budget deficit. The government sought to restrain aggregate demand not only by granting wage increases below the inflation rate but also by freezing employment in the public sector. These developments together with liberalization led to lower GDP growth, increased indebtedness, higher unemployment and thus higher poverty incidence during the period of liberalization. This adverse outcome is reflection of the fact that the country was asked by the IMF to cut its tariff rates swiftly before adopting to a new system of domestic taxation. The structural adjustment programmes designed by the IMF/World Bank take the poverty as a residual issue. Hence, earlier anti-poverty programmes in Pakistan reached a small fraction of the poor, partly because their total size was limited and partly because of poor targeting. Hostility of globalization process suggests a broader approach and allocation of more funds for poverty reduction. For future growth and poverty reduction strategies, the issue of achieving higher growth must be combined with overall pattern of social progress and distribution.

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1. Introduction

Globalization is driven by a push towards the liberalization of trade and investment regime. It is widely argued that a liberal trade regime is the best strategy for a small open economy since it takes international prices as given. An open trade regime increases welfare and income by allocating resources in production and consumption through reorienting resources to areas of comparative advantage. Empirical work has shown a positive and strong association between trade openness and economic growth over a long period of time. Sachs and Warner (1995) concluded that the open economies have grown about 2.5 percent faster than closed economies. The difference is even greater among developing countries. Realizing the benefits of openness, many developing countries have integrated their economies with the global economy, particularly through trade and financial flows since the early 1980s. These countries have not only liberalized their trade regime but also opened up their economies for foreign investment. By adopting the liberalization policies, these countries became attractive destinations for private capital flows. Private capital flows to developing countries increased to $212 billion in 1996. Several developing countries in East Asia and Latin America have benefited the most from the private capital flows and emerged as major participants in globalization.

While globalization is viewed as key for higher growth and poverty reduction, it is also argued that it reduces growth rate, increases poverty and threatens employment in developing countries. In this context, it would be interesting to examine how the globalization and liberalization process affects growth, employment and poverty in developing countries in general, and in Pakistan in particular. The objective of the paper is to examine the impact of globalization and liberalization on growth, employment and poverty in Pakistan. The organization of the paper is as follows: Section 2 discusses the structural adjustment and liberalization in Pakistan and the underlying trends in foreign investment and trade. Section 3 examines the transmission channels through which these policy measures affect the poor. Section 4 examines the impact of these reforms on economic growth and employment in Pakistan. Section 5 examines the impact of globalization on poverty in Pakistan. Finally, section 6 presents summary, conclusions and recommendations.

2. Structural adjustment and liberalization in Pakistan

Over a long period of time, the country has been living beyond its mean and resorted to borrowing from foreign and domestic sources to finance the budget deficit. As a result, the government expenditure grew faster than the revenue over time. The increasing internal and external imbalances caused an economic crisis in 1988 leading to implementation of a medium-term structural adjustment programme within the framework of IMF and the World Bank. Since then, the country has made its efforts to liberalize its trade and investment regimes along with the measures to stabilize the economy as part of the conditionalities imposed by the IMF and the World Bank in different structural adjustment programmes. These programmes were designed to remove structural rigidities and distortion in the incentive system in order to restore macroeconomic balances to sustainable levels. The main components of short-term stabilization measures were tight monetary and fiscal policies coupled with wage and employment restraint and exchange rate policies, while longer term liberalization measures were reduced tariff rates and removal of non-tariff barriers, removal of price controls and removal of exchange rate distortions through devaluation of domestic currency.

2.1 Investment liberalization

In the early 1990s, the government took a number of policy and regulatory measures to improve the business environment so as to attract foreign investment. These included:

a) removal of the requirement for government approval of foreign investment;

b) permission of foreign equity participation of up to 100 percent including purchase equity in existing industrial companies on repatriable basis;

c) permission to negotiate the terms and conditions of payment of royalty and technical fees suited to foreign investors for transferring technology;

d) liberalization of the foreign exchange regime;

e) permission of remittance of principal and dividends from foreign direct investment (FDI) and portfolio investment including an extensive set of fiscal incentives and allowances to foreign investors;

f) convertibility of Pakistan's rupee from July 1994;

g) liberalization of import policy; and

h) opening up of the agriculture, services/infrastructure and social sectors for foreign investment on repatriable basis in 1997.

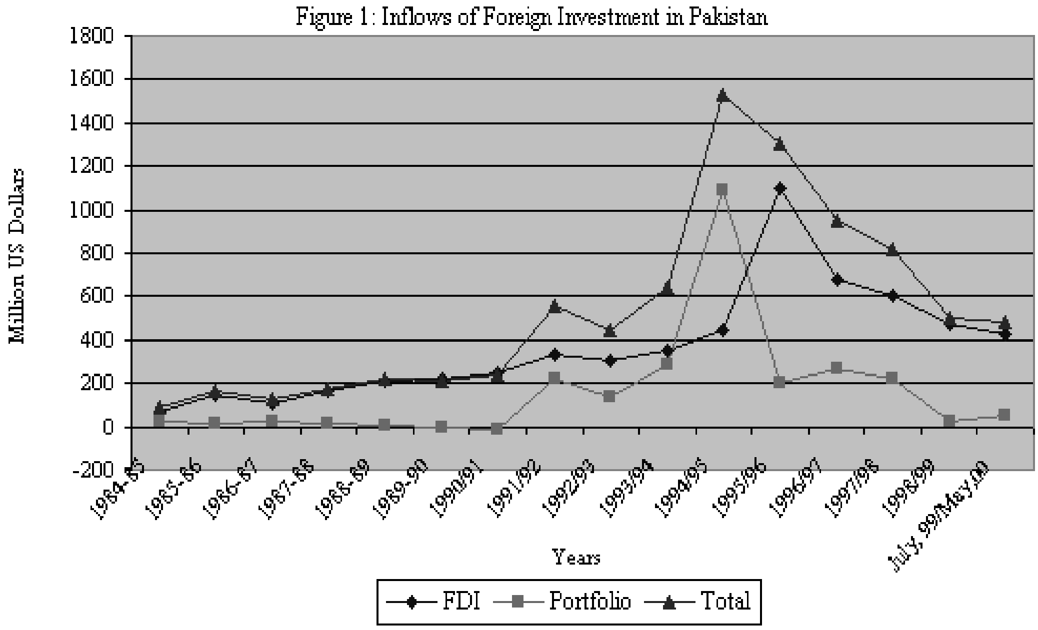
Table 1
Inflow of foreign investment in Pakistan

	(in million US$)			As Percent of Total		
Years	FDI	Portfolio	Total	FDI	Portfolio	Total
1984-5	70.3	23.4	93.7	75.0	25.0	100.0
1985-6	145.2	16.0	161.2	90.1	9.9	100.0
1986-7	108.0	21.0	129.0	83.7	16.3	100.0
1987-8	162.0	10.5	172.5	93.9	6.1	100.0
1988-9	210.2	7.2	217.4	96.7	3.3	100.0
1989-90	216.2	-4.7	211.5	102.2	-2.2	100.0
1990/1	246.0	-9.0	237.0	103.8	-3.8	100.0
1991/2	335.1	218.5	553.6	60.5	39.5	100.0
1992/3	306.4	136.8	443.2	69.1	30.9	100.0
1993/4	354.1	288.6	642.7	55.1	44.9	100.0
1994/5	442.4	1089.9	1532.3	28.9	71.1	100.0
1995/6	1101.7	205.2	1306.9	84.3	15.7	100.0
1996/7	682.1	267.4	949.5	71.8	28.2	100.0
1997/8	601.3	221.3	822.6	73.1	26.9	100.0
1998/9	472.3	27.3	499.6	94.5	5.5	100.0
July 1999/May 2000	423.7	54.6	478.3	88.6	11.4	100.0

Source: State Bank of Pakistan (1999).

However, despite numerous highly attractive incentives offered to foreign investors, Pakistan's performance in attracting the foreign investment has been poor during the last 15 years (Table 1 and Figure 1). Total foreign investment inflow increased merely to $1.3 billion in 1995-6, which was mainly due to the inflow of FDI in the private power project. However, the increase becomes insignificant when compared with the Southeast Asian countries (South Korea, Indonesia, Malaysia, Thailand and Philippines). The net private capital inflows to these countries were $106 billion in 1996 (Burki and Savitsky, 2000). The possible factors responsible for the poor outcome in Pakistan may be the lack of political stability, unsatisfactory law and order situation particularly in Karachi—the largest industrial and commercial centre—the slow bureaucratic process, inadequate infrastructure facilities, the macroeconomic imbalances and the slowing down of economic activity mainly due to the demand management policies pursued by the government as part of conditionalities of IMF/World Bank structural adjustment since 1988 together with inconsistent economic policies of successive governments.

Figure 1
Inflows of foreign investment in Pakistan



2.2 Trade liberalization

Along with the investment liberalization, Pakistan also endeavoured to liberalize its trade regime to integrate its market with the world economy in the late 1980s. Historically, the country followed an import substitution strategy, thereby creating a highly protected environment for industrialization since the 1950s. In the late 1980s, the government took a major shift in trade and industrial policy from the inward-looking import substitution to outward-looking export promotion trade liberalization in the late 1980s and implemented a number of reforms as part of IMF conditionalities (Government of Pakistan, various years between 1990-9). These included:

a) replacement of the non-tariff barriers on imports with tariffs;

b) reduction of maximum tariff rate (except automobiles) from 225 percent to 100 percent in 1990-1, to 70 percent in 1994-5, to 65 percent in 1995-6, to 45 percent in 1997-8, and finally to 35 percent in 1998-9;

c) all para-tariffs have been merged into the statutory tariff regime;

d) switching over from the managed floating exchange rate, operative since 1982, to a market-determined interbank floating rate.

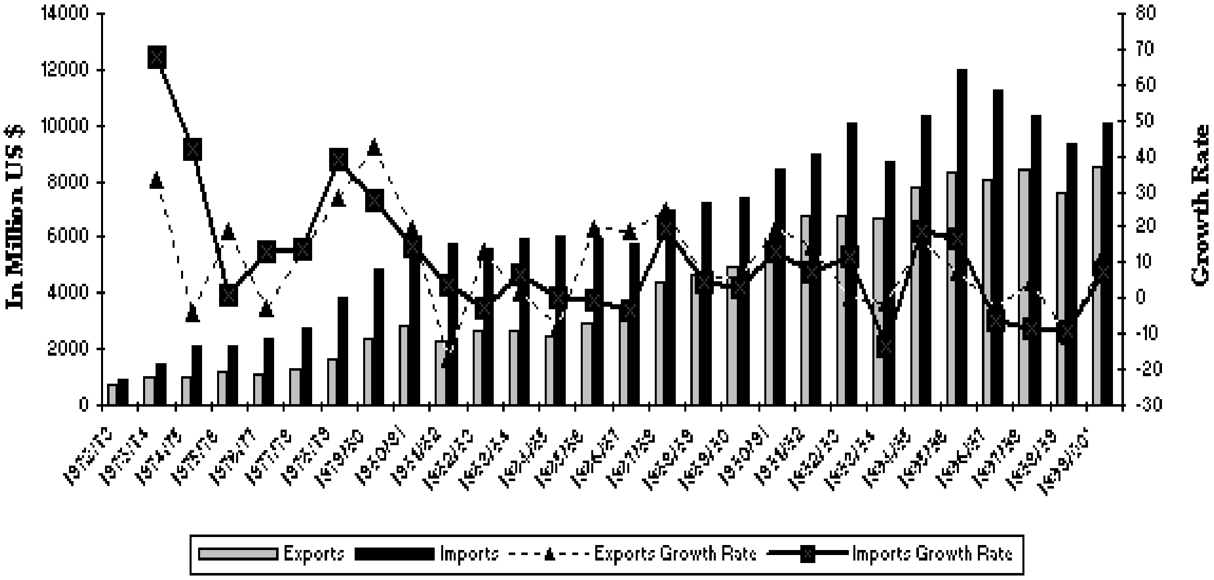
Table 2
Foreign trade statistics 1972-3 to 1999-2000

Years	Exports	Imports	Exchange Rate (% Change)	Exports	Imports	Overall Trade	Trade Deficit	Current Account Deficit	Exports	Imports
	(US $ in million)		Rs/US$	As percent of GDP					Growth Rate	
1972/3	766	891		8.2	9.6	17.8	1.3	1.1		
1973/4	1020	1493	15.4	11.4	16.6	28.0	5.3	5.4	33.2	67.6
1974/5	978	2114	-1.2	8.6	18.7	27.3	10.0	9.4	-4.1	41.6
1975/6	1162	2139	0.0	8.8	16.1	24.9	7.4	6.2	18.8	1.2
1976/7	1132	2418	0.1	7.4	15.9	23.3	8.4	5.9	-2.6	13.0
1977/8	1283	2751	0.0	7.1	15.3	22.4	8.2	2.7	13.3	13.8
1978/9	1644	3816	0.0	8.3	19.2	27.5	11.0	5.0	28.1	38.7
1979/0	2341	4857	0.0	9.9	20.5	30.4	10.6	3.7	42.4	27.3
1980/1	2799	5563	-0.1	10.3	20.4	30.7	10.1	2.8	19.6	14.5
1981/2	2319	5769	0.1	7.1	17.6	24.7	10.5	3.4	-17.1	3.7
1982/3	2627	5616	28.2	9.2	19.6	28.8	10.4	0.6	13.3	-2.7
1983/4	2669	5993	6.1	8.6	19.2	27.8	10.7	2.2	1.6	6.7
1984/5	2457	6009	12.4	7.9	19.3	27.2	11.4	4.1	-7.9	0.3
1985/6	2942	5984	6.5	9.2	18.8	28.0	9.5	2.4	19.7	-0.4
1986/7	3498	5792	6.4	10.5	17.4	27.9	6.9	1.0	18.9	-3.2
1987/8	4362	6919	2.4	11.4	18.0	29.4	6.7	3.1	24.7	19.5
1988/9	4634	7207	9.2	11.6	18.0	29.6	6.4	3.4	6.2	4.2
1989/90	4926	7411	11.6	12.3	18.6	30.9	6.2	3.4	6.3	2.8
1990/1	5902	8385	4.6	13.0	18.4	31.4	5.5	3.0	19.8	13.1
1991/2	6762	8998	10.8	13.9	18.5	32.4	4.6	1.9	14.6	7.3
1992/3	6785	10049	4.5	13.1	19.4	32.5	6.3	6.4	0.3	11.7
1993/4	6685	8685	16.2	12.8	16.7	29.5	3.8	3.2	-1.5	-13.6
1994/5	7759	10296	2.3	12.7	16.9	29.6	4.2	3.5	16.1	18.5
1995/6	8311	12015	8.8	13.0	18.8	31.8	5.8	6.8	7.1	16.7
1996/7	8096	11241	16.2	12.8	17.8	30.6	5.0	5.6	-2.6	-6.4
1997/8	8434	10301	10.8	13.3	16.3	29.6	2.9	2.7	4.2	-8.4
1998/9	7570	9344	16.1	12.5	15.5	28.0	2.9	2.6	-10.2	-9.3
1999/2000*	8488	10033	3.2	13.3	15.7	29.0	2.6	2.3	12.1	7.4
Decade's Average 1970s			1.8	9.0	17.8	26.8	8.9	5.1	18.6	27.2
Decade's Average 1980s			8.8	10.1	18.5	28.6	8.4	2.7	8.5	4.4
Decade's Average 1990s			9.9	13.0	17.3	30.3	4.2	3.9	4.5	2.7

Sources: State Bank of Pakistan, *Annual Report* (various years).

Note: *projected by SBP.

It is noteworthy that the tariffs in Pakistan are now well below the bound tariffs under WTO. The general level of binding in Schedule XV of WTO was between 20 percent to 50 percent (except in agriculture), while tariff rates in Pakistan presently range between 0-35 percent (except automobiles). This implies that the actual extent of trade liberalization in Pakistan was more than the WTO commitment (Ali, 2000). It is also noteworthy that despite substantial reduction in tariff rates, the degree of openness, in terms of trade as percent of GDP remained not only limited but also declined after the liberalization programme. The trade as percent of GDP was 32.5 percent in 1992-3, which went down to 28 percent in 1998-9 primarily because of reduced imports (Table 2). In contrast to this, the degree of openness in 1996 as percent of GDP was 38 percent in Bangladesh, 40 percent in China, 51 percent in Indonesia, 83 percent in Thailand and 183 percent in Malaysia (World Bank, 1999).



In addition to the substantial reduction in tariff rates and removal of non-tariff barriers, several episodes of devaluation were also announced to boost the exports. The average annual depreciation of the rupee against the US dollar was 9.9 percent per annum in the 1990s. However, despite the repeated devaluation and intensive trade reforms in the 1990s, the trade performance has been dismal. In contrast to the 1970s and 1980s when exports on average, grew by 18.6 percent and 8.5 percent per annum respectively, the growth in exports was only 4.5 percent per annum in the 1990s (See Table 2 and Figure 2).

However, liberalization policies combined with stabilization measures within the framework of IMF/World Bank have been turned out to be highly controversial not only in Pakistan but also in many developing countries. It has been widely criticized that these policies result in contraction of GDP and employment as well as declining living standards of the poor. The subsequent section makes an attempt to develop some transmission channels of the effects of these policies on poverty.

3. Effects of globalization on poverty

The globalization process entails first the integration of trade through removal of trade barriers. A second feature is the enormously increased mobility of capital through removal of barrier on investment. A third feature of globalization is the speed of technological change and diffusion of both as an outcome of the above two features. While the globalization process is viewed as a key to future economic development, it is also regarded as hostile believing that it increases poverty within and between countries, threatens employment and living standards of the poor. In this context, it would be interesting to examine how the globalization process affects the poor in developing countries.

Integration of international trade

It is generally emphasized that integration of trade through removal of trade barriers will benefit the poor, since labour is the primary asset of the poor, which is relatively abundant factor in most low income countries. This result is, however, derived from Stolper-Samuelson Theorem, which is not sufficient to answer questions of trade and poverty in the real world since it is built on restrictive assumptions[1] and once these assumptions are violated its definitiveness is eroded.

Increased capital mobility

Increased capital mobility through removal of barrier on investment will enhance employment opportunities for surplus labour in LDCs. The linkage of openness to growth through investment is strong in the case of FDI since it acts as a powerful force to competition and innovation encouraging domestic firms to reduce their cost. However, the success of investment and trade reforms depends upon forthcoming investment, which may not come in the presence of uncertainty to future policies. Liberalization policies consist of the following measures to make product and factor markets operate more freely by removing distortion in the economy.

3.1 Lower relative price distortions

- Reducing tariffs and removing non-tariff barriers will result in cheaper consumer goods. Thus, consumers will benefit from cheaper goods. However, non-poor consumers are likely to benefit more than the poor from import liberalization. By contrast urban-based and rural producers of importables are likely to be losers.

- Reduced tariffs and removal of non-tariff barriers is likely to result in reduced employment and output in protected industries and thus may affect the poor workers adversely in the short-run. It is generally held that these negative effects are mitigated in the medium-to-long-term when resources are reallocated for export promotion from the non-tradeable to the tradeable sector. However, adjustment costs may be high relative to the benefits of trade liberalization. Evidence shows that the cost of adjustment has been substantial in term of loss of output and employment because of high level of protection in most developing countries.[2]

- Trade protection usually introduces anti-agricultural bias, so removal of price controls on agriculture will raise the income of poor farmers in rural area. But higher food prices and removal of consumer subsidies may hurt rural landless (in the short-run) and urban poor consumers. In addition, poor farmers may not be able to take advantage of opportunities and protect themselves from the adverse effects of trade liberalization. For successful liberalization various other factors matter. For example, efficiency of distribution channels enabling the poor to receive the benefits of increased incentive, access to imported input and access to local input including credit to enable supply response. Since these factors do not exist in most developing countries, the poor farmers are not likely to get immediate benefits of trade liberalization. On the other hand, higher food prices and removal of subsidies hurt the poor farmer immediately.

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[1] For example, the functional distribution of income of households same as the personal distribution, labour is perfectly mobile across sectors and regions, goods are homogeneous across foreign and domestic suppliers and perfectly competitive goods and factor markets; see Winter (2000) and Mckay (2000). Also see sub-section on short-term adjustment in labour market in subsequent paragraphs for further discussion in this regard.

[2] See Matuz and Tarr (1999); and Harrison and Revenga (1998).

- Removal of exchange rate distortions through devaluation of domestic currency will improve producers' incentive for agricultural goods and thus benefit the rural poor. However, devaluation of domestic currency for restructuring relative prices and incentives has remained controversial. Devaluation also increases the price of imported inputs and thus costs of producing non-tradable goods. This pushes the prices of domestically consumed goods up and calls for another devaluation to improve the export competitiveness. Thus, each episode of devaluation is expected to ensue inflation and a vicious circle of devaluation and inflation will have adverse effects on the real incomes of the poorer segments of the population.

3.2 Changing public revenue and expenditure patterns

Liberalization may lead to a decline in public revenue, which in turn may require reduction in level of government expenditure limiting the government's ability to spend on the social sector or to redistribute to the poor. It is expected that trade liberalization will be revenue depleting and in the long-run, of course, it will be. Thus, possible alternative revenue sources through domestic tax reforms should be available to offset the revenue losses. Effects of globalization on poverty works through economic growth. To the extent that openness improves efficiency and leads to a higher growth, it is expected to increase real wages and thus reduce poverty.

3.3 From openness to economic growth

Links from liberalization to growth operate partly by enhancing technical progress, for example, by making new inputs or new technology or new management techniques available to local producers. A number of cross-country studies—e.g. Dollar (1992), Sach and Warner (1995) and Edward (1998)—have shown a positive association between trade openness and economic growth over a long period of time. Recently, however, these studies have been challenged by Rodrigues and Rodrik (1999), and Harrison and Hanson (1999), whose work suggests that many approaches to measuring openness are significantly flawed. The authors also show that even the popular measure of openness used by Sach and Warner (1995) has no robust link with long-term growth. Thus, positive effects of liberalization on growth still remain controversial.

3.4 From economic growth to poverty

Effects of globalization and liberalization work on poverty through higher economic growth, which is the key to poverty reduction. Unless growth seriously worsens income distribution, the number of poor will fall as average absolute income increase. Evidence shows that although growth is often associated with growing inequality (or economic decline with narrowing inequality), the effects on poverty tend to be dominated by the advantageous direct effects. For example, in the 1970s and 1980s growth reduced poverty in Pakistan, while it has also increased inequality. Thus, if the claim that openness enhances growth is true, it may also have beneficial effects on poverty through the route of growth alone. In a recent attempt, Dollar and Kraay (2000) relate mean income of the poor (bottom 20 percent) to the overall mean income plus some additional variables. The authors found that the income of the poor is proportional to overall mean income implying that the poor benefit as much as the non-poor from overall economic growth. However, the authors' results seems to be relevant by relative poverty (or inequality) criterion alone and do not provide any support for improving the welfare of the poor by absolute poverty criterion, which is considered to be more relevant to developing countries.

In fact, Dollar and Kraay (2000) derived the mean income of the poor using the poorest quintile as the share of income earned by the poorest quintile times GDP per capita income implying that they used two different sources of data—household surveys and aggregate data of GDP per capita (measured in PPP). It is may be pointed out that deriving the income of the poor in this way from income share of the poorest quintile will give the relative income of the poor—not the absolute one. It is noteworthy that the relative share of the poorest quintile may be improved as a result of general economic decline as observed in many developing countries including Pakistan in recent decades following the implementation of stabilization and adjustment programmes designed by the IMF/World Bank. But improvement in relative income or income share does not imply an improvement in welfare of the poor since absolute income or an absolute minimum matters for the poor. Since a large number of people in developing countries strive to live at the subsistence level of income, the concept of absolute poverty whereby poverty lines are drawn in absolute minimum term at subsistence level is more relevant for measuring the changes in the welfare of the low income household. Furthermore, private consumption per capita is a better indicator than the GDP per capita, if welfare of the population needs to be measured from aggregate data such as national accounts. In addition, use of a price deflator also plays an important role in measurement of welfare in real term. GDP per capita in real terms by Dollar and Kraay (2000) is implicitly derived using the GDP deflator, which is not considered to be a good price deflator when measuring the changes in income of the poor. A consumer price index or an index that reflect the consumption pattern of the poor should be used to deflate the nominal income to get the real income of the poor. It may be observed from the national account data of developing countries that increases in GDP deflator is usually lower than the price indices that reflect the consumption pattern of the poor implying that use of GDP deflator overstates the real changes in income or growth in GDP per capita. Thus, Dollar and Kraay results of one-to-one relation of poor income with mean income or other policy variables do not provide any support for improving the welfare of the poor in terms of absolute real income by absolute poverty (absolute minimum) criterion which is more relevant to developing countries.

3.5 Short-term adjustment in the labour market

Trade liberalization is generally held to have long-run benefits but the adjustment it requires in a country's output bundle could lead to higher poverty level particularly in the short-run. The most significant adjustment problem lies in the labour market.[3] If factor supplies are fixed and wages are flexible, then the Stolper-Samuelson Theorem predicts that an increase in the price of the good that is labour intensive in production will increase the real wage and decrease the real return to capital. Thus, it is generally assumed that free trade will lead towards higher wages for unskilled workers since developing countries are labour-abundant. But the theorem is not sufficient to answer the question of trade and poverty. Poverty will decline only if poor households depend largely on unskilled wage earners. In addition, within developing countries, it is not clear that least-skilled workers—the most likely to be poor—are the most intensively used factor in the production of tradable goods. On the other hand, if the labour market is inflexible, then adjustment cost will be significant in term of higher unemployment level. Individual living above the poverty line will generally have assets or access to credit, with which they can smooth consumption. While those near or below the poverty line have very few assets and so will be

[3] For a good discussion of labour market adjustment; see Winter (2000) and Mckay et al. (2000).

Table 3
Macroeconomic indicators,1970-1 to 1999-2000

	Annual Growth Rates							As Percent of GDP		In Percent
				Large Scale		Per Capita		Budget Deficit	Current Account Deficit	Unemployment Rate
Year	Real GDP	Agriculture	Manufacturing	Manufacturing	Services	Income	CPI Inflation			
1970/1	1.2	-3.1	6.4	6.2	4.9		5.7	-	6.7	1.7
1971/2	2.3	3.5	1.2	-0.5	5.1	-0.2	4.7	-	3.8	2.0
1972/3	6.8	1.7	8.7	9.2	5.2	3.0	9.7	3.6	1.1	1.9
1973/4	7.5	4.2	6.4	6.1	5.4	4.2	30.0	5.2	5.4	1.8
1974/5	3.9	-2.1	0.5	-1.6	5.7	0.9	26.7	9.3	9.4	1.7
1975/6	3.3	4.5	1.4	-0.6	5.7	1.4	11.7	9.5	6.2	2.2
1976/7	2.8	2.5	1.8	-0.2	3.2	1.0	9.2	8.5	5.9	2.6
1977/8	7.7	2.8	10.2	10.9	8.5	7.3	6.9	7.8	2.7	3.1
1978/9	5.5	3.1	8.0	7.9	5.8	2.9	11.2	8.8	5.0	3.6
1979/80	7.3	6.6	10.3	11.0	5.7	4.0	11.2	6.8	3.7	3.6
1980/1	6.4	3.7	10.6	11.5	6.6	2.2	13.9	6.0	2.8	3.7
1981/2	7.6	4.7	13.8	15.7	7.9	2.9	11.1	5.9	3.4	3.8
1982/3	6.8	4.4	7.0	6.6	9.2	6.2	4.7	7.7	0.6	3.9
1983/4	4.0	-4.8	7.9	7.7	7.6	1.1	7.3	7.7	2.2	3.9
1984/5	8.7	10.9	8.1	8.0	8.2	3.0	5.7	8.3	4.1	3.7
1985/6	6.4	6.0	7.6	7.3	5.8	2.5	4.4	8.7	2.4	3.6
1986/7	5.8	3.3	7.5	7.2	5.9	1.6	3.6	8.5	1.0	3.1
1987/8	6.4	2.7	10.0	10.6	6.8	1.6	6.3	9.4	3.1	3.1
1988/9	4.8	6.9	4.0	2.4	3.8	1.4	10.4	8.1	3.4	3.1
1989/90	4.6	3.0	5.7	4.7	4.5	1.6	6.0	7.3	3.4	3.1
1990/1	5.6	5.0	6.2	5.4	5.2	4.6	12.7	9.5	3.0	6.2

1991/2	7.7	9.5	8.1	7.9	6.8	4.1	10.6	8.4	1.9	5.9
1992/3	2.3	-5.3	5.4	4.1	4.6	-0.8	9.8	8.1	6.4	4.7
1993/4	4.5	5.2	5.5	4.3	4.2	0.9	11.3	6.0	3.2	4.8
1994/5	5.3	6.6	3.6	1.5	4.8	3.0	13.0	5.9	3.5	5.4
1995/6	6.8	11.7	4.8	3.1	5.0	1.5	10.8	7.0	6.8	5.4
1996/7	1.9	0.1	1.3	-2.1	3.6	-1.6	11.8	6.4	5.6	6.1
1997/8	4.3	3.8	-1.6	7.6	3.2	-1.4	7.8	7.6	2.7	6.1
1998/9	3.2	2.0	4.2	3.7	4.1	0.4	5.7	6.0	2.6	6.1
1999/2000	4.5	5.5	1.6	0.0	4.5	2.8	3.4	5.8	2.3	6.1
Decade Averages:										
1970s	4.8	2.4	5.5	4.8	5.5	2.7	12.7	7.4	5.0	2.4
1980s	6.1	4.1	8.2	8.2	6.6	2.4	7.3	7.8	2.6	3.5
1990s	4.6	4.4	3.9	3.6	4.6	1.4	9.7	7.1	3.8	5.7
1988-2000	4.6	4.5	4.1	3.6	4.5	1.4	9.4	7.2	3.7	5.3

Source: State Bank of Pakistan (various years). Government of Pakistan (various years 1990-9).

unable to smooth over even short spells of unemployment. Thus, short-term adjustment will not only increase poverty but also raise the intensity and severity among the poor.

It is clear from the above analysis that globalization and liberalization affect growth, employment and poverty through a variety of channels. Globalization hurts the poor in the short-term, while its long-term benefits to them remain uncertain. The subsequent sections make an attempt to examine the impact of globalization on growth, employment and poverty in Pakistan to see whether the results are consistent with the stylized fact of globalization and liberalization.

4. Impact on growth and employment

Section 2 shows that the government initiated the liberalization efforts and implemented a number of adjustment and structural reforms since the late 1980s. Table 3 present data on macroeconomic indicators for the reform and prereform period to examine the impact of these reforms on growth and employment in Pakistan. The GDP growth rate fell in the late 1980s. GDP grew significantly lower than the earlier years of the 1980s. The GDP growth rate declined from an average of 6.1 percent in the 1980s to 4.6 percent in the 1990s. The important factors contributing to the decline in growth rate of GDP were the adverse weather conditions, deterioration in the irrigation and drainage systems due to inadequate public spending on infrastructure, which was cut as part of IMF conditionalities, stagnant productivity, poor governance, and political turmoil with resulting uncertainty due to frequent changes of governments.

As part of the IMF conditionalities, the lowering of tariffs reduced the protection to domestic industry, while persistent depreciation of exchange rates and liberalization of domestic interest rates increased the domestic cost of production for industrial goods. As a result, growth of large-scale manufacturing has been seriously affected and became negative in 1996-7. The lower GDP growth was combined with the high inflation rates in the range of 10-13 percent for most of the years of the reform period, reflecting not only the high fiscal deficits but also adverse supply shocks due to crop failures, the cost-push factors associated with repeated devaluation and adjustment in utility prices. The savings-investment gap was significantly higher in 1990s than in 1980s. The widening of the savings-investment gap was attributed to a decline in both private and public savings particularly due to the deteriorating public resources. As a result, investment declined persistently from 18.8 percent in 1995-6 to 17.7 percent in 1996-7, to 17.1 percent in 1997-8 and to 14.8 percent in 1998-9 (Table 4). Consequently, GDP growth rate declined substantially in the late 1990s.

Although the country achieved initial stabilization following the stabilization measures including a sharp reduction in the current account and, 2 percentage point of GDP reduction in the budget deficit to 6 percent of GDP in 1993-4, the stabilization achieved was short lived as the reform process lost momentum due to the major slippages in the reform process in the form of increased tax exemption and concessions leading to implementation of further stabilization measures. The repeated attempts to stabilize the economy in the mid 1990s without following through with structural reforms pushed the economy in a vicious circle. On the other hand, lowering of tariffs as part of trade liberalization efforts resulted in considerable revenue loss. Revenue from custom duties declined sharply from 5.9 percent of GDP in 1989-90 to 2.2 percent of GDP in 1999-2000, resulting in increased reliance of revenue through domestic taxes such as general sales tax (Table 5). As a result, the revenue from sales tax increased from 1.8 percent of GDP in 1989-90 to 3.4 percent of GDP in 1999-2000 but the increase was not sufficient to compensate the loss of revenue from trade tax over the period. Although the government resorted to raise domestic tax rates to offset the loss of revenue due to the tariff reduction, the increased tax rates on shrinking tax base led to further shrinkage in the tax base due to tax evasion resulting in stagnant tax-to-GDP ratio. The stagnant tax-to-GDP ratio resulted in reduction in development expenditure to reduce the budget deficit. As a result, development expenditure declined persistently from 6.4 percent of GDP in 1990-1 to 3.2 percent of GDP in 1999-2000 (Table 5). Cut in development expenditure has not only affected the growth rate of GDP adversely but also resulted in reduced employment opportunities for the poor and worsened the quality and quantity of service provided to the poor through social and economic infrastructure. As a result, GDP growth rates declined significantly particularly in the late 1990s and resulted in substantially higher poverty[4] level (Tables 3 and 7).

Table 4
Savings investment gap (at current prices)

	Million Rupees			As Percent of GDP		
Years	Savings	Investment	S-I Gap	Savings	Investment	S-I Gap
1972-3	7213	8647	-1,434	10.7	12.8	-2.1
1973-4	6179	11614	-5,435	7.0	13.2	-6.2
1974-5	6,655	18,218	-11,563	6.0	16.4	-10.4
1975-6	14,672	24,057	-9,385	11.3	18.5	-7.2
1976-7	18,451	28,856	-10,405	12.3	19.3	-6.9
1977-8	25,525	31,505	-5,980	14.5	17.9	-3.4
1978-9	23,847	34,876	-11,029	12.9	18.9	-6.0
1979-80	32,060	43,345	-11,285	13.7	18.5	-4.8
1980-1	42,070	52,207	-10,137	15.1	18.8	-3.6
1981-2	46,254	62,447	-16,193	14.3	19.3	-5.0
1982-3	61,947	68,462	-6,515	17.0	18.8	-1.8
1983-4	63,220	76,701	-13,481	15.1	18.3	-3.2
1984-5	61,056	86,525	-25,469	12.9	18.3	-5.4
1985-6	76,608	96,545	-19,937	14.9	18.8	-3.9
1986-7	97,195	109,540	-12,345	17.0	19.1	-2.2
1987-8	92,062	121,666	-29,604	13.6	18.0	-4.4
1988-9	108,398	145,570	-37,172	14.1	18.9	-4.8
1989-90	121,514	162,076	-40,562	14.2	18.9	-4.7
1990-1	144,773	193,447	-48,674	14.2	19.0	-4.8
1991-2	206,809	244,059	-37,250	17.1	20.1	-3.1
1992-3	182,004	277,744	-95,740	13.6	20.7	-7.1
1993-4	246,205	305,477	-59,272	15.7	19.4	-3.8
1994-5	269,872	346,508	-76,636	14.3	18.4	-4.1
1995-6	249,842	403,417	-153,575	11.7	18.8	-7.2
1996-7	286,074	436,043	-149,969	11.6	17.7	-6.1
1997-8	385,029	468,008	-82,979	14.1	17.1	-3.0
1998-9	363,588	446,872	-83,284	12.0	14.8	-2.8

Source: Government of Pakistan (various years) *Economic Survey of Pakistan.*

[4] See next section for further details.

Table 5
Fiscal Indicators as % of GDP: 1979-80 to 1999-2000

	Revenue collection as percentage of GDP											Expenditures as percentage of GPD							
Year	Total Revenues	Tax Rev.	Direct Taxes	Indirect Taxes	Excise	Sales	Customs	Surch.	Other	Non-Tax	Budget Deficit	Total Expenditures	Current Expend.	Defence	Debt Servicing	Subsidy	Gen. Admin.	Socio/Eco	Other	Develop-ment
1979-80	16.4	13.9	2.2	11.8	4.5	1.0	5.4	0.3	0.7	2.6	6.8	23.2	15.1	5.4	2.2	3.0	1.3	0.5	2.7	8.1
1980-1	16.9	14.0	2.5	11.3	4.4	1.0	5.1	0.4	0.7	2.9	6.0	22.9	14.5	5.5	2.1	1.9	1.0	0.6	3.3	8.4
1981-2	16.0	13.3	2.6	10.5	4.2	1.0	4.7	0.6	0.7	2.8	5.9	21.9	13.7	5.7	2.4	0.8	1.1	0.8	3.0	8.2
1982-3	16.2	13.5	2.4	10.9	4.3	1.0	5.1	0.8	0.6	2.8	7.7	23.9	15.8	6.4	3.1	0.8	1.1	0.6	4.0	8.1
1983-4	16.1	12.8	2.1	11.7	3.8	1.1	5.1	1.1	0.6	3.3	7.7	23.8	17.1	6.4	3.4	1.1	1.4	0.7	4.2	6.7
1984-5	16.4	13.0	1.9	10.9	3.3	1.0	4.9	1.1	0.6	3.4	8.3	24.7	17.7	6.7	3.5	1.1	1.4	2.2	2.7	7.0
1985-6	17.5	14.1	1.9	12.1	3.0	1.0	5.7	1.8	0.6	3.4	8.7	26.1	18.4	6.9	3.8	1.1	1.4	2.4	2.7	7.7
1986-7	18.1	14.5	1.8	11.9	2.7	1.0	5.4	2.3	0.5	3.7	8.5	26.6	20.3	7.2	4.2	1.0	1.8	2.7	3.4	6.3
1987-8	17.3	13.8	1.7	12.0	2.6	1.3	5.6	1.9	0.6	3.5	9.4	26.7	19.8	7.0	4.9	1.2	1.3	2.6	2.9	6.9
1988-9	18.1	14.3	1.7	12.4	2.6	1.9	5.5	1.9	0.5	3.7	8.1	26.1	19.9	6.6	5.0	1.7	1.3	2.5	2.7	6.3
1989-90	18.6	14.0	1.7	12.1	2.7	1.8	5.9	1.1	0.5	4.6	7.3	25.9	19.3	6.9	5.5	1.1	1.4	2.4	2.2	6.5
1990-1	16.1	12.7	1.9	10.7	2.5	1.7	5.0	1.2	0.4	3.4	9.5	25.6	19.2	6.3	4.9	1.0	1.3	2.8	2.8	6.4
1991-2	18.1	13.6	2.1	11.1	2.5	1.7	5.1	1.2	0.5	4.6	8.4	26.5	19.0	6.3	5.2	0.7	1.5	3.8	1.7	7.5
1992-3	17.9	13.3	2.6	10.5	2.7	1.8	4.7	0.9	0.4	4.6	8.1	26.0	20.3	6.5	5.9	0.5	1.5	4.1	1.8	5.7
1993-4	17.2	13.2	2.6	10.4	2.2	1.9	4.1	1.7	0.5	4.0	6.0	23.2	18.7	5.8	5.8	0.3	1.6	3.6	1.5	4.5
1994-5	16.9	13.7	3.4	10.3	2.4	2.3	4.1	1.1	0.5	3.2	5.9	22.8	18.4	5.6	5.2	0.3	1.8	3.7	1.8	4.4
1995-6	17.2	14.3	3.7	10.5	2.4	2.3	4.2	1.2	0.5	2.9	7.0	24.2	19.8	5.6	6.2	0.5	2.2	3.5	1.8	4.4
1996-7	15.6	13.2	3.5	9.7	2.3	2.3	3.5	1.1	0.5	2.4	6.4	22.0	18.5	5.2	6.6	0.5	1.9	3.0	1.4	3.5
1997-8	16.0	13.2	3.9	9.3	2.3	2.0	2.8	1.6	0.6	2.8	7.6	23.7	19.8	5.1	7.6	0.3	2.3	3.2	1.4	3.9
1998-9	16.3	14.1	3.9	10.2	2.1	2.5	2.2	2.7	0.6	2.3	6.0	22.4	19.0	4.9	7.7	0.7	2.2	2.8	0.7	3.4
1999-2000	16.4	13.3	4.0	9.3	2.0	3.4	2.2	1.2	0.6	3.1	5.8	22.2	19.0	4.5	7.7	0.8	2.1	3.2	0.8	3.2

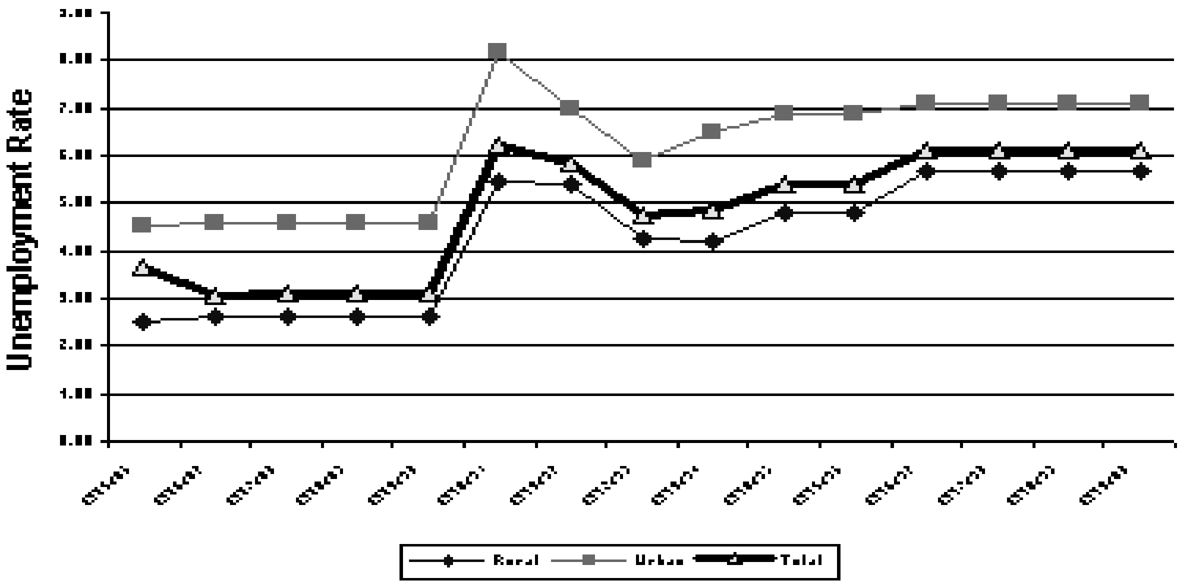
Source: Government of Pakistan (various years 1990-9) *Economic Survey of Pakistan.*

Table 6
Unemployment rate in Pakistan

Years	Unemployment Rate		
	Rural	Urban	Total
1985/6	2.50	4.51	3.63
1986/7	2.60	4.58	3.05
1987/8	2.60	4.58	3.13
1988/9	2.60	4.58	3.13
1989/90	2.60	4.58	3.13
1990/1	5.48	8.19	6.22
1991/2	5.40	6.97	5.85
1992/3	4.28	5.88	4.73
1993/4	4.22	6.51	4.84
1994/5	4.80	6.90	5.41
1995/6	4.80	6.90	5.41
1996/7	5.70	7.10	6.12
1997/8	5.70	7.10	6.12
1998/9	5.70	7.10	6.12
1999/00	5.70	7.10	6.12

Source: Government of Pakistan (various years 1990-9) *Economic Survey of Pakistan*.

Figure 3
Unemployment rates 1985-6 to 1999-2000



In addition, loss of revenue from trade taxes also resulted in heavy reliance on borrowing to finance the fiscal deficit. As a result, domestic debt as percent of GDP rose from 43 percent in 1987-8 to 49 percent in 1999-2000. The deteriorating resource position together with persistent devaluation of domestic currency worsened the external debt/GDP ratio throughout the 1990s. As a result, external debt as percent of GDP increased from 34 percent in 1990-1 to 52.6 percent in 1998-9. The rapid growth of both internal and external debt resulted in a high debt-servicing ratio—87 percent of total tax revenue or 7.7 percent of GDP in 1998-9, which also crowded out the development spending leading to a significant decline in growth rates of GDP in the late 1990s (Table 5).

As part of IMF conditionalities, the government sought to restrain aggregate demand not only by granting wage increases below the inflation rate but also by freezing the employment in the public sector. These developments together with liberalization seem to have exacerbated unemployment in Pakistan. While overall unemployment rate declined initially from 6.2 percent in 1990-1 to 4.7 percent in 1993-4, it rose[5] from 4.8 percent in 1993-4 to 6.12 percent in 1996-7 during the second programme period of structural adjustment when stabilization and trade measures were intensively implemented (Table 6 and Figure 3). Since most of the industrial activities are based in urban areas, urban unemployment is more seriously affected by the liberalization than the rural unemployment. Urban unemployment rose rapidly from 5.88 percent in 1992-3 to 7.10 percent in 1996-7 during the period of adjustment.

5. Impact on poverty

The previous section shows that GDP growth rates declined and inflation accelerated for most of the years of reform period. These developments together with efforts to restrain the aggregate demand resulted in higher unemployment rates in the 1990s. This section discusses how these developments impinged upon poverty among the vulnerable groups of population during the reform period.

A large number of attempts[6] have been made to estimate the poverty in Pakistan. These studies have used the countrywide household income and expenditure surveys (HIES) conducted by the Federal Bureau of Statistics, Government of Pakistan, to estimate the poverty over the last four decades. Since a large number of people strive to live at subsistence level in Pakistan, it is appropriate to discuss only those studies that focus on poor nutrition as poverty criterion and define the poverty lines as 2550 calories minimum nutritional requirement augmented by a modest allowance for non-food need. This approach defines[7] an individual as poor if income or expenditure is insufficient to obtain the minimum necessaries for the maintenance of physical efficiency such as food, clothing and housing etc. Amjad and Kemal (1997) estimate a consistent time series of poverty incidence using the poverty lines based on the above definition from grouped data of eight household surveys from 1963-4 to 1992-3. These trends are reported in Table 7.

The evidence suggests overall increasing trends in absolute poverty between 1963-4 to 1971-2. However, in the later period evidence suggests a declining trend in both rural and urban areas in the 1970s and 1980s. It may be largely due to the fact that during the above period, the economy witnessed a remarkable growth (6.0 percent per annum) mainly due to the capital inflow in the form of overseas workers' remittances and foreign aid resulting in an innovative agriculture and

[5] See Government of Pakistan (2000). However, independent estimates put unemployment rate at a much higher level—twice as high as above of the government claim.

[6] These include Naseem (1973, 1979); Alauddin (1975); Mujahid (1978); Kruik and Leeuwen (1985); Irfan and Amjad (1984); Malik (1988); Ahmad and Ludlow (1989); Ercelawn (1991); Malik (1992); Malik (1992); Gazdar (1994); World Bank (1995); Anwar (1996); Amjad and Kemal (1997) and Government of Pakistan (2000). Government of Pakistan also uses the estimates of these studies to report poverty trends from 1963-4 to 1998-9 in its poverty reduction strategy paper submitted to IMF for seeking financial assistance under Poverty Reduction and Growth Facility.

[7] For definition and derivation of poverty lines, see Naseem (1973), Malik (1988) and Anwar (1998).

vigorous manufacturing sectors. Thus, the evidence supports the hypothesis that 'Poverty tends to decrease with economic growth' (Fields, 1989). It appears that poverty reduction is attributable to the economic growth in Pakistan in the 1970s and 1980s.

In contrast to the 1970s and 1980s, evidence suggests increasing trends in absolute poverty in the 1990s. Amjad and Kemal (1997), Anwar (1996), World Bank (1995), World Bank (2000a) and Qureshi and Arif (1999) analyzed the trends in poverty during the period of structural adjustment and liberalization. Evidence shows that incidence of poverty increased substantially from 17.32 percent in 1987-8 to 22.11 percent in 1990-1, to 31 percent in 1996-7 and then to 32.60 percent in 1998-9 implying that every third household in Pakistan did not have sufficient income to meet daily intake of 2250 calories per person required for the maintenance of physical efficiency and performing the daily activity.

Table 7
Trends in poverty in Pakistan: head counts

Years	Overall Pakistan	Rural	Urban
1963-4	40.24	38.94	44.53
1966-7	44.50	45.62	40.96
1969-70	46.50	49.11	38.76
1979	30.68	32.51	25.94
1984-5	24.47	25.87	21.17
1987-8	17.32	18.32	14.99
1990-1	22.11	23.59	18.64
1992-3	22.40	23.35	15.50
1996-7	31.00	32.00	27.00
1998-9	32.60	34.80	25.90

Source: Atsmjad and Kemal (1997); Qureshi and Arif (1999).

It is noteworthy that the country has been living beyond its means and resorted to borrowing from foreign and domestic sources to finance the large fiscal deficits in past which were no longer sustainable in the late 1980s. After 1987-8, the large fiscal deficit had to be cut to avoid the increasing debt burden. Financial assistance was sought from the IMF and the Word Bank to restore the internal and external disequilibrium. Stabilization measures as well as the liberalization reforms were implemented within the framework of IMF/World Bank to change the structure of the economy so as to improve the balance of current account and budget deficit. The stabilization measures sought excessive reduction in the aggregate demand through expenditure-reducing policies such as wage restraint, freezing employment, reduction in development expenditure, cut in subsidies and cut in expenditure on social services mainly on education and health. On the other hand, liberalization policies sought removal of the structural rigidities and distortion in the incentive system to enhance the growth rate of GDP. While short-term stabilization measures have had immediate adverse effects on growth, employment and poverty, the longer term liberalization measures have not produced the anticipated results. Thus, average growth rates fell, inflation accelerated and unemployment rose following the implementation of stabilization and liberalization reforms. These reforms including privatization, wage and employment restraint in the public sector, cut in subsidies, cut in development expenditure, increases in sales taxes and utility charges, frequent devaluation together with declining remittances—all seem to have reduced the real income of the vulnerable groups of population and increased the poverty substantially in the 1990s.[8]

However, World Bank (1995) and World Bank (2000a) report results that are quite contrary to the finding of Anwar (1996), Amjad and Kemal (1997) and Qureshi and Arif (1999). The World Bank (1995) celebrates that the percentage of all individuals whose consumption expenditure is below the poverty line fell between 1987-8 to 1990-1 due to the improved policies followed by the government as result of IMF/Word Bank structural adjustment programmes. However, the World Bank (1995) report seems to be misleading since it is based on the results of two incomparable sources of household data. The report uses the results of the background paper by Gazdar, Howes and Zaidi (1994). The authors used two *incomparable* households surveys—Household Income and Expenditure Survey (HIES) 1987-8 and Pakistan Integrated Household Survey (PIHS) 1990-1—to estimate the trends during this period. It is noteworthy that these two household surveys are not comparable in their socioeconomic and demographic characteristics. Furthermore, PIHS 1990-1 has more affluent households sample than the HIES 1987-8. Thus, it is quite clear that drawing trends of poverty from two such inconsistent data sets would give misleading trends between 1987-8 and 1990-1. Similarly, World Bank (2000a) suggests that poverty has been stagnant between 1992-3 to 1996-7. These results are clearly doubtful as neither the World Bank (2000a) reports the poverty lines on which these results are based nor it does mention how the poverty lines are updated for the year 1992-3, 1993-4 and 1996-7 which are crucial in drawing the poverty trends over time. Evidence shows that different authors using different poverty lines as well as different price deflators (to update the poverty lines) reported divergent poverty trends in Pakistan as well as in India.[9] Thus, it is quite clear that the World Bank (2000a) results are absolutely misleading and an attempt[10] to justify the type of globalization imposed by the IMF/World Bank in developing countries including Pakistan.

9. Summary, conclusions and recommendations

The paper examined the efforts of globalization and liberalization and its impact upon growth, employment and poverty in Pakistan. While a number of cross-country studies have shown positive association between trade openness and economic growth, the recent work indicates that openness has no robust link with long-term growth. The experience of Pakistan suggests that short-term negative effects outweigh the perceived benefits of globalization and liberalization. Despite intensive trade liberalization, Pakistan's trade performance has been dismal. Growth in exports remained slow, while the degree of openness in terms of trade as percent of GDP declined after the liberalization. This is mainly due to the fact that foreign direct investment (FDI), which is a complementary requirement for trade liberalization to be successful for promotion of export, did not increase sufficiently in Pakistan. In addition, the country went fast in trade liberalization, which is reflected in a substantial decline in the growth rate of large scale manufacturing as well as the higher unemployment rates during the period of liberalization. The extent of liberalization has been more than the WTO commitment as the tariff rates were reduced

[8] Although, other factors such as droughts, poor governance and rampant corruption may have some impact on the poverty trends but these factors are the constant over time. They were also important in the 1970s and 1980s when country experienced a high growth rate and substantial reduction in poverty incidence.

[9] See Mujahid (1978), Anwar (1996; 1998) for Pakistan and Minhas (1971) for India.

[10] In a similar attempt, studies on structural adjustment programmes' basis in Africa undertaken by the World Bank also celebrate that those countries, which have adopted the programme have higher growth rates in comparison with those which have not. However, analyst have challenged it using the same data and reached the opposite conclusion. See UNCEA, World Bank (1994); Challaghy and Revenhill (1994); and Mosley and Weeks (1993).

more than the bound tariff under WTO, which contributed to a considerable loss of government revenue resulting reduction in development expenditure to reduce the budget deficit, which has seriously affected the growth rate of GDP particularly in the late 1990s. These developments, together with persistent devaluation, resulted in increased indebtedness and higher debt servicing leading to a debt crisis in the late 1990s. This adverse outcome is a reflection of the fact that the country was asked by the IMF/World Bank to reduce the tariff rates swiftly (particularly in the mid 1990s) before adopting an alternate system of domestic taxation. A gradual approach to liberalize the trade regime together with adoption of new system of domestic taxation would have sacrificed less revenue and allowed more time for resource switching. Lessons can be learnt from Pakistan's experience that if trade liberalization is carried out rapidly, it can contribute to debt, recession and higher poverty level. Thus, it is important to examine the timing, sequencing and scope of liberalization.

The experience of Pakistan also shows that excessive reliance on demand management in scale or speed is counterproductive for growth. Excessive reduction in aggregate demand through expenditure reducing policies has slowed down the growth rate of GDP, ensued recession and thus resulted in higher poverty level. Structural adjustment together with liberalization within the framework of the IMF/World Bank seems to have reversed the long-term trend in growth and poverty in Pakistan. The extent and speed of stabilization should be debated in future adjustment programmes. The more gradual approach will cause less sacrifice of social and economic infrastructure and allow more time for resource switching. Greater emphasis should be placed on achieving fiscal balance through increases in revenue from consumption and income taxes so as to avoid excessive expenditure cuts.

Analysis showed that globalization is a dynamic process that brings uncertain outcome. The traditional view of poverty that encompasses low income and low human development is not sufficient to reduce poverty in the era of rapid globalization. On the other hand, the IMF/World Bank took the traditional view of poverty and put forward the poverty reduction strategy in the 1990s based on growth in incomes and investment in basic education and health. Thus, structural adjustment programme designed by the IMF/World Bank emphasized two tracks poverty reduction strategy: growth on one tract and human development on the other. Such an approach took up poverty after the fact or as a residual social issue. Hence, earlier anti-poverty programmes[11] in Pakistan have reached a small fraction of the poor, partly because their total size was limited and partly because of poor targeting. Thus, such strategies have been unsuccessful in addressing the issue of poverty reduction in the era of globalization and liberalization. Evidence shows that poverty in Pakistan as well as in many developing countries increased rapidly in the 1990s. Thus, there is a need to adopt a new broader approach and allocate more funds so as to bring the issue of poverty reduction to the centre stage of economic policy making. The new approach should combine the achieving of higher growth and the overall pattern of social progress and distribution. A poverty reduction strategy should ensure consistency between a country's macroeconomic, structural and social policies and the goals of poverty reduction and social development and be produced in a way that involves transparency and broad-based participation in the choice of goals, the formulation of policies and the monitoring of implementation. To implement such poverty reduction strategy, it is also essential to have a realistic assessment of poverty. Earlier poverty assessments by the World Bank for Pakistan have been proven to be quite misleading and doubtful which is clearly an attempt to justify the type of globalization imposed by the IMF and the World Bank on developing countries including Pakistan. Such attempts will thwart the efforts of international financial institutions in achieving the goal of poverty reduction by half by 2015 in developing countries.

[11] For example, food stamp programmes, and zakat and usher system—a religious transfer in Islam.

Given the fact that globalization is unavoidable; policymakers should seek to ameliorate the most distressing cost arising in the short-run. Safetynets capable of providing assistance to the poor must be set up or scaled up and reinforced. Focus should be on programmes which deliver services that the poor need (for example, transfer to buy food) and which reach the poor, such as public works schemes and other workfare programmes which provide employment for the poor and develop and maintain public assets in poor areas.

Finally, to revive the growth for poverty reduction, the focus should now be on enhancing growth rather than restraining the aggregate demand. Fiscal and current account deficit targets should be the outcome of growth process rather than prime objectives of economic policy. A threshold of 6 percent growth rate has brought a significant reduction in poverty in Pakistan in the 1970s and 1980s. Thus, the country should aim to achieve growth rate of 6.0 percent for poverty reduction in the next three to four years. Since the population growth rate is almost 2.5 percent, the target growth rate should be higher than twice the population growth rate. To achieve such an ambitious target growth rate, the country should focus on broadening the tax base through better collection of revenue, and administrative reforms rather than expenditure cutbacks which further reduce the effectiveness of the public sector. Negotiations should be made with IMF to review the tariff rates to raise them upto the level of bound tariff under WTO, which would fetch more revenue to reduce the budget deficit. On the basis of higher tax receipts, public expenditures can be increased and made more effective and growth-oriented. The monetary policy should aim at lowering real interest rates to stimulate investment and revive growth. In addition, the government should take initiatives to foster a positive business environment to revive investment and economic growth on a sustainable basis. Deregulation, improved governance, and reduced corruption will also help in this regard.

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