Globalization and Its Impact on Poverty in Pakistan

(A Background Paper for the Pakistan Poverty Reduction Strategy II)
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by

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Executive Summary

The international evidence suggests strongly that open trade and investment policies alone are not sufficient for poverty reduction. These have to be accompanied by a host of other sound policies. Developing countries need to ensure competitiveness of their enterprises in the global economy. This requires reasonably good investment climates in which firms, particularly small domestic firms, can start up, prosper, and expand. Good governance—control of corruption, well functioning bureaucracies and regulation, contract enforcement, and protection of property rights – is an important pre-condition without which globalization cannot achieve growth and poverty reduction. The forward and backward linkages of markets within a country and globally (through transport and telecommunications infrastructure) are essential not just for a good investment climate but also for including the poor in the processes of growth.

Pakistan's experience with globalization has not led to significantly increased growth and poverty reduction.

This study looks at Pakistan's experience in the light of the international experience and suggests key strategic steps that are necessary for Pakistan to maximize its growth and poverty reduction benefits from globalization.

The whole process is predicated on increased efficiency arising out of the international competition. In order for the fruits of this process to be widely shared the poor have to constantly seek to improve their skills and human capital. This requires a set of specific interventions by the Government. Increasing competitiveness is at the heart of the whole process.

Competing in the globalized world requires new institutions and processes. It requires a new "culture". In particular, the research requirements in order to stay competitive are becoming increasingly sophisticated. The need to build awareness and consensus also requires policy support. The study identifies the different areas for Government policy support

The study identifies in particular the need to have in place specific social safety net policies in order to catch the marginalized because the process by definition produces winners and losers and the inability to protect the losers can not only increase the damage from the process but also shatter national confidence and lead to a reversal towards protectionism

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1. Introduction

Globalization[1] is multidimensional and impacts all aspects of life, economic social, cultural and political. Globalization in tastes is leading to globalization in products and globalization in production and labor markets is leading to increasing outsourcing of parts, components, and services. Driven by the collapse of the centralized economies and the triumph of the market based economic systems and spurred on by the strategic imperatives of the multilaterals such as the World Bank and the International Monetary Fund the drive towards market liberalization has rapidly accelerated the pace of globalization during the past decade. The formation of the World Trade Organization has formalized the global trading system and provided, in principle, a structured framework for ensuring a level playing as well as a mechanism for dispute resolution.

Theoretically globalization opens up markets and ensures competition thereby removing inefficiencies and leading to greater growth. The market forces ensure that specialization takes place in areas of comparative advantage. Thus for labor abundant economies this means increased employment as well as growth. Poor countries are generally labour abundant and capital scarce. Thus globalization, in theory, provides an effective means of poverty reduction through enhanced employment of labour.

This background paper for the second poverty reduction strategy paper look at the international experience with globalization in terms of growth and poverty reduction. The paper is divided into nine sections. The second section looks at the international experience based on the current literature on globalization growth and poverty reduction. The third section presents the evidence on Pakistan's experience with liberalization. The fourth section evaluates the empirical literature on the relationship of globalization growth and poverty in Pakistan during the 1990s. The fifth section presents Pakistan's poverty profile. Rationalizing Pakistan's tariff structure is discussed in the sixth section. Protecting food, livelihood and rural development under globalization are discussed in the seventh section. Private capital flows in the eighth section. The UNDP sponsored studies in incorporating human development concerns in Pakistan's Trade are discussed in the ninth section. Globalization in the context of the MTDF and the PRSP ll are

1 There is no consensus on one single definition of globalization. It is seen variously as a process of time-space compression; a process of accelerating economic and political interdependence; a term that describes the triumph of a neoliberal economic order; a term that describes the re-ordering of international power relations after the Cold War and the emergence of a new world order under the political and economic direction of the Unites States – the world's only remaining superpower; simply another name for "westernization" or, more evocatively, "the McDonald-ization," "Disney-fication," or "MTV-ization" of the world (take your pick); and, a reference to a world of post-national solidarities, where increasingly people have multiple rather than singular allegiances. Gidwani (2002)

discussed in the tenth section and the Policy recommendations are presented in the eleventh. Pakistan's participation in the World Trade Organization and the implications for human development and poverty reduction in the various WTO agreements are presented in the Annexure.

2. What Does The Current Economics Literature[2] Say About Globalization?

Considerable economic development literature has grown around three questions. (1) How rapidly is globalization proceeding and what is its relationship to trade protectionism? (2) Has globalization led to increased growth and where? (3) Has globalization reduced poverty and where? There is considerable difference of opinion on the answers to these questions. However, there is an international consensus that globalization has led to:

> 1) the rapid growth of globalizers (those countries that are open to international trade and finance). However, this does not apply across the board and this growth is generally associated with certain other characteristics in addition to the flexibility of the exchange rate regimes and the ability to exercise fiscal discipline. The ability to compete in this globalized world requires investment in research and adaptation along with an investment in skill enhancements and the ability to re-adjust economic structures to bring these in line with comparative advantage along with providing safety nets for those that are inevitably marginalized in the short run by this process.
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> 2) A reduction in the number of poor people (those who live on less than one dollar a day) in **certain** parts of Asia, but **not** in other parts of the world. This lack of uniformity in the poverty reduction impact of globalization is tied to the absence of the other characteristics described above.

The World Banks (2002) study of Globalization, Growth and Poverty came up with three significant findings. First, poor countries with around 3 billion people have broken into the global market for manufactures and services. The study noted the shift in developing country exports over a short twenty year period from a predominant share of primary commodities to manufactures and services. This successful *integration* has generally supported poverty reduction. Examples of this integration were found by the study among Chinese provinces, Indian states, and the countries of Bangladesh and Vietnam. However, the study found that integration would not have been feasible without a wide **range of domestic reforms covering governance, the investment climate, and social service provision**. But it also required international action, which provided access to foreign markets, technology, and aid. The second finding concerned *inclusion* both across countries and within them. One of the most disturbing global trends of the past two decades the study found was that a number of countries (with around 2 billion people) are in danger of becoming marginal to the world economy. **Incomes in these countries have been falling, poverty has been rising, and they participate less in trade today than**

2 Based on the Special Issue of <u>the Journal of Policy Modelling</u> 26 (2004) 421-424 entitled Globalization, Growth and Poverty

they did 20 years ago. The world therefore has a large stake in helping countries integrate with the global economy and facilitate the greater inclusion of countries in contemporary globalization. A third issue concerns *standardization* or *homogenization.* Opinion polls in diverse countries reveal an anxiety that economic integration will lead to cultural or institutional homogenization despite the fact that societies that are all fully integrated into the global economy differ enormously.

Nations that globalized (i.e., those that opened up to international trade and investments) grew more rapidly than advanced nations (thus reducing the gap with advanced nations) during the past two decades, while nations that did not globalize grew less rapidly than the globalizers and advanced nations, thus increasing their gap with respect to the others. Looking at the *number of poor people* rather than average *national* poverty levels, we find that the number of people who live in poverty (defined as those who live on less than $1 per day in terms of 1985 PPP) decreased significantly over the past two decades, **but most of this decrease occurred in China**.

Increased competitive pressures resulting from globalization can enhance innovation and growth and thus can end up actually benefiting every nation **in the long run**. However, while most economists have tended to view globalization as a basically benign phenomenon, it may have extremely painful consequences. Some groups of people and some nations (including advanced ones) may suffer economic damage. [Gomory R. and Baumol W. (2004))]

In order to maximize the benefits from globalization in the form of rapid economic growth the process has to be managed well. In cases where the globalization process has not been managed well it has resulted in **adverse effects on growth** and has even lead to increased poverty in some countries [Stiglitz J. (2004)]. More commonly than not, however, under the auspices of the IMF, globalization has not been well managed. Stiglitz (2004) identifies eight channels through which these adverse effects can take place. One of the most important is the increased risk that developing countries are likely to face from mismanaged globalization, and higher risks can have adverse effects on growth. The lesson that Stiglitz draws from his analysis is not that nations should walk away from globalization, but that they should be aware of the downside and potential risks that accompany the process of globalization and design policies to mitigate these risks. Stiglitz (2004) points out that the key to China's and Korea's success was in fact based on their ability to govern and regulate the globalization process in such a way as to avoid some of its potential harmful effects while taking full advantage of its benefits.

Some of the positive features of globalization stem from the effects of increased competition, and some of the negative aspects can be offset through international agreements on policy or through the development of new international institutions. Thus, while globalization can cause international conflicts, it can also contribute to their containment through the beneficial effects of competition and the potential of global cooperation to treat economic and other threats facing the planet [Intriligator M (2004)].

The most important barriers to globalization do not arise from the traditional border-type measures such as import tariffs, quantitative restrictions, and restrictions on the flow of foreign capital but from what Dani Rodrik (2004) calls “institutional and jurisdictional discontinuities” or the diversity of national institutional arrangements. It is, thus, the elimination of these discontinuities, especially those in the area of labor mobility, rather than from reducing traditional protectionism that potentially can provide large benefits.

Many belive, that “the IMF causes austerity” and deepens the crises in developing countries. Rogoff, K. (2004) notes there is a confusion between cause and effect in this belief. Rogoff (2004) also believes that capital controls are not a panacea to avoid crises and that the sequencing of reforms is critically important - developing countries should not open up their financial markets in advance of trade liberalization. The inability to maintain fiscal discipline and flexible exchange rates in the face of liberalization were two important causes of sovereign defaults (such as the one in Argentina at the end of 2001).

Globalization creates pressures for developing countries to increase public spending to upgrade the countries’ infrastructures, improve their institutions, finance eventual costs of corrections in policies, compensate some of those most affected by rapid globalization, retrain some of them, and replace the traditional primitive and inefficient system of social protection with a minimum, modern safety net [Tanzi V. (2004)]. Increased efficiency of resource use and reform of the tax systems to increase revenues to finance this increased public spending are important preconditions.

Globalization can contribute much to poverty reduction both directly and by accelerating growth. The contributions of redistributive policies are very likely to be less than the contribution of greater access to markets, more competitive insurance and financial markets, and improved institutions to poverty reduction. The potential effect of greater international integration on poverty reduction, however, is **limited** by domestic policy failures in developing countries and also by continued protectionism, particularly in developed countries. [Srinivasan and Wallack (2004)].

The WTO is expected to result in welfare gains for both the developed as well as developing economies3. The World Bank estimates welfare gains from the multilateral trade liberalization to range between $250 billion to $550 billion of which one-third would accrue to the developing countries. European Union (EU) estimates annual welfare gains to range between $150 billion and $370 billion, with an estimated benefit of $220 billion to the developing countries. However, another estimate[4] suggests that the estimated gains are highly exaggerated especially for the developing economies and suggests that 70 per cent of the gains will go to the industrialized countries. He suggests that out of the gains from trade liberalization in the agriculture of $122 billion only $11.6 billion will go to the developing countries. In the case of Textiles, if quotas are fully eliminated the estimated welfare gains for developing countries would range between $13-122 billions.

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3 Based on Kemal (2005)

4 Luis Fernando Jaramillo, former chairman of the Group of 77,

3. Pakistan’s Experience with Liberalization

During the 1990s, Pakistan opted for economic liberalization, not as an indigenous policy but largely as an obligation under the conditionalities imposed by the IMF and the World Bank under the Structural Adjustment Programme. Presently, Pakistan’s trade and investment regimes are fairly liberal due to the continuous liberalization process the country undertook during the 1990s. However, the economic growth and socio-economic development indicators for the decade of 1990s do not show corresponding gains to the liberalization process. The growth rate declined during the 1990s because of low and declining investment levels due to a number of factors, most important of which has been the lack of continuity and the consistent economic policies. Similarly, the decline in social indicators may be attributed to factors other than liberalisation.

Kemal (2005) notes that trade liberalisation is expected to result in higher level of foreign exchange earnings which could finance the import of capital equipment, technical services, and other goods essential to economic growth. However, during the 1990s, export performance has not been all that good. In the first seven years of the 1990s Pakistan's exports performance was satisfactory; exports grew at an average rate of 8.6 percent per annum and then stagnated in the subsequent years around $ 8 billion. The reasons for the bad performance of exports include: narrow range of export markets/products; modest short-term demand responsiveness changes for major Pakistan export categories; small foreign direct investment in tradable sectors; anti-export bias in the trade policies of Pakistan; inadequate infrastructure in certain potential growth sectors; and absence of trade risk mitigation structure to back-stop both new exporters and shipments to non-traditional markets. Exports crossed $ 9 billion mark for the first time in 2001. Over the last three years, it has grown by 54.4 percent at a compound rate of 11.6 percent. Exports in 2004-05 have been $14.1 billion and are projected to grow to $17.0 billion in 2005-06. Trade liberalisation is expected to result in diversification of exports and with quota free regime of textiles and withdrawal of subsidies to agriculture by developed countries[5] can result in higher levels of exports.

Pakistan continued to liberalize its economy as part of the structural adjustment conditionalities of the IMF program and World Bank lending and not as a response to maximize the gains from globalization. Its expansion in trade has not been as spectacular as that of some of the fast globalizers. While Pakistan’s exports may have gone up in money terms the expansion of its merchandize exports has not kept pace with that of the rest of the world. In fact its share in the world merchandize exports has fallen from 0.16

5 Pakistan enjoys comparative advantage in commodities such as wheat, rice, cotton, but because of inadequate infrastructure and inefficient processing /manufacturing sector, the country has not been able to translate its comparative advantage into production and export surplus. Internationally, Pakistan’s agricultural exports are facing tough competition because developed countries are exporting agricultural products through subsidies not only at marketing stage but also at production stage. It created an artificial competitive edge to developed countries, which hurt the export prospects for Pakistan.

to 0.15 between 1990 and 2002 while that of China went up from 1.80 to 5.04 and that of Malaysia from 0.85 to 1.44.

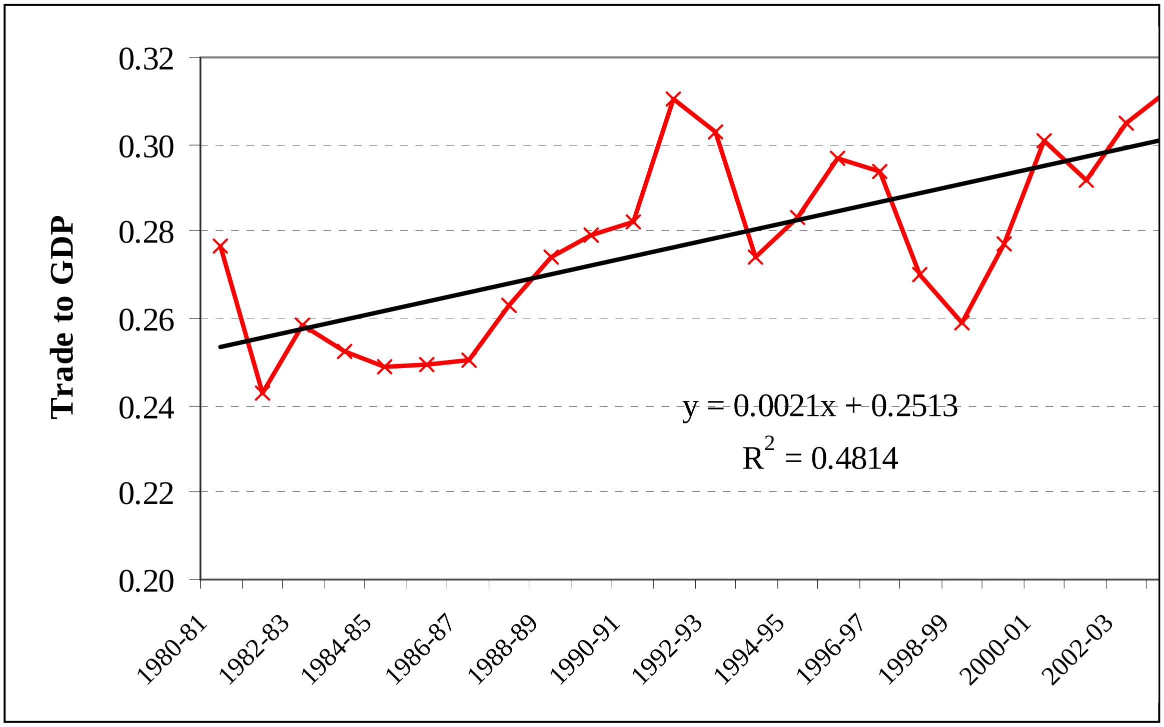
Pakistan's Share of World Exports

Merchandise exports, % of world	1990	2002
Total merchandise exports:		
World	100.0	100.00
Developing Countries	18.85	25.69
Of which		
Top 5 exporters *		
China	1.80	5.04
Mexico	1.18	2.49
Malaysia	0.85	1.44
Thailand	0.67	1.07
Brazil	0.91	0.94
Pakistan	0.16	0.15
Export of manufacturers:		
World	100.00	100.00
Developing Countries		
Of which		
Top 5 exporters *		
China	1.85	6.21
Mexico	1.06	2.88
Malaysia	0.66	1.57
Thailand	0.61	1.10
Brazil	0.68	0.67
Pakistan	0.18	0.18
Memo:		
Merchandise exports, USD bn		
World	3452.5	6454.9
Developing Countries	651.1	1658.2
Top 5 exporters *	186.7	708.7
Pakistan	4.4	8.5
India	18.0	49.3
Manufacturing exports, USD bn		
World	2391.0	4708.0
Developing Countries		
Top 5 exporters *	116.1	585.5
Pakistan	4.4	8.5
India	12.5	33.1

* On 2002 exports (USD)
Source: WTO

While the size of the trade sector relative to GDP has grown from about 28 percent in 1980 to about 31 percent in 2003 it has been subject to large year to year variations. This can be seen from the chart below:

The degree of Openess of the Economy 1980 to 2003



Source: Economic Survey (2005)

The chart above also shows the trend in the measure of openness i.e. the ratio of the sum of imports and exports to the GDP over time. It shows that the trade sector has on an average grown only slightly faster than the growth of the economy. And the overall growth of the economy and the social sector development indicators, particularly for the decade of 1990s, do not show any significant gains from the liberalization process. There is a consensus that poverty which was declining till the early 1990s started to increase thereafter till the end of the decade. So while there has been some increase in the openness of the economy it did not translate significantly into any enhancement of growth and subsequent decline in poverty.

Why did Pakistan's trade sector not grow significantly despite the liberalization? There are several factors that can explain this phenomenon not least of which is the incomplete or partial structural reforms adopted. As the Commerce Minister stated in this years Trade Policy Speech the inability to develop an "export culture" characterizes a major impediment – development of the right market oriented attitudes.

The reasons for the bad performance of exports during most of the 1990s include: narrow range of export markets and export products; modest short-term demand responsiveness for major Pakistan export categories; small foreign direct investment in tradable sectors; anti-export bias in the trade policies of Pakistan; inadequate infrastructure in certain potential growth sectors; and absence of trade risk mitigation structure to support the entry of new exporters and development of non-traditional markets [Kemal (2005)].

However exports have picked up in the last few years and over the last three years, have grown by 54.4 percent at a compound rate of 11.6 percent. Exports in 2004-05 were recorded at $14.1 billion and are projected to grow to $17.0 billion in 2005-06.

Pakistan has been an active member of the WTO. However, awareness about the WTO and the implications of its agreements is quite low in Pakistan[6.] Pakistan's experience with the WTO and its various agreements is summarized in the Annexure.

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

Very little rigorous empirical analysis is available on the effects of Globalization on Poverty reduction in Pakistan. Key results from some of the available studies are summarized below.

Available analysis[7] of the impact of trade liberalization and a decline in foreign remittances on poverty in Pakistan, using a CGE framework, reveals that tariff reduction in the absence of a decline in remittances in Pakistan **reduces** poverty, as measured by the head count, poverty gap and severity ratios (FGT indicators) in both the rural and urban areas of Pakistan. In terms of welfare, all households appear to gain. The results show that the gain in welfare is larger for urban households than for rural households. In addition, poverty reduced by a larger percentage in urban households than in rural households.

In a second set of experiments, it was found that trade liberalisation in the presence of a decline in remittances reduces welfare in urban households but rural households still show an increase in welfare over the base year. According to all FGT indicators, poverty increases in urban households but not in rural households. The combined shock is more harmful to households in the urban areas than for households in the rural areas. However, this welfare gain and reduction in poverty level in rural households is less than the welfare gain and poverty reduction in the presence of trade liberalisation only. Aggregate statistics show that the negative impact of remittance decline dominates the positive impact of trade liberalization in urban areas. On the other hand, in the case of rural areas, the positive impact of trade liberalization dominates the negative impact of a decline in remittances.

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6 A recent survey had asked the key question: Are Farmers Prepared to Deal with WTO Agreements in Pakistan? Hasnain T. (2004). 70 percent farmers in the sample surveyed were unaware of WTO and its obligations. The rest had limited information gleaned from the media and advocacy groups. The overall perceptions about the WTO were quite negative. Some of the predominant perceptions were that:

WTO is dangerous for the farming community,
WTO will have negative impacts on the farmers,
Cotton crop has already suffered losses due to WTO, and
Why did the government sign such a dangerous agreement?

The survey results indicated that the Government had made no significant efforts to educate the farmers.

7 Remittances, Trade Liberalization, and Poverty in Pakistan: The Role of Excluded Variables in Poverty Change Analysis by A.R.Kemal and Rizwana Siddiqui (2003)

Kemal and Nazre Hyder (1997) in their influential paper Globalization With Equity - Policies And Growth, had stated that while the WTO agreement may result into higher level of welfare not all the countries are going to benefit from it. They therefore examined the extent to which Pakistan could benefit and the implications for growth, employment and poverty alleviation. The study found that while trade liberalization was expected to reduce the anti-export bias and would help in accelerating growth. Since the exports in a country like Pakistan are expected to be labour intensive, employment and hence the wage rates would tend to increase. Nevertheless, the study warned that liberalization and to some extent globalization could result into lower levels of employment unless special efforts were made.

Anwar (2001) in his paper "Impact of globalization and liberalization on Growth, Employment and Poverty: A Case of Pakistan" finds that globalization did not lead to poverty reduction in Pakistan during the 1990s. He finds that despite highly attractive incentives to attract foreign investors to Pakistan foreign investment has remained low. Similarly despite liberalization the author notes that trade performance has been poor. "The stabilization initially achieved proved to be short lived as the adjustment and reform process lost its momentum. The repeated attempts to stabilize the economy together with liberalization pushed the economy into a vicious circle. The lowering of tariff rates led to a considerable loss of revenue and resulted in stagnant tax to GDP ratio, resulting in increased need to cut development expenditure to reduce the budget deficit. The Government sought to restrain aggregate demand not only by granting wage increases below the rate of inflation 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".

Orden et al (2006) in their recent study of the impact of global cotton prices in Pakistan evaluate the importance of cotton to the incomes of rural households based on the 2001/02 Household Integrated Economic Survey (HIES). The study distinguishes between landowners and sharecroppers and results are reported separately for Punjab and Sindh, and for the primary cotton-producing districts within each province. Cotton income accounts on average for 32.6% of the total income of landowner households producing cotton in Punjab. Sharecroppers in Punjab are slightly less dependent on their cotton income. Cotton income is more important to landowner and sharecropper households producing cotton in Sindh based on the 2001/02 HIES. Cotton accounts for an average of 53.3% of total income of landowner cotton-producing households in Sindh, and 56.0% for sharecroppers. Among all cotton-producing households, 47.2% are in the lowest two quintiles of the distribution of households within the national population based on per capita consumption expenditures. Among landowner households producing cotton, 41.2% are in the lowest two quintiles. Sharecropper households producing cotton are more heavily concentrated in the lower end of the national distribution, with 65.5% in the lowest two quintiles.

A simulated increase of low cotton prices in 2001/02 back toward the higher levels of earlier years moves a substantial number of cotton farmers out of poverty. The study estimates that an increase of real cotton prices by 20% reduces the poverty rates among landowner cotton households in Punjab and Sindh from initial levels of 32% and 43% respectively, to 25% and 22%. Among sharecropper households producing cotton, a 20% increase in cotton prices lowers rates of poverty from 56–58% in Punjab and Sindh to 38% and 45%, respectively. At the national level, a 20% increase in cotton prices causes poverty among all cotton-producing households to fall from 40% to 28%. The study estimates that this reduces poverty in Pakistan by 1.939 million people.

5. Pakistan's Poverty Profile

It is important to understand the multidimensional dynamic aspects of poverty in Pakistan and its various characteristics before any prescriptive analysis of the relationship of globalization with poverty can be attempted

Poverty measured in money-metric terms continued to increase in Pakistan during the 1990s.

Poverty in Pakistan (Based On Household Expenditure Data)

	1986-87	1987-88	1990-91	1992-93	1993-94	1996-97	1998-99	2000-01c
Pakistan	29.1	29.2	26.1	26.8	28.7	29.8	30.6a	32.1b
Urban	29.8	30.3	26.6	28.3	26.9	22.6	20.9	-
Rural	28.2	29.3	25.2	24.6	25.4	33.1	34.7	-
Poverty gap	*	*	*	4.2	5.1	4.1	6.4	6.8
Severity of poverty	*	*	*	1.1	1.4	1.1	2.0	2.0

Source: Planning Commission, Government of Pakistan.

a. The Head count Index is based upon the officially notified national poverty line of Rs. 673.54 per adult equivalent per month at the prices of 1998-99 PIHS Survey.

b. The Head count Index is based upon the officially notified national poverty line of Rs. 748.56 per adult equivalent per month at the prices of 2000-01 PIHS Survey. Since the methodology of measuring poverty is still evolving, we expect to arrive at rural and urban estimates as the methodology is finalized. It may be noted that the estimates for previous years may also be revised to ensure consistent application of the finalized methodology.

c. The PIHS/HIES survey was carried out in 2001 and for the purpose of uniformity to correspond to the financial year, it is labeled as 2000-01

The impact of growth on poverty reduction depends on whether growth has an impact on employment in those sectors where the poor are concentrated. The Table below highlights the distribution of employed persons by enterprise in each poverty band (based on the HIES dataset).

Distribution of Employed Persons by type of Enterprise in Each Poverty Band

Sector	Extremely poor	Chronically Poor	Transitory Poor	Transitory Vulnerable	Non-Poor	Total
Agriculture, Livestock, Forestry,. Fishing	46.63	58.20	53.80	51.41	28.99	47.48
Mining & Quarrying	13.87	11.26	10.79	10.86	12.63	11.46

Manufacturing						
Electricity, Gas, Water	0.39	0.23	0.34	0.73	1.23	0.66
Construction	11.42	8.64	9.38	6.09	2.99	6.39
Wholesale, Retail, Restaurants & Hotels	14.58	6.72	9.18	10.45	17.69	11.63
Transport, Storage, & Communications	3.54	4.18	4.42	4.87	6.08	5.10
Financing, Insurance, Real Estate, Business Services	0.26	0.0	0.15	0.17	2.34	.5.6
Community, Social, and Personal Services	9.31	10.53	11.69	15.18	27.95	16.50
Activities not Adequately Defined	0.0	0.24	0.24	0.20	0.09	0.21
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Center for Research on Poverty Reduction & Income Distribution

In summary there was a sharp increase in poverty[8] along with the slowing down of growth between 1990 to 2000 —related to macroeconomic shocks in the form of successive periods of drought - and rising unemployment, (average GDP growth during 1990s was 4.4 percent, unemployment rose from 4.7 percent in 1992-93 to 7.8 percent in 1999-00, and poverty rose to 30.6 percent). The highest proportion of the poor are located in agriculture and related sectors followed by community, social and personal services, wholesale, retail and restaurant and hotels and manufacturing and trade.

Poverty Trends and Regional Differentials

The increasing trend of poverty during the 1990s was sharper in rural areas, especially after mid-1990s. For example, the incidence of rural poverty was 25 percent in 1990-91 and increased to 39 percent in 2001-02. On the other hand, urban poverty has declined from 27 percent in 1990-91 to 23 percent in 2001-02 [see table below]. Although it can be noted that during the periods of low agriculture growth, poverty went up sharply the obverse is not as clear.

8 Another important feature of poverty in Pakistan is a high concentration of the population within a small range around the poverty line. According to the Planning Commission, as much as 63 percent of the poor population falls between the poverty line and a level of consumption that is equivalent to 75 percent of the poverty line. This means that a fairly large percentage of the population is extremely vulnerable.

Trends in poverty and income inequality (1990-91 to 2001-02)

	1990-91	1992-93	1993-94	1996-97	1998-99	2001-02
Poverty Headcount						
Pakistan	26.1	26.8	28.7	29.8	30.6	32.1
Urban	26.6	28.3	26.9	22.6	20.91	22.67
Rural	25.2	24.6	25.4	33.1	34.67	38.99
Gini Coefficient						
Pakistan	0.41	0.41	0.40	0.40	0.41	-
Urban	0.39	0.42	0.35	0.38	0.33	-
Rural	0.41	0.37	0.40	0.41	0.40	-
GDP growth rate	5.42	2.10	4.37	1.70	4.18	3.40
Agriculture growth rate	4.96	-5.29	5.23	0.12	1.95	-0.10
Employment growth rate in agriculture	-10.69	1.31	7.82	0.20	2.27	2.09

Source: Economic Survey (2002-03)

Disaggregating poverty by regions indicates wide variations. The results from the available studies that have conducted such analyses are summarized below. Malik (1992) found the highest incidence of poverty in cotton/wheat Punjab, followed by Balochistan and rice/other Sindh in 1984-85. This order changed to low intensity Punjab followed by cotton/wheat Punjab and rice/other Sindh in 1987-88. FBS (2001) reported a higher incidence of poverty in South Punjab. Arif and Ahmed (2001) pointed out that cotton/wheat Sindh and rice/wheat Punjab were the poorest regions in 1993-94 and 1998-99. The World Bank (2002) observes the highest incidence of vulnerability, chronic and transient poverty in the southern irrigated plains of Punjab and Sindh. On recent data, Kemal (2003) finds that Sindh and Southern Punjab are the poorest regions of Pakistan. . Since 1987-88 except for low intensity Barani Punjab, poverty has increased in all regions. This increase was more pronounced in rice/wheat Punjab and barani Punjab in the earlier period. During the period of 1993-94 to 1998-99, poverty increased in all regions. During 1998-99 to 2001-02, Southern and mixed Punjab, and NWFP were adversely hit by the poverty. All these studies find low levels of poverty in barani Punjab. Unfortunately these studies do not cover similar years so that the effect of different methodologies on the estimates is difficult to isolate. However, they confirm the worsening levels of poverty with regions in Southern Punjab, and Sindh being more adversely affected. The curious case of Balochistan based on the most recent data seems to be a statistical anomaly resulting from the very small size of the sample from this Province in the HIES.

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

Poverty head count and change in the incidence of poverty by agro climatic zones

Agro-climatic zones	Poverty headcount					Percentage change in poverty headcount during		
	1984-85 (1)	1987-88 (2)	1993-94 (3)	1998-99 (4)	2001-02 (5)	1987-88 to 1993-94	1993-94 to 1998-99	1998-99 to 2001-02
Rice/Wheat Punjab	14.3	8.2	33.1	47.7	36.9	75.2	30.6	-29.3
Mixed Punjab	22.7	15.9	21.0	31.4	45.8	24.3	33.1	31.4
Cotton/Wheat Punjab	29.3	21.9	25.4	36.5	52.9	13.8	30.4	31.0
Low Intensity Punjab	28	27.1	24.2	32.6	50.7	-12.0	25.8	35.7
Barani Punjab	5.7	3.9	13.8	27.5	24.3	71.7	49.8	-13.2
Cotton/Wheat Sindh	20.5	18.9	34.1	39.4	53.4	44.6	13.5	26.2
Rice/Other Sindh	24.3	20.6	26.9	36.8	50.6	23.4	26.9	27.3
NWFP	9.1	8.2	28.7	28.2	44.6	71.4	-1.8	36.8
Balochistan	28.5	7.9	21.9	54.4	36.6	63.9	59.7	-48.6

Source: For column 1 and 2 Malik(1992)
For column 3 and 4 Arif and Ahmed (2001)
For column 5 Kemal (2003)

The Gender Perspective of Poverty in Pakistan

Another adverse characteristic of Pakistan's labour force is the low levels of female participation. Female labour force participation is only a fraction of that of the males – even in terms of the 'improved participation rate for women" . In addition women receive much lower wages. The majority of the employed females according to the labour force survey is concentrated in agriculture (80%), followed by manufacturing (11%) and services (8%). This means that 99 percent rural females choose to work in these three sectors. Protecting and enhancing agricultural incomes therefore is an important means for addressing the welfare concerns of women.

The overall poor welfare status of the women is also reflected in the extremely poor human development indicators. These are reported below.

A common feature of women's work in the majority of rural areas of the developing world is the underestimation and lack of economic remuneration for their work and contribution to household and community maintenance, as well as to the macroeconomic level. Women have extensive work loads with dual responsibility for farm and household production.

Percentage distribution of rural employed persons by major industries and gender (2001-02)

	Both	Male	Female
All sectors	100.00	100.00	100.00
Agriculture, forestry, hunting and fishing	59.01	54.86	79.58
Mining and quarrying	0.07	0.09	0.00
Manufacturing	8.68	8.31	10.51
Electricity, gas and water	0.57	0.67	0.00
Construction	6.23	7.43	0.26
Wholesale and retail, trade and restaurants and hotels	9.20	10.82	1.22
Transport, storage and communication	4.81	5.71	0.35
Financing, Insurance, real estate and business services	0.29	0.35	0.00
Community, social and personal services	11.13	11.78	7.91

Source: Labor force survey (2001-02), Government of Pakistan

Gender Disparities in Human Development Indicators for Pakistan

Region/Province	Adult Literacy		Completed Primary or Higher		Life Expectancy	
	1998-99	2000-01	1998-99	2000-01	1998-99	2000-01
Pakistan						
Male	59	60	49	49	63	64
Female	31	34	25	27	63.5	66
Punjab						
Male	57	59	48	49		
Female	34	38	28	31		
Sindh						
Male	65	64	54	51		
Female	35	36	28	26		
NWFP						
Male	56	60	45	47		
Female	20	21	14	16		
Baluchistan						
Male	54	53	40	41		
Female	16	16	9	11		

Source: PIHS 2000-01, Pakistan Demographic Survey, 2001

They are mostly responsible for the education and care of children and elders and they represent the highest percentage of illiteracy at the global level. In many countries women's control and use of land is determined by their relationship to males in terms of marriage, divorce or widowhood, which also has an impact on their social security [Willimas, M. (2003)**]**

From a gender perspective it is important that trade policies, programs and mechanisms:

- promote sustainable human development
- enhance social policies that protect the most vulnerable sectors

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

Relevant Organizations such as FAO and ILO have started to include research and analysis of gender disaggregated data in the design and implementation of specific projects and programs. These organizations have recognized that gender-special circumstances and concerns must be taken into consideration and integrated into their programs of work and implementation of projects if they are to be successfully undertaken. Governments have also increasingly recognized the need for an integrated and coherent policy framework, including trade policy that is sustainable, gender-sensitive and human development-based [Hernandez Maria Pia (2005)].

The draft study by Seigmann (2006) entitled Gendered employment in the post-quota era: The case of Pakistan which is an extension of the earlier study by the same author on impact of the WTO Agreement on Textiles and Clothing is one of the few studies that attempts to rigorously look at the issue of globalization on a key characteristic of poverty and a key element of its alleviation i.e. female employment. The study based on recent research findings concludes that overall, T&C employment has increased slightly after the quota expiry. However, the author notes that it appears that this trend is due mainly to a rise in female production employment. She finds that representation of women in non-production occupations has decreased. The author highlights the need for correcting wage market distortions that are biased against women and improving their human capital for the poverty reduction of women in the Textile and Clothing Industry.

6. Rationalizing Pakistan's Tarriff Structure

This study[9] documents the impressive accomplishment made by Pakistan. In recent years the government has succeeded in making deep cuts tariffs on virtually all products during the past several years, and then holding these reductions in place.

The average tariff rate fell from 50 to 17 percent.

- The number of tariff slabs fell from 15 to 4.
- The number of lines with specific tariffs fell by 60 percent.
- Quotas, regulatory duties and other non-tariff charges were climinated.
- The number of SROs had declined substantially.
- The government has reduced its dependence on trade taxes and no relies on more broadly based taxes.

9 Schuler et al (2004) from which this section is extracted.

Simple Average Tariff Levels by Industry, 1995-2004

Industry	1995	1998	2001	2002	2003	2004
11 Agriculture	36.1	35.4	15.2	14.0	14.0	13.9
12 Forestry and Lodging	38.1	36.6	16.9	14.9	14.9	14.9
13 Fishing	66.5	61.9	9.8	9.8	9.8	9.8
21 Coal Mining	31.7	31.7	10.0	10.0	10.0	10.0
22 Crude Petroleum and Natural Gas Production	60.0	60.0	10.0	6.3	6.3	6.3
23 Metal Ore Mining	15.0	15.0	5.2	5.2	5.2	5.2
29 Other Mining	46.5	46.5	15.8	13.7	13.7	11.7
31 Manufactured Food, Beverages and Tobacco	49.4	47.3	26.8	23.9	23.8	23.8
32 Textile, Apparel, and Leather	65.4	59.4	26.0	21.6	21.8	21.8
33 Manufactured Wood Products	61.5	57.8	25.1	21.4	21.4	21.4
34 Paper, Printing and Publishing	60.8	56.5	21.6	18.6	18.7	18.5
35 Manufactured Chemicals, Petroleum, Coal, Rubber, Plastics	44.9	43.1	15.9	14.6	14.6	14.3
36 Manufactured Non-metallic minerals (except petroleum)	62.5	58.3	26.1	22.1	22.1	21.6
37 Basic Metal Industries	49.7	47.5	16.5	13.9	13.9	13.6
38 Manufactured Metal Products, Machinery and Equipment	47.9	41.3	21.1	16.7	16.7	16.4
39 Other Manufacturing	50.7	48.4	21.0	18.9	19.0	18.9
99 Other Industries (excludes HS99)	48.2	46.2	11.4	10.0	10.0	10.0
All Goods	51.0	47.1	20.4	17.3	17.3	17.1

Source: Schuler et al (2004) calculations using tariff data from CBR (2003 2004) and UNCTAD (1995-2002)

The rates fell in all industries and product groups with only one exception (fertilizers).

Products with Smallest and Largest Declines in Tariff Protection

HS Chapter	Product Name	Percent Decline
	Smallest Declines in Protection	
31	Fertilisers	-5
91	Clocks and watches and parts thereof	2
30	Pharmaceutical products	5
11	Milling industry products; malt; starches; insulin; wheat gluten	6
22	Beverages, spirits and vinegar	6
18	Cocoa and cocoa preparations	7
23	Residue & waste from the food industry	7
64	Footwear, gaiters and the like; parts of such articles	8
	Largest Declines in Protection	
03	Fish & crustacean, molluses & other aquatic invertebrates	31
92	Musical instruments; parts and access of such articles	30
52	Cotton	30
02	Meat and edible meat offal	29
05	Products of animal origin, n.e.s. or included	29
97	Works of art, collectors' pieces and antiques	29
55	Man-made stable fibres.	29
54	Man-made filaments.	29
50	Silk	29
67	Preparations of feathers & down; artificial flower	29

Source: Schuler et al (2004) calculations using data from Trains and CBR.
Note: percentage change computed using average tariff rates at the HS chapter level

Despite these gains, the study finds that some features of Pakistan's tariff schedule still require attention.

- Tariff peaks generally remain on many of the same goods as before the reforms.
- The highest tariff rates fell relatively less than lower tariff rates, thus increasing the extent of tariff dispersion
- Dispersion is high even at disaggregated levels.
- Somewhat high but cascading tariffs introduce a bias against exports in several light manufacturing industries.
- Specific tariffs persist in a few product categories.
- The sales tax exemption on fruit discriminates against imports.
- Remaining exemptions are non transparent.

The study finds that these features continue to distort incentives across products, industries, and stage of production, as well as between foreign and domestic sources of supply. The experiences of other countries show that these also create incentives for rent-seeking behavior. They raise prices for domestic consumers. The high specific tariffs on edible oils hurt poor consumers disproportionately. The high tariffs on autos impose queuing costs in addition to raising prices. Finally these distorted incentives tend to reduce the ability of Pakistani businesses to respond to changes in the world economy.

The study recommends that the focus for trade liberalization during the next one to three years should be on reducing tariff dispersion, increasing transparency, making indirect taxes trade-neutral, and closing loopholes in exemptions.

It stresses that a first priority of tariff policy in the near term should be to eliminate tariff peaks. These currently exist in motor vehicles and edible oils. The government should consider:

- Replacing specific duties on edible oils with ad valorem rates, set first at their equivalent levels but ultimately with lower ad valorem rates.
- Lowering the import tariffs on motor vehicles and introducing high excise taxes as necessary to replace lost revenue.

- The study recommends that further streamlining of SROs and Reduction of Exemptions. It maintains that the Pakistani economy will benefit from the eventual elimination of SROs. Special exemptions from duties and taxes distort incentives, reduce the transparency of the tax system (thereby facilitating rent-seeking), and impose costs on the government – and ultimately all taxpayers.

The study recommends the further clarification of indirect taxes and the elimination of Non-neutralities

The study notes that the most noticeable impact on consumer welfare in Pakistan comes from eliminating the tariff peaks on autos and edible oils, and lowering the maximum ordinary tariff band to 20 percent. Reducing edible oils tariffs (in addition to converting them from specific to ad valorem rates) would most clearly contribute to poverty reduction.

8 Protecting Food and Livelihood Security and Rural Development

The Special and Differential Treatment Clause of the WTO Agreement on Agriculture has permitted the designation of Special Products (SPs) by Developing Countries that need to be selected for special treatment based of the special significance for **food** and **livelihood security** and **rural development** needs. This is the most direct linkage that poor developing countries have to a safeguard mechanism for protecting themselves against food and livelihood insecurity due to globalization and for safeguarding their rural development needs. Similarly, developing countries need to be prepared to identify the products for which access to the new Special Safeguard Mechanisms (SSM) will be important and be prepared for discussing the details of its selection in the WTO context.

How these instruments will be applied still remains unresolved including how the SPs will be designated and treated. in designating products as SP and SSM due to their significant roles in enhancing food/livelihood security and promoting rural development.

The Special and Differential Treatment (SD&T) provisions relate to higher upper limits for production stimulating (and hence non-exempt) subsidy payments, investment and input subsidies, public stockholding for food security and domestic food aid. These provisions do not have much relevance to Pakistan since the main limitation in not being able to protect the small and vulnerable farmers in Pakistan through subsidies has been domestic and relates to the fiscal constraints rather than the inability to subsidize because of WTO AoA conditionalities10. The WTO AoA does not limit domestic policy interventions in Pakistan's agricultural economy. However, domestic critics believe that WTO requires cutbacks in government support to agriculture. It is extremely important to build awareness and consensus on such basic issues so as to be accepted by domestic interest groups

The study[11] to provide guidelines for the designation of Special Products and Special Safeguard Mechanisms identified 15 possible products that qualify as important in terms of the food security, livelihoods and rural development criteria.

It was felt, however, that the list was indicative and was proposed to give our negotiators an idea of the relative importance of the key commodities in terms of the three decision criteria chosen for designation of the Special Products.

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10 The 10% de minimis threshold allows Pakistan to offer any form of production stimulating support up to 10% of value of production of each commodity and/or total agricultural output. Agriculture accounts for 25% of GDP. Hence subsidies of about 2.5% of GDP can be used. Furthermore, there is no upper limit on the Green Box or special and differential treatment measures which can be applied.

11 Malik S.J. (2005) The Guidelines for the Designation of Special Products and Special Safeguard Mechanisms for Pakistan, International Center for Sustainable Trade and Development, Geneva

These items are listed in the Table below:

Ranking of Special Products on Combined Food Security, Livelihoods and Rural Development Criteria

Product	Product Score	HS Code	Bound Rates	Applied Rates
Wheat	21	1001	150	10
Rice (Milled Equivalent)	21	1006	100	10
Citrus fruit	16	0805	100	25
Apple	15	0808	100	25
Edible oil	14	1507-1515	100	Rs. 9050 per MT to Rs. 18000 per MT
Tomato	14	0702	100	10
Milk (Excluding Butter)	14	0401	100	25
Cotton (Raw)	13	5201	5	5
Sugar	13	1701	150	10
Onion	13	0703	100	10
Tea	12	0902	150	10
Potato	11	0701	100	10
Beef	9	0201-0202	100	5
Mutton	9	0204	100	5
Poultry	8	0207	100	20

The bound rates for ALL the products indicated by the analysis except cotton are quite high and as such are not a cause for any immediate concern. This does not mean though that these products may be necessarily excluded from the protection of the SP provisions since the country may be constrained due to various reasons in raising its applied tariffs.

The lack of adequate data to conduct any analysis especially at the disaggregated levels was keenly felt. This is extremely crucial in a country where some districts are larger than entire countries both in terms of population and geographical area. Similarly the inability to fully measure such complex concepts as food security, livelihoods and rural development at the disaggregated level meant that informed judgments had to be used to construct certain key variables.

Import Surges have not been a serious issue for Pakistan to handle in the past because of the significant "water" (difference between bound and applied rates) in the Tariff structure. Edible oil, sugar and milk products had experienced one or more episode of import surges during the past ten years. The study recommended the maximum contingency levy as a potential methodology for the SSMs.

9. Private Capital Flows and Pakistan's Integration With The Global Financial Market

Prasad and Rogoff (2004) in their influential paper "Financial Globalization, Growth and Volatility in Developing Countries" find that it is difficult to establish a robust causal relationship between financial integration and economic growth. Furthermore they find that there is little evidence that developing countries have been consistently successful in using financial integration to smooth volatility in consumption growth. Good institutions and quality governance are crucial in helping developing countries derive the benefits of financial integration. Macroeconomic stability is an important pre-requisite and countries that employ relatively flexible exchange rate regimes and are successful in maintaining fiscal discipline are more likely to enjoy the potential growth and stabilization benefits of financial integration.

While Pakistan had enjoyed relative macro-economic stability in recent years and maintained fiscal discipline and a relatively flexible exchange rate regime it needs to work at developing the institutions and the governance structures that are necessary for it to benefit from financial integration. Without it financial integration can have deleterious effects on growth and hence on poverty.

Several steps are being undertaken to build up the financial sector institutions in Pakistan and strengthen the capital market to encourage resource mobilization. According to the Government of Pakistan's the prospects during the Medium Term Development Framework (MTDF) period (2005-10) in this regard are satisfactory. Under the changed scenario when Pakistan has been out of IMF program, role and importance of capital market has increased manifold. In addition to inviting enhanced inflow of investment in private sector, government now prefers to mobilize resources from the international bond market (secondary market) through issuance of its various bond products rather than approaching to international institutions and bilateral creditors for loans and credits for implementation of its development projects, which will further deepen the business activity in the capital market. Government has successfully launched the new bonds termed as "Islamic bonds" in early 2005. Re-entry of Pakistan in international bond market in 2004, after a gap about 7 years (after 1997), proved as a happy and encouraging step which further improved international rating (B + by S & P) and being out of IMF program/ conditionality. Privatization of Oil and Gas Development Corporation (OGDC), Pakistan Petroleum Limited (PPL) and the Karachi Electric Supply Corporation (KESC) are the recent examples of the resource mobilization through foreign private investment. The buoyancy in the stock markets, can be attributed to a number of positive factors including a continuation of pro-growth macroeconomic policies, a stable macroeconomic environment, a strong growth momentum taking firm hold, acceleration in privatization process through the capital markets, appropriate reforms initiated by the Securities and Exchange Commission of Pakistan (SECP), the availability of adequate liquidity in the market due to historic low interest rates, good operating financial results from majority of the blue chip companies and a visible improvement in the India-Pakistan relationship. These factors despite the downward slide in March/April 2005 are expected to continue to drive the stock market during the next five years also. Historical growth in the stock market (in term of market capitalization) shows heavy fluctuations in the long-term, and an uninterrupted positive growth in the last four years. The negative growth was observed from 1997-98 to 2000-01. Stock market was grown at the rate of 39 percent in 2001-02, 60 percent in 2002-03, and 89 percent in 2003-04 while more than 30 percent growth is expected in 2004-05.

During the Medium Term Development Framework period (2005-10), the stock market is expected to grow between 20 and 35 percent, depending upon the monetary and fiscal policies and expected growth in the equities at the rate of 10 percent per annum in the form of new listings (IPOs), right shares, bonus shares and the corporate retained earnings.

10. The UNDP Financed Studies on the Trade Initiatives In Human Development

The Ministry of Commerce with funding from the UNDP financed a series of studies to highlight the human development and poverty reduction implications of trade for Pakistan under different agreements of the WTO. These studies provide significant guidance on how best to address the PRSP concerns regarding globalization

The WTO Agreement on Agriculture – Implications for Pakistan[12]

The study finds that comparing Pakistan's experience with other developing countries, what has been atypical is not the rise in imports (Brazil experienced a 208% jump in the value of imports 1986-1998), but the fact that Pakistan has been unable to counterbalance this trend with an expansion in exports, particularly when regional competitors have experienced high export growth over the same period - such as India (+133% in export value), Indonesia (+76%), Thailand (+53%) and Malaysia (+79%). The study lists three possibilities:

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

The study notes that certain countries categorised by the WTO as developing, such as Turkey, Mexico and South Korea, already engage in competitive subsidisation in some of Pakistan's key export commodities. Additional latitude to offer further production-stimulating support might not thus be in Pakistan's best interests – particularly when domestic resource constraints prevent Pakistan from utilising existing threshold limits. Similarly, on market access, a factor limiting regional export growth is high rates of tariff

12 For an excellent review see Michael Roberts (2002) for the Ministry of Commerce Islamabad. This section is taken from that report.

protection among neighbouring developing countries. Providing additional scope to vary tariff levels and exempt certain sectors from liberalisation could render market access conditions more unstable with negative effects on domestic investment, particularly in the value added sector.

The study identifies the significant absence of capacity to analyze the emerging issues in WTO agreements and the implications for Pakistan. The consultant found that *general* knowledge of the Agreement and its provisions was high among officials, traders and non-governmental organizations. However, *detailed practical understanding* of the Agreement and its consequences, particularly for market access, was wanting. The following practical suggestions were thus made to attempt to rectify this situation and to assist Pakistan's negotiators:

The consultants recommended that **capacity to follow the agriculture negotiations should be comprehensively upgraded**. One step could be to nominate researchers outside the Ministry of Agriculture and the WTO Wing of the Ministry of Commerce to track the negotiations as they unfold and provide targeted analytical support to government officials. One important point to note is that practical policy analysis and input into the negotiations is quite distinct from analysis of the systemic failings of the AoA itself. Inclusion of these aspects could significantly strengthen the PRSP.

Officials responsible for agricultural trade should be offered **training in analysis of market access scenarios**. If, and when, Members come to discuss tariff cutting formulas, the GoP Ministry of Commerce WTO wing may need external support to run through scenarios in terms of predicting and analysing possible results for Pakistan's domestic tariffs and market access. **Input from academic researchers** and modellers could be important here so the necessary linkages should be cultivated domestically.

Trade Structure and Market Penetration of Pakistan’s Non-Agricultural Exports[13]

Available analysis confirms that Pakistan’s macroeconomic overview provides a strong case for pursuing an export-led growth strategy that achieves higher living standards. A necessary condition underpinning this achievement is the structural transformation of the economy and a widening of its export mix. It is critical to build investor confidence by creating a credible investment friendly environment. Irrespective of the outcome of the new round of trade negotiations, tariff reforms are vital for changing Pakistan’s export mix.

The study on NAMA confirms that the composition and volume of global trade has witnessed significant changes during the last two decades. Trade liberalization, rising income and technological advancements, have been the main determinants. Against the backdrop of a rapidly changing global export pattern, Pakistan’s narrow export base, encompassing textiles and clothing, has failed to create a solid foundation for an export-led growth. **Lack of diversification** has lead to **variability** of export earnings.

13 Based on Kaukab R. (2004)

Pakistan remains a "price taker" in the world textiles and clothing markets. Its share of global textiles and clothing export sector is relatively small, with intensive competition from developing countries. In addition to identifying the key export markets, i.e., the EU and US, this study confirms Pakistan's major competitors in these markets. Within the textiles and clothing sector, this includes Turkey, China, India, Romania, Tunisia, Mexico, and Hong Kong. Consultations with the above group of countries may be considered on modalities for further trade liberalization in the sector. Given that a significant share of the export trade in textiles and clothing is conducted within existing free trading blocs, Pakistan's options are rather restricted.

The study finds that a lack of product diversification is not the only challenge facing Pakistan's exports. Lack of geographical diversification is another serious challenge. Geographical diversification minimizes the risks arising from a region-specific economic slowdown and assists in exploiting opportunities offered by globalization of production. Pakistan's exports are concentrated in a few countries. In 2000-2001, ten countries received 61.8% of Pakistan's exports. Whilst increasing levels of exports to China is encouraging, omission of ASEAN, one of the fastest growing regions, this is an issue that requires an ASEAN-specific response.

The study highlights the need to develop an integrated industry-focused strategy, which embodies manufacturing and business support services. Industry-based strategies that focus only on manufacturing may ignore the value creating potential of research and development, product design, packaging, distribution and marketing. An integrated industry strategy, exploits synergies between manufacturing and the services sectors by moving up the value chain. These inter-sectoral linkages have important implications for trade liberalization in services.

Impact of post-ATC Environment on Pakistan's Textile Trade

This study finds significant poverty reduction and human development impact from trade in Textiles and Clothing for Pakistan. However, there are significant challenges in a rapidly changing global trade environment that must be analyzed and factored into policy The study finds that for Pakistan:

Textiles and Clothing (T&C) are major sectors with profound human development potential. In lower-income countries like Cambodia and Vietnam, the rates of growth of these industries have been phenomenal – over 77% in a 3-year period. Such scales of expansion is usually accompanied by widening of choices on the socio-economic front – the sector not only forms a significant share of GDP, and foreign exchange earnings, but also contributes to human development objectives such as (female) employment, diffusion of knowledge and technology, and generation of revenue.

The global T&C regime is based on discriminatory quotas and high tariffs distorted incentives and production patterns. Over the past 40 years, trade in this sector has faced not only high levels of tariffs (compared with other manufactures), but, in violation of the fundamental GATT principle of non-discrimination, trade was governed by the Multi-fibre Arrangement (MFA) that enabled developed importing countries to impose restraints (quotas) against imports from individual developing countries. This quota system allowed some countries to capture rents by restricting supply, while at the same time distorted incentives for domestic allocation of resources. The MFA also provoked a shift of investment to those countries, which were less restrained by the bilateral quotas. In some cases this process was enhanced by tariff preferences, but fundamental competitive advantages derived from wage differentials were also a factor. *The quota system may have had the perverse effect of enabling countries to increase exports without needing to improve their essential competitive strengths.* The abolition of the quota system will favor the more competitive countries.

The abolition of the MFA was a major achievement of the Uruguay Round. Asian countries in general, individually and through the mechanism of the International Textiles and Clothing Bureau pressed strongly for the elimination of the MFA.

Elimination of quotas will lead to increased exports, but which countries will derive the benefits the removal of quotas is the key question. It should lead to an overall increase in exports of textiles and clothing from Asian countries. which have been growing despite the quota system. Even assuming a modest growth rate of 5.3% per year for the next 12 years in the clothing sector and an even smaller growth rate of 3.2% in the textiles sector, the global market for imports of textiles and clothing could reach US$ 600 billion by 2015. This fear could be exaggerated, as the expanding global T&C market, could provide opportunities for all suppliers, including those selling at different price levels and those specializing in niches in the market. Countries like China and India are seen as the biggest gainers in the post-ATC scenario, if one looks at their current share of clothing exports to non-quota markets.

Elimination of quotas could be followed by resort to other restrictive measures. Even after Integration of the T&C sector into GATT 1994, other instruments such as antidumping duties or safeguard actions can potentially be invoked to restrict imports, despite a stipulation in the ATC that these be used "sparingly". Between July 2000 and June 2001, there were 313 antidumping investigations initiated, often by rich (US-77, Canada–41, EC–29, Australia–20) and large developing countries (India-37, Argentina-44, South Africa-20, Brazil-10).1 An examination by the Geneva-based International Textiles and Clothing Bureau revealed that textiles and clothing products are the third most frequently targeted items for antidumping investigations after iron and steel and chemicals. Often the exporters affected are small and medium scale enterprises in the poorer countries whose ability to “dump” products is doubted. The tendency in rich countries to straightforwardly equate low import prices with “dumping” is itself problematic, as the cause often is competition and efficiency or fall in input costs. Although antidumping measures can be construed as genuine security precautions, any attempt to exaggerate or over-prescribe requirements may hurt the poorer countries' ability to trade.

Elimination of quotas will accentuate the importance of real competitiveness, but tariffs will remain influential in shaping trade flows of clothing. With the elimination of quotas, tariff rates will become the main trade measure affecting trade in textiles and clothing. Tariff rates in the main importing countries remain high, but many developing countries enjoy tariff preferences, both those applied autonomously under GSP or under ACP preferences. To date have, however, Less Developed Countries have made sub- optimal uses of the non-reciprocal systems of preferential tariffs, owing to restrictive Rules of Origin (RO). It thus seems important to keep working towards a regime of determining rules of origin that are adapted to the needs of LDCs and are simple, as well as administratively less burdensome.

Tariff preferences will potentially provide the main mechanism for favouring the textile and clothing trade of the less competitive suppliers and LDCs. In the most important market for Asian countries, the United States, the significance of preferential tariff treatment can be illustrated by data from 2002 on the effective tariff rates on clothing. The average effective customs rates on clothing applied on exports from China (11.7%), India (16.2%), Bangladesh (16%), Vietnam (17.3%) contrasts with rates applied on its neighbours: Mexico (0.9%), Costa Rica (2%), Honduras (3.3%), El Salvador (4.6%). As a result countries like Mexico and Honduras have seen their export values grow by over 12 times between 1990 and 2002,while countries like Bangladesh have fared better in less-restraining markets like EU. These dramatic figures also hint at another development – which of US manufacturers re-adjusting to and re-aligning with production bases at locations deemed more competitive than the USA, itself. This is facilitated by rules of origin which lock-in the garment manufactures to yarns and fabrics supplied from these same United States manufacturers.

The process of multilateral trade negotiations suffered a setback in Cancun. No agreement was reached on modalities for tariff negotiations on non-agricultural products ("NAMA" negotiations). While a reduction of MFN tariff rates on T&C would reduce the margin of tariff preference that are being availed of by some developing countries, they would also erode the preferential margins of non-Asian competitors. They could provide more secure access to markets and weaken the position of importing countries seeking to lock-in their fabric and yarn exports through rules of origin in FTAs and preferential agreements. It is feared, however, that tariff preferences will not provide enough advantages for the less competitive T&C suppliers in Asia when the quotas on their strongest competitors are removed. The more inefficient producers could lose their businesses to the more efficient and large suppliers, unless they can establish niches in the market, for example through product differentiation. Or make up for higher input costs through policy reforms that enhance competitiveness, improve infrastructures and reduce costs of doing business.

There is no consensus on the impact of the post-ATC scenario. Countries in Asia whose export expansion was effectively blocked by the quota system will undoubtedly gain from the opportunity to export unrestrained. This new scenario may also draw in investment from other sectors, expanding the size of the activity. This can effectively contribute to human development objectives of upgrading skills, enhancing incomes, creating jobs and increasing revenue that can be re-directed for human-development enhancing social expenditures. Countries that were sheltered by the quota system ("quota babies") will be forced to undertake policy reforms and export strategies aimed at increasing on competitiveness that will have large spill-over effects on other sectors. In some cases, schemes to promote human development by imposing conditions on the allocation of quotas to domestic suppliers will obviously be no longer possible. Many studies have been undertaken on the future of the textiles and clothing industries in Asian countries in the post-ATC scenario. However, these have been conducted using different methodologies, often politically inspired, and not conducted in a co-operative Asian context.

A recent World Bank study [Martin William (2004) Implications for Pakistan of Abolishing the Textile and Clothing Export Quotas], finds that *the overall the short run impact of MFA abolition will be positive on the textiles sector and negative on clothing.* This will result from the improvements in efficiency of its resource allocation and in world market prices outweighing the loss of quota rents. As quotas on all other exporters are eliminated at the same time Pakistan is expected to experience a significant increase in textiles output and exports. However, stronger competition from competitor countries may result in a decline in output and exports of clothing. The study finds that Pakistan needs to improve its productivity in order to stay competitive and improving the investment climate is the key to increasing productivity.

Trade In Environmental Services And Human Development Country Case Study -- Pakistan

The study finds significant potential for poverty reduction and human development impact from trade in Environmental services. However, there are significant challenges and a rapidly changing global trade environment that must be analyzed and factored into policy. The study is not really Pakistan specific although its findings and recommendations apply universally. The study finds that

- Environmental Goods and Services are directly linked with the core end of human development which is to improve well-being and quality of human life.
- The capacities to address these concerns are extremely divergent, necessitating roles for international trade and resource transfer.
- The WTO General Agreement on Trade in Services (GATS) offers only a narrow framework to negotiate trade and investment in environmental services.
- But trade in environmental services is complicated by implications for large-scale, direct foreign investment and ownership of assets.
- Participatory, cost-effective, self mobilized indigenous models of community managed environmental services deserve notice and replication.

- Asian countries need to frame their strategic responses so as to precede liberalisation by enhanced domestic legislative, regulatory and institutional infrastructure.
- Access to and affordability of some environmental services are to be recognized as inviolable human rights.

The Poverty and Human Development Implications of Geographic Indications

The study finds that many geographic indications (GIs) play an important economic role by protecting intangible assets, such as, market differentiation, reputation, and quality standards. The commercial value of GIs is also related to the consumer confidence in the origin, which becomes synonymous with quality and special characteristics. The geographical and environmental causes, and human factors combine to give the final product identified with a GI a special value added. This allows the continuation of traditional ways of production and gives the localities and communities an opportunity to identify products that are collectively produced. However, it is important to note that the economic value of GIs does not automatically justify establishment of strong systems of GI protection. There are certain costs and benefits associated with the establishment of these systems. For example, raising the standards of protection and the establishment of a multilateral GI system for all types of products could bring the following benefits:

GIs do not guarantee immediate market access as many developing country exports are potential, not real. The study finds that given that Pakistan is required to provide for the protection of GIs as part of its commitments under the agreement on TRIPS and also the economic value of such protection, the following main questions are relevant to ask:

- What is the importance of GI protection, and the status of such protection, in Pakistan?
- What are the implications of provisions in the agreement on TRIPS related to the protection of GIs? What are the negotiating opportunities in this regard and what is the current status of these negotiations?
- What actions are required in Pakistan at the national level, and what negotiating position on this issue should Pakistan take in the WTO?

Expanding Pakistan's Human Development Related Opportunities Through Regional and Bilateral Trade Agreements[14]

According to the WTO's World Trade Report, 2003, more than two-thirds of intra-developing country trade, both originates from and goes to, developing Asia. And the share of intra-regional trade in Asia, accounts for 80% of developing

14 Huma Fakhar (2004) , Fakhar Law International Pakistan

Asia's South-South trade. In the case of Pakistan, the analysis in this paper has shown that the EC, the Middle-east countries, US and China are far more important to Pakistan's trade than the South Asian economies. Finally, it needs to be remembered that liberalization of barriers to trade, emanating multilaterally or through Regional Trade Arrangements, results in gains that make themselves visible more in the long run while the costs of adjustment are more immediate and striking.

Trade in Services – Movement of Natural Persons: Country Case Study – Pakistan[15]

A globalized economy generates demands for the free movement of factors of production, including that of natural persons. Regrettably, there has been "insignificant liberalization" in this area - even though the GATS is based on the concept of symmetry in obligations in the respect of the movement of both capital and labor the agreement covers only capital and in fact the movement of labor the far more abundant and mobile factor as far as poor developing countries are concerned is even more restricted since 911.

A major impediment to the freer movement of natural persons is the widespread use of economic needs tests applied by the developed countries in a discretionary way, thus creating a major barrier to trade. There are also major problems with visa requirements, work permits, qualification standards and licensing regulations that further restrict this mobility.

While Pakistan has been active during the GATS negotiation in voicing its concerns regarding barriers to access in developed country markets it has not done well to optimally utilize this window at the national level. Pakistan did not undertake any significant research, or institutional preparation, or skill upgradation. India, on the other hand took this seriously and is now dominating the world labor market.

The study recommends that Pakistan needs to strengthen its national policies to cope with the issue of unemployment. Our policies should support the establishment of labor intensive enterprises offering employment opportunities so that the human resources can be best utilized within the country and abroad.

The overwhelming majority of Pakistanis working in foreign countries are unskilled and are being exploited in many ways. There is a great need to provide updated knowledge, skill and other relevant training to the migrant workers which would enable them to earn more and get better working conditions abroad.

Over 70 per cent of AIDS patients are overseas workers, their husbands/wives or children. Workers intending to go abroad should be provided complete health information to enable them to be on guard against diseases like AIDS and HIV. For

15 Tahir Hasnain (2005) WTO Watch Group

Pakistanis working abroad, the Ministry of Foreign Affairs should organize seminars and workshops in foreign countries in this regard.

Pakistan lacks vocational training institutes. There is a need to develop these in both the public and private sectors.

A Study On Logistics Security Assessment Of Exports From Pakistan[16]

Terrorism is normally against people and not against goods. The terrorists target people whom they do not like or use explosives to kill large number of innocent people in order to create scare and hit the headlines. So far there has been no explosion in any of the containers or export goods being shipped from Pakistan. In fact, there have been no terrorist attacks anywhere in the world on merchandize cargo. Hence international commerce has so far been extremely safe from any terrorist activity and commerce from Pakistan has been no exception to this international behavior Knitwear exporters, struggling for survival in the wake of plunging unit prices of their products in the US and Europe, are trying hard to comply with the security requirements of buyers.

To meet the security requirements of the US administration is a bit difficult for many exporters, especially the smaller ones, as it involves additional investments and costs

There is a paradox with respect to Pakistan's exports. Its exports, which were stagnating for many years before 9/11 rose by 33 percent during the first two years following 9/11. Similarly, in the 1990s when Pakistan continued to devalue its currency the exports failed to rise. Yet exports surged sharply after appreciation of the Pakistani rupee. There is however, no doubt that with better security perception about Pakistan exports would have risen more especially to the USA. More importantly more foreign traders could have visited Pakistan and this could have resulted in larger orders. There is a great need to make Pakistani ports and our cargo transit security compliant to ensure our share in the global markets.

There are several aspects of these UNDP studies that need consideration. As in most other aspects of the trade area there is a disconnect between the research and the formulation and actual implementation of policy. The studies themselves are generally done in isolation with no regard to the holistic integration of the major recommendations within a framework of globalization.. The recommendations themselves are in most cases quite general and the next step to translating these into implement able action is missing.

There is a great need for further analysis on the various impacts and of *consensus building amongst the various policy makers to integrate the different dimensions of emerging trade regimes into effective policy*. The PRSP provides the only holistic framework for integrating the various aspects into an integrated framework with the eventual objective of poverty reduction and human development. The need for a long

16 Akhtar Hasan Khan (2004)

term strategic focus, Monitoring and Evaluation and formulating policies within clearly identified budgetary parameters are other essential aspects of the PRSP framework that are also essential for the success of trade policy reform for human development.

11. Globalization in the MTDF and the PRSP.

The PRSP 1 report recorded the Government of Pakistan's comprehensive program of trade reforms gradually moving the economy away from protectionism towards greater trade openness and global economic integration.

The PRSP 1 assumed an **export strategy** focused on:
(i) reducing cost of doing business;
(ii) increasing market access;
(iii) technology and skills upgradation;
(iv) social, environmental and security compliance;
(v) encouraging export oriented foreign investment;
(vi) region-specific strategy; and
(vii) value addition.

The PRSP 1 stressed that sustained export performance is a key priority. Towards this end, the various efforts of the Government are listed. These incude: efforts in the areas of facilitation, WTO related issues, export promotion and diversification, extension of export promotion zones and industrial clusters as well as the measures the Government was envisaging to prepare for the elimination of MFA quotas by 2005. The Government's policy will focus on measures to sustain exports in textiles and other sectors where exports already exist, and measures to improve competitiveness of sectors, which are not yet capable of exporting. For this, the Government is committed to liberalize and de-regulate Pakistan's trade and widen the export base through revival of industrial activity and strong institutional supply side measures. The trade policy endeavors to continue focusing on value addition for sustainable growth in export earnings. The policy is guided by demand led strategy to secure higher world market share for traditional and non-traditional export items. Simultaneously, continued efforts are afoot to increase market access for Pakistani products. In the long run, growth in exports will need strong competitiveness in the economy, which will require, *inter alia*, tackling the infrastructure and trade-logistics bottlenecks and improving the enabling business environment. For this purpose, the Government under an ADB funded Trade Enhancement Facility program is removing different barriers to improve trade-regime.

The PRSP assumed that for the strategy to be effective an up gradation Fund will be managed under public-private partnership. An Export Facilitation Inter-Ministerial Committee will be constituted. The freight subsidy for product diversification and geographic expansion will continue. Two Special Export Zones will be established in Karachi and Punjab focusing on textile sector and Karachi Export Processing Zone will be upgraded to regional standards and other processing zones. The other initiatives that are under consideration of the Government to boost exports are establishment of Leather Board and revision of Duty and Tax Remission for Exports (DTRE) Rules to make them user friendly. In addition, the policy aims to rationalize the export finance scheme, shifting its focus towards pre-shipment financing, value-added exports and targeting SMEs. To improve administrative and enforcement mechanism, the Government will establish an umbrella organization called "Pakistan Intellectual Property Rights Organization (PIPRO).

The **import trade regime** envisioned under the PRSP aimed at
(a) un-interrupted supply of adequate raw materials to the industries;
(b) facilitating liberal import of machinery for industrial development;
(c) facilitating inflow of latest technology;
(d) increasing efficiency of the domestic industry by gradually exposing it to the international competition; and
(e) further liberalization of trade regime.

The PRSP also proposed that the Government would under take a number of stocktaking and analytical exercises to prepare for the next phase of trade reform and include:
(1) comprehensive review of remaining SROs aimed at suggesting further reduction of exemptions and defining a clear criteria for those that need to be maintained;
(2) review of costs and benefits of remaining protection policies; and
(3) rationalization of tariff structure with the aim of phasing out anti-export biases.

The major challenges identified for the PRSP 1 in the Joint Staff Assessment of the World Bank and the IMF included the need for an explicit and prioritized road map of reforms and policy actions envisaged for the medium term with a clear time line. There is a great need to define policies that address the multifaceted aspects of poverty. There are great differences in poverty in Pakistan by agro-climatic (crop zones) and across employment categories. The different agreements under the WTO are important not only in aggregate for removing poverty but also have a significant impact for certain regions or for sectors. For example the Agreement on Agriculture has implications for overall rural poverty and also overall through the rural urban linkages. Similarly the aspects that deal with specific crops such as for example Cotton have a direct affect on poverty in the cotton-wheat zones. Similarly, the aspects of the Agreement on Agriculture that deal with fruits and vegetables have much more impact on poverty in the NWFP. The Agreement in Textiles and Cotton has implications for the cotton zones and also for the sections of the economy that are linked to its processing. The GATS agreement affects employment and the returns to employment and thus poverty. Similarly, Geographic indications are extremely important in protecting, for example, the basmati growers and all the linked sectors. It is important therefore for the PRSP process to be informed by analysis of the developments in the Trade agreements and how these impact on poverty reduction in specific sectors and overall. However, for this to take place efficiently awareness and information flow are necessary conditions.

Following on from the PRSP l the Medium Term Development Framework of the Government has been prepared to achieve the export promotion objectives within the context of technology driven economic and export growth, emphasizing the need to meet challenges of quota free textile exports under the global environment defined by the WTO regime. Exports will be promoted by reducing the cost of doing business, increasing competitiveness in international market, thus enhancing market access, diversifying exports and encouraging export-oriented foreign investment. Dissemination to the business community, commercially useful information and statistics through country economic briefs, statistical services and other publications have also become priority concern. These measures will be supported by an appropriate exchange rate policy. The market forces and economic fundamentals at home and abroad will determine the exchange rate, but the SBP will take corrective measures when so warranted.

Under the MTDF the Government will continue to provide a conducive environment for the further expansion of the export sector to sustain export earnings. For prudent exchange and reserves management, the focus of SBP will be on building in-house reserve management capacity, liberalizing the capital account in a phased manner, capacity building in the area of risk management, strengthening of reporting mechanism of exchange companies and documenting of all capital flows, especially cash transactions. Concerted efforts will also be made to reduce the import bill through the active promotion of agriculture sector to meet the food requirements.

1. Pure economic performance and well- managed competitive advantages will count more than ever before. Trade will no longer be regulated by quantitative restrictions and, as a result, there will be a large and growing market waiting to be captured.
2. Deterioration in developing countries' terms of trade is likely to continue as the US, European and Japan textile and clothing prices have been falling continuously since 1996.
3. Rationalization of trade in textiles and clothing will continue under complex patchwork of international trade agreements in which buying countries have been granted specific concessions.
4. There is likely to be a rise in antidumping and countervailing duty cases, which will pose a real threat to exporters.
5. Textile and clothing manufacturers are subject to random checks by customs officials, to ensure that transshipment activities are not taking place.
6. There would be more concerns about child labour, labour standards and environment.
7. Textile and garment manufacturers from developing countries are increasingly confronted with the need to adapt to eco-labeling requirements.
8. During the last two years government has taken many forward looking measures such as capacity building of exporters, upgrading of productive capacity, conducive environment for all the stakeholders to meet competition requirements of the WTO regime, promoting the image of exports of Pakistani products, establishment of special export zones and three garment cities, allowing import of used/second hand machinery, reducing the cost of doing business to attain competitiveness globally, and regional market access for Pakistani goods. The

Government has also focused on enlarging the export-financing base besides encouraging export-oriented foreign investment in the country.

The MTDF aims to reduce imbalances in the various components of the Balance of Payments. Increasing exports at a rate faster than the imports will reduce imbalance in the trade sector. Invisible balance will be improved by attracting private transfers, especially workers' remittances. Capital account will be improved by diversifying sources of financing with greater recourse to non-debt creating sources of financing.

The main elements of the MTDF strategy are:

i) Diversification of exports both commodity-wise and market-wise.
ii) Stable Exchange Rate and consistency in economic policies.
iii) Enhancing Export Competitiveness.
iv) Exports of Services
v) Trade Liberalization
vi) Enhancing workers remittances and to make them sustainable.
vii) Efficiency and Quality/Standard
viii) Increasing Market Access
ix) Creation of Export Culture
x) Brand development
xi) Establishment of Joint Ventures
xii) Image Building
xiii) Expanding the role of Export Processing Zones
xiv) Increasing total factor productivity.

The MTDF has all the elements necessary to promote growth and poverty reduction through globalization. However, these elements need to come together in a cohesive framework that recognizes the need for bringing together all the enabling elements from international and domestic experience to enable globalization to lead to growth maximization and for this to be translated into effective poverty reduction. The essential elements of that strategy are summarized below.

12. Policy Recommendations

1. The international evidence suggests strongly that open trade and investment policies alone are not sufficient for poverty reduction. These have to be accompanied by a host of other sound policies. Developing countries need to ensure competitiveness of their enterprises in the global economy. This requires reasonably good investment climates in which firms, particularly small domestic firms, can start up, prosper, and expand. Good governance—control of corruption, well functioning bureaucracies and regulation, contract enforcement, and protection of property rights – is an important pre-condition without which globalization cannot achieve growth and poverty reduction. The forward and

backward linkages of markets within a country and globally (through transport and telecommunications infrastructure) are essential not just for a good investment climate but also for including the poor in the processes of growth.

2. Foreign investment can efficiently provide power, ports, telecommunications, and other business services if the incentives are right; but the other pre-conditions specified above need to be met.

3. The international evidence is quite strong that integration with the global market raises the return to education in different types of countries (both rich and poor) [Stern et al (2002)]. This encourages households to invest in their children. But it also highlights the importance of good education and health services delivery. With inadequate access to health and education services it is difficult for the poor to benefit from the growth spurred by integration. With poor social services, globalization can easily lead to mounting inequality within a country and persistence of extreme poverty.

4. As World Bank (2002) stresses the combination of strong education for poor people and a more positive investment climate is critical for empowering poor people to participate in the benefits of a more strongly expanding economy. But empowerment goes much deeper than this. It is about organizing property rights and governance in a way that involves poor people in decisions that affect their lives.

5. The PRSP 1 document also recognizes that the level and intensity of poverty is also closely linked with the pace and pattern of economic growth in urban and rural areas and income generating opportunities associated with such growth. Poverty is also related to degree of social, political, and economic inclusion or exclusion. Another key determinant that cuts across these factors is weak governance that includes ineffective government, inefficient allocation of available resources, weak implementation of development projects and national priorities, inefficient judicial system, poor service delivery performance and corruption and leakage, among others. Persistent poverty and inequalities provide a fertile breeding ground for ethnicity, sectarianism, and lawlessness. Over-centralization and inadequate community participation affect the social services delivery adversely.

6. Globalization inevitably leads to winners and losers, especially in the short run. This applies across countries as well as within. The whole process is predicated on increasing efficiency and productivity. In this process the inefficient firms and activities inevitably die out and new and more efficient ones are started up and expand. It raises wages on average in both rich and poor countries, but there are some significant losers. Thus, the conscious provision of social protection tailored to the more dynamic labor market in an open economy is an essential requirement for ensuring that globalization does not lead to immiserizing growth in the short

run. It is just as important as improving human capital and ensuring access to vocational training and skills enhancement and retooling.

7. If workable social protection measures are not put into place then not only are significant sections of the society at risk so is the whole process of integration because of the erosion of confidence based on the inability to provide for the inevitable marginalization of a few.

8. The process of globalization is bringing the people of the world together to realize their common goals and challenges. One large challenge is that of addressing global and national poverty. The Millennium Development Goals reflect the global concerns to address these issues. These goals look not only at the money-metric measures of poverty but also reflect the concerns with human capital development, health epidemics and the environment. The goals speak in particular about specific levels of aid commitments from the rich to the poor nations in order to address this curse. The effective utilization of that aid to strengthen the investment climates, build human capital, buffer up governance structures and provide social protection can all lead to more effective poverty reduction through globalization.

9. Pakistan has been an active participant of the WTO for the last decade. It has endorsed the fundamental reforms in agriculture trade; phasing out quotas on developing countries exports of textiles and clothing; reductions in customs duties on industrial products; expanding the number of products with bound custom duty rates under the WTO, making increases in the import duty rates difficult.

10. Despite liberalization under the WTO over the last 10 years, there are still several challenges to increased market access17. These include among others, exceptionally high tariffs on the products of the export interests[18] of the developing economies; tariff escalation impacting adversely the exports of value added products; subsidies on agriculture sector, indiscriminate use of anti-dumping and countervailing duties, etc.

11. Multilateral trade under the current system involves complex negotiations based on sophisticated information and advanced analytical skills. Developing countries have limited capacity to understand WTO agreements and translate into national policies. There is hardly any institution in Pakistan where different stake holders can interact on the WTO issues. Most of the positions taken on WTO issues in Pakistan lack an empirical research basis and are most often based on assumptions. A clear policy perspective emerging through consultations is

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17 These are taken from Kemal (2005) The Senate Committee Report on the Implications of the WTO for Pakistan. That report also sets out the pros and cons of various positions on each of the WTO agreements of interest to Pakistan

18 While industrial countries on average have made smaller reductions in their tariffs on products which are mainly exported by developing countries than on imports from the other countries, developing countries themselves have imposed highest tariffs on the products of export interest to the developing countries.

necessary before the country commits itself to any position at the international level.

12. An institutional mechanism needs to be developed where the government, industrialists and agriculturists and service providers, both small and large, and the civil society may consult before any agreement is signed. Research institutes should consult various stakeholders before forming their research agenda. Even though there is WTO council which is to meet under the chairmanship of minister for commerce its meetings have been quite infrequent. The council needs to be activated and there should be a standing parliamentary committee on WTO.

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

    a. Set out a clear national competitiveness strategy
    b. Improve the general business climate
    c. Upgrade Pakistan’s technological capacity
    d. Promote skills development
    e. Reduce anti-export bias

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ANNEXURE: Pakistan's Experience with various WTO Agreements and Compliance[19]

Pakistan started trade liberalisation in the early 1980s and in 1983-84, Pakistan switched from Positive to Negative List of Imports.20 During 1983-84 to 1993-94, 724 items were removed from the negative list and the number of products on the negative list declined to 130. At present negative list comprise a handful of products for religious, environmental, security and health grounds. Similarly, there are neither any quotas nor any import licensing for imports. Maximum tariff rates have been reduced to just 25 percent (except for automobiles and alcoholic drinks) and the number of tariff slabs has been reduced to four. The trade weighted tariff ranges between 11 to 12 percent at present.

Although efforts have been made to reduce tariff peaks and dispersion, tariff rates still vary widely. Tariff remains a potential restraint on domestic competition and thus an obstacle to the efficient allocation of resources, with adverse effects for economy's productivity and local firms export competitiveness. There is a need for further tariff rationalisation.

To comply with the requirements of the Agreement on Implementation of Article VI (Anti-dumping), Pakistan has promulgated Anti-dumping duties ordinance-2000 and rules-2001. The National Tariff Commission (NTC) administers all complaints of dumping made by local industry under this law. The NTC has investigated and finalised two cases of dumping to date.

In compliance with the requirements of the Agreement on Subsidies and Countervailing measures, Pakistan has introduced legislation, which conforms to WTO law. Pakistan Safeguard Measures Law (Safeguard Measure Ordinance 2002 and Safeguard Measures Rules 2003), which conforms to the WTO agreement has been promulgated. The National Tariff commission is the body responsible for administering this law.

Before the implementation of WTO Agreement on Customs Valuation, a number of developing countries were using the method based on market prices for valuation. These countries were allowed a maximum transitional period of 5 years, i.e., up to 1st January 2000 for changing over to the system established by the Agreement. Pakistan opted to use this flexibility in the agreement. Pakistan amended relevant clauses of section 25 of the customs act in 1999 to bring it in conformity with the agreement.

Pakistan does not use PSI (Pre-shipment inspection) services presently and therefore Agreement on Pre-shipment Inspection does not create any obligations for Pakistan. In January 2000, the government began implementing a transactional valuation system

19 This Annexure is reproduced from Kemal (2005)

20 Until 1983-84, government specified the products that could be imported and remaining were banned. This system referred to positive list of imports. In 1983-84, Pakistan moved to negative list system, i.e., the products except on negative list could be freely imported.

where 99 % of import valuation is based on invoices in accordance with the WTO's Customs valuation Agreement. At the same time the Government of Pakistan applied for a minimum value waiver for customs valuation for some products. Currently, about 85 % of imports are assessed under WTO accepted customs valuation system.

The objective of the WTO Agreement on Rules of Origin is to require countries to adopt a uniform set of harmonised rules to determine the origin of goods imported on Most Favoured Nation basis. The work for harmonisation of rules as yet has not been completed. Therefore, at the moment there are no implications for Pakistan. When the work is completed Pakistan like other WTO members will follow the agreed rules.

In compliance with the three pillars (market access, domestic support, export subsidies) of the Agreement on Agriculture, Pakistan has taken the following steps:

- More than 36 % on average and more than 15 % on each tariff line from the base year (1986-88);
- Pakistan custom Tariff on imports has been reduced from maximum 65 % in 1995 to 25% in 2002-03;
- Regulatory Duty has been converted to fixed specific duty;
- Some items, which are harmful to animal, human and plant life, are prohibited under import policy order, which is justifiable under the existing WTO rules on religious grounds;
- Pakistan's bound tariff providing upper ceiling on import tariffs is 102 % on average, however, applied rates on the import of agriculture items are much lower. Therefore, WTO does not oblige Pakistan to make any further tariff reductions.

According to AoA provisions, Special Safeguard Measures (SSG) can be applied on a product whose tariff rate has been associated with a tariffication of non-tariff measures. Pakistan in 1995 did not notify any tariffication schedule as Pakistan had converted most of the non-tariff measures into tariff well before the submission of schedule to the WTO in 1995. Therefore, Pakistan could not avail the provision of Special Safeguard Measures (SSG). Out of 144 members only 38 have the right to use this products specific SSG. Pakistan cannot enjoy tariff concessions under tariff quota provision, as Pakistan has no agreement with any developed country for such concessions. Until recently agricultural producers in Pakistan were provided a notional type of Minimum Support Price for few commodities restricted to wheat and cotton only. It has phased out subsidies to agricultural inputs even though provisions are available in the AoA.

According to article 4 and 5 of AoA all member countries have to notify their Aggregate Measure Support (AMS) to the WTO every year. It comprises product specific and non-product specific support. The product specific support is based on the price support provided by government to the farmers through the procurement of agricultural commodities such as wheat, cotton, sugarcane, rice, gram, potatoes, onions and non-traditional oil seeds. In case of Pakistan this is negative since the emergence of WTO in 1995. Second part of the AMS is non-product specific, which is based on the subsidies provided on the fertilizer, electricity, seeds, pesticides and credit. In case of non-product specific support budgetary and hidden subsidies on fertiliser and credit have been phased out. A small amount of economic subsidy in lieu of tariff reduction on electricity used by agricultural tube wells has also been phased out with effect from July 2000. Punjab government subsidy on sinking tube wells has also been withdrawn.

Pakistan cannot provide export subsidy on any item because in the base year period i.e., 1986-90 there was no export subsidy and this was notified to WTO in 1995. Only provision, which is available in the agreement, is Article 9.4 (d & e) according to which export subsidies21 can be provided for up-gradation and transportation of agriculture commodities. Nevertheless, the de-minimis subsidy of 5 percent of agricultural produce can be provided but due to financial constraints Pakistan does not provide any subsidy to agriculture. As a matter of fact by imposing 15 percent sales taxes on agricultural inputs such as fertilisers, Pakistan is penalising agriculture.

In major agricultural commodities such as wheat, rice and cotton Pakistan by and large enjoys comparative advantage. However, because of inadequate infrastructure and inefficient processing/manufacturing sector, the country has not always been in a position to translate its comparative advantage into production and export surplus. Pakistan's agricultural exports are facing very tough competition in international markets because developed countries are exporting agricultural products through subsidies not only at marketing stage but also at production stage. It created artificial competitive edge to developed countries, which hurt the export prospects for Pakistan.

In compliance with the Agreement on Sanitary and Phytosanitary Measures (SPS), Pakistan has notified the Ministry of Food and Agriculture (MINFAL) and its departments as enquiry points from where businessmen of any country can obtain latest information regarding SPS measures in Pakistan. MINFAL is in the process of revising and strengthening existing laws pertaining to quarantine, plant protection etc.

The Agreement on Technical Barriers to Trade has set out a code of good practice for the preparation, adoption and application of standards by government bodies. Pakistan Standard and Quality Control Authority (PSQCA) has accepted this code. Pakistan has notified PSQCA and Ministry of Health as enquiry points. The PSQCA has adopted all ISO (International Standards organization) & IEC (International Electrochemical Commission) standards. The PSQCA set standards, establishes inspection systems, collaborates with international organisations and disseminate information on standards and quality control. There are currently about 4600 national standards for agriculture and food, chemicals, civil and mechanical engineering, electronics, weights and measures, and textile products. This would help in international market access for Pakistani products.

21 Pakistan is providing 25 % freight subsidy on the export of fruits and vegetables since July 2003.

With regards to services, legislation has been passed to reduce impediments to the operation of foreign firms. The dismantling of subsidised lending rates for priority sectors has been part of a gradual effort to eliminate numerous de facto subsidies. Government procurement, however, has continued to be used as an instrument to support local industry. Price preferences of up to 25 % may be accorded to domestic suppliers, particularly in engineering goods contracts, and 10% of the annual procurement budget of public sector agencies may be allocated to domestic purchases.

Pakistan's 1997 investment policy provides access to the FDI in the services sector. In the social sector, including education, technical and vocational training, human resource development and medical and diagnostic services, foreign investment with 100 % ownership of equity is permitted, provided a minimum-equity requirement of $ 0.3 million is met. Other services like wholesale distribution, retail trade, transportation, technical testing facilities, and audio-visual services are also open to foreign investment with the same minimum- equity requirement. However, foreign ownership of 100 % equity is only allowed at the onset of the investment in these sectors, and must be reduced to 60 % within five years with the condition that the repatriation of profits is restricted to a maximum of 60 % of total equity or profits.

Pakistan committed in WTO negotiations in December 1997, the right to establish banks and grandfathered acquired rights of foreign banks and foreign securities firms. The general insurance and life insurance sectors are now open to foreign investors; they are entitled to hold a 51 % stake in companies in these sectors. Foreign investors in the insurance sector, however, must meet minimum equity investment requirements of $2 million in foreign exchange and raise an equal amount in equity in the domestic market. There are no restrictions on repatriation of profits, but the original capital invested in the insurance sector cannot be repatriated. Under the WTO agreement on basic telecommunications services, Pakistan made commitments to provide market access and national treatment for all local, domestic long distance and international basic voice telecommunications services and private leased circuit services as of January 1, 2004. E-mail, internet, electronic information services and private leased circuit communication network services, truck radio services, cellular mobile telephone services, audiotex, voice mail and card-pay services, close user group for banking operations, international satellite operators for domestic data communication, paging services, vehicle tracking system and global mobile personal communication system are now open for 100 % foreign ownership at the onset of the investment, which will be reduced to 60 % after five years. However, the amount of foreign equity investment shall not be less than $0.3 million in these services. Other telecommunication services can be provided only through the network facilities of the Pakistan Telecommunication Company Limited (PTCL). Up to 100 % foreign investment on licensed services may be permitted; there will be no foreign ownership restrictions. Pakistan also adopted pro-competitive regulatory principles regarding transparency of regulations, interconnection and numbering, and competitive safeguards.

Opening most sectors of the economy to FDI in a liberalised investment regime led to sharp increase in investment up to 1997-98 but due to sanctions imposed on Pakistan investment inflows dropped significantly in the subsequent years. However, over the last three years foreign private investment has increased sharply.

Pakistan has so far made commitments in only six of the twelve services sectors which are business services, financial services, communication services, health and related services, construction and related engineering services and tourism and travel related services. Apart from the commitments, there are a number of autonomous liberalisation cases as well; in financial sector, the banking companies are allowed to conduct the asset management and leasing businesses as well; in the transport sector, there are few foreign companies operating with full market access and national treatment; in express delivery and shipping services, the major part of business is with foreign-service suppliers.

As far as the Trade Related Investment Measures (TRIMS) are concerned, Pakistan is one of the 24 countries that notified investment measures consistent with the agreement. These measures were to be phased out in 5 years as per conditions of TRIMS agreement. During the period Pakistan has made an all out effort to eliminate all outstanding TRIMS. Pakistan had 102 deletion programs of which 58 related to machinery, 18 to domestic appliances and 16 to automobiles. Except for 16 programmes relating to automobiles, Pakistan has eliminated all the other programmes. Thus about 85 % of deletion programmes have been done away with. However, an extension up to Dec. 2003 was granted by the WTO on Pakistan's request for automobiles. Another request for further two-years extension in TRIMS relating to automobile sector deletion programs has been submitted by Pakistan. Nevertheless, Pakistan has almost prepared tariff-based deletion program in conformity with WTO. Pakistan has liberalised its foreign investment regime and actively encourages both portfolio as well as FDI22.

Pakistan has revised its IPR laws in order to make them TRIPS compliant, Ministry of commerce has set up, Pakistan Intellectual Property Rights Organisation (PIPRO), as an umbrella organisation with a view to improving enforcement of IPRs and wherever necessary recommend changes in the administrative and legislative framework.

Patent Office under the administrative control of the Ministry of Industries have been authorised to grant patent, under the Patent Ordinance 2000. The use of flexibilities, under the TRIPS has been made in the Patent Ordinance 2000, on the move of the Ministry of Health, and in consultation with the pharmaceutical industry. The industry is being upgraded in terms of manufacturing facilities and quality. Right now more than 70 national pharmaceutical units have got ISO certifications. The industry has started the Research and Development facilities and in preparing for FDA approved facilities. These national pharmaceutical companies should be directed to make efforts to enter foreign markets. A task force comprising members familiar with the entire issue should be constituted to look into the problems and finding solution at national level. It should also make coordinated links within the regional countries.

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22 In the past, however, investors have faced unstable policy conditions, particularly on large infrastructure projects. The government of Pakistan has now resolved operating contract disputes with all IPPs.

New laws on copyrights, industrial designs, and layout of integrated circuits, trademarks and patents have been enacted but a new law on plant breeder's rights has yet to materialise due to federal provincial jurisdiction problems. While Pakistan has enacted IPR laws covering most domains, enforcement remains weak. Pakistan is a member of the Berne convention for the protection of Literary and Artistic Works the Universal Copyright Convention, and the World Intellectual Property Organisation, but is not a member of the Paris Convention for the Protection of Industrial Property.

Recently, government enacted a new patent law which protects both process and product patents. Patents are granted for up to 20 years from the date of application. Legal remedies such as injunctions are available in the case of patent infringement.

Pakistan enacted a new Trade Marks Ordinance, which provides for registration and protection of Trade Marks and for the prevention of the use of fraudulent marks. The new ordinance replaces the Trade Marks Act 1940 which provided Trade Mark protection but did not meet all requirements of the TRIPS agreement. Pakistan has done away with requirement that pharmaceutical firms label the generic name on all products with at least equal prominence as that of the brand name, although they must still display the generic name. There also have been occasional instances of trademark violations, for toys and industrial machinery.

International Intellectual Property Alliance estimates that 80 % of computer software and 60 % of motion pictures sold in the Pakistani markets in 2000 were pirated. Piracy of copyrighted textile designs is also a serious problem. As a result of strengthened law enforcement pirate outlets are taking steps to offer legitimate products. Sustained and stronger enforcement needs to be paired with action by the courts to prosecute the violators. The new copyright law provides for much higher penalty for piracy.

In addition to the above-mentioned steps of compliance government has endeavoured to make transparency and competition the rule of the game. For instance, the government along with its numerous state-owned corporations is Pakistan's largest importer. Work performed for government agencies including purchase of imported equipment and services, is often awarded through tenders that are publicly announced or issued to registered suppliers. The government of Pakistan subscribes to principles of international competitive bidding and international tenders are properly advertised.