

Globalisation: The Challenge for Pakistan

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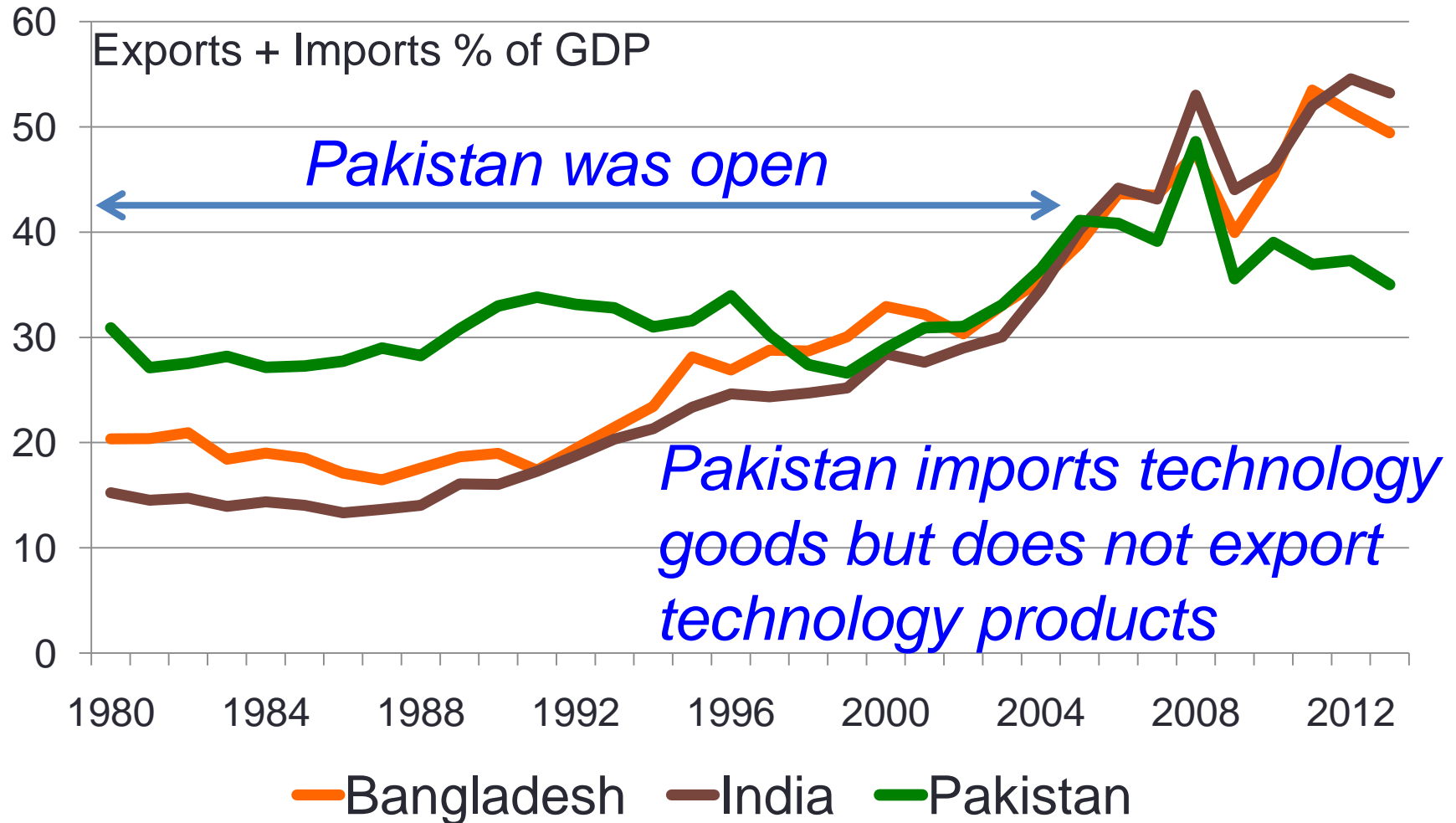
Our globalisation challenge

- 30 years of globalisation have seen booms and busts, and also remarkable economic transformation in Asia
- Why is Pakistan not getting rich in rising Asia?
- What have we not done?
- What are we doing wrong?
- What should we do better?

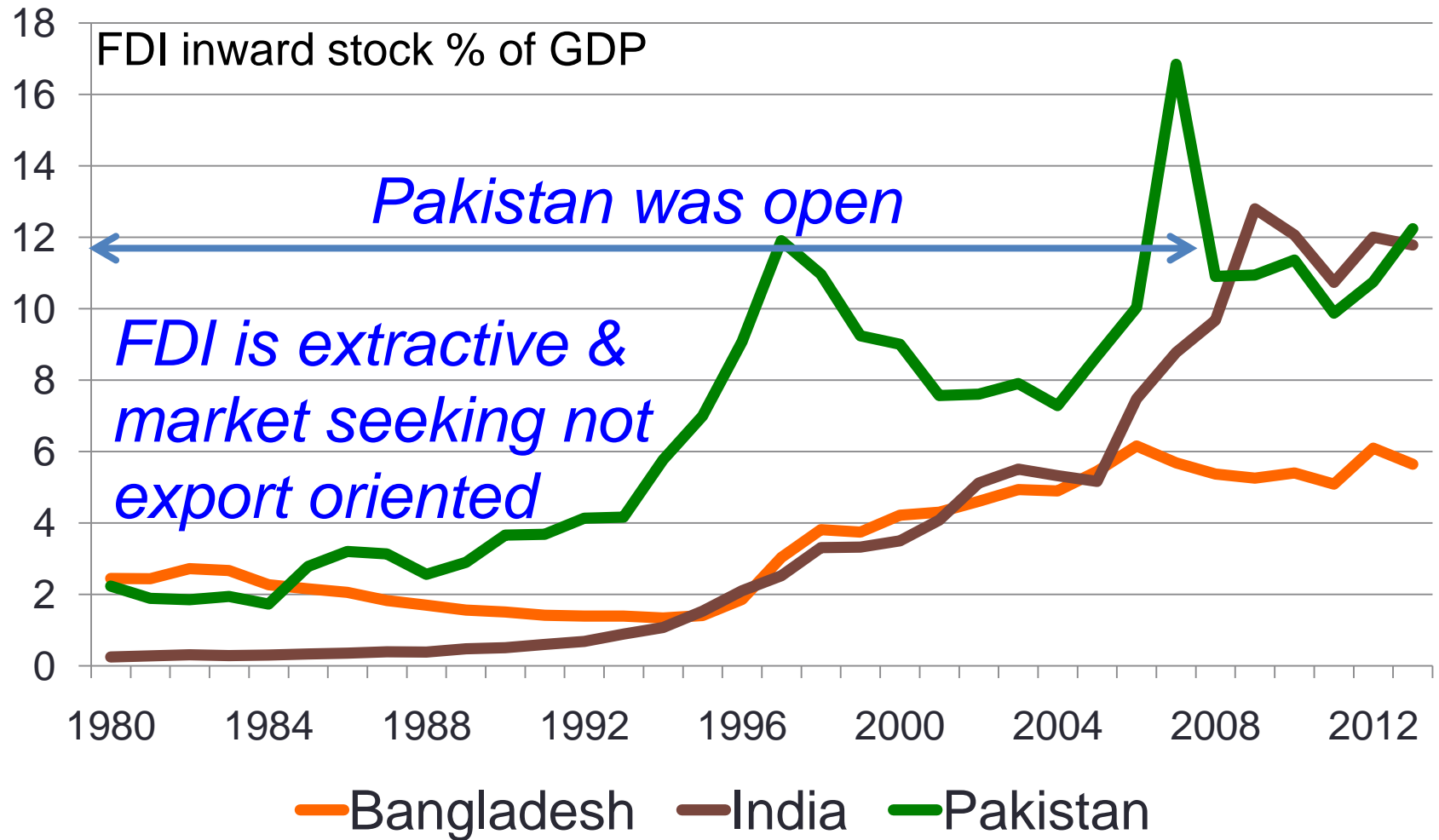
Globalisation in brief

- Deepening international production led by TNCs, FDI, and global value chains
- Industrial production is in constant makeover and processes gets outmoded more rapidly than capital depreciation
- Externality: enterprises may carry on doing the same while economy can fall behind globally (blind spot)
- Cross-border connectivity can stimulate industrial transformation
- Role for public institutions and industrial policy

Trade openness



Openness: foreign direct investment

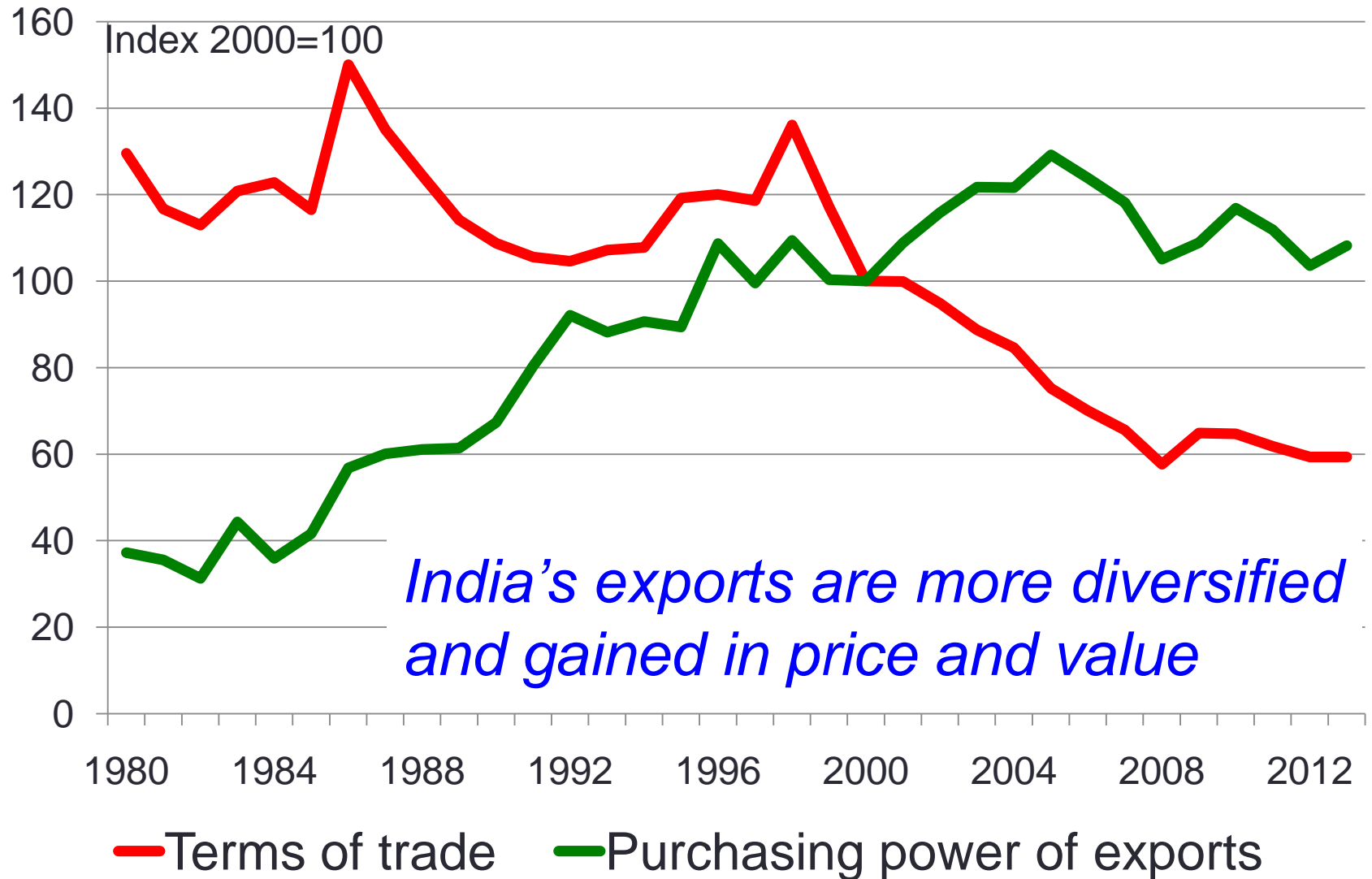


Global value chains

- Pakistan is integrated but has moved down the garments value chain, with expansion in low value and slow growth segments
- Bangladesh has moved up the garments value chain and is a top global exporter

	Exports in global value chains
Bangladesh	36%
India	36%
Pakistan	40%

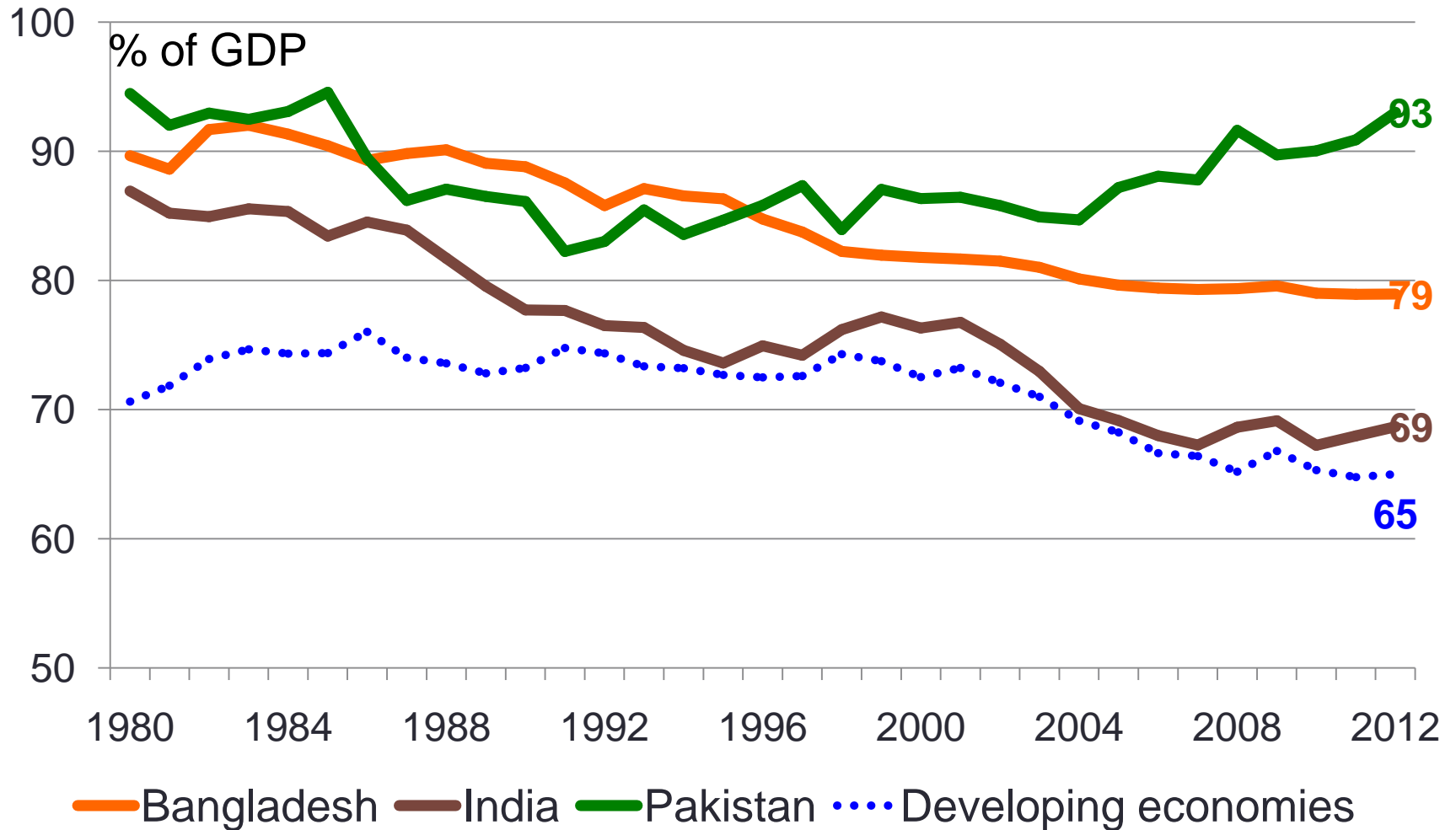
Pakistan: exports undercut by terms of trade



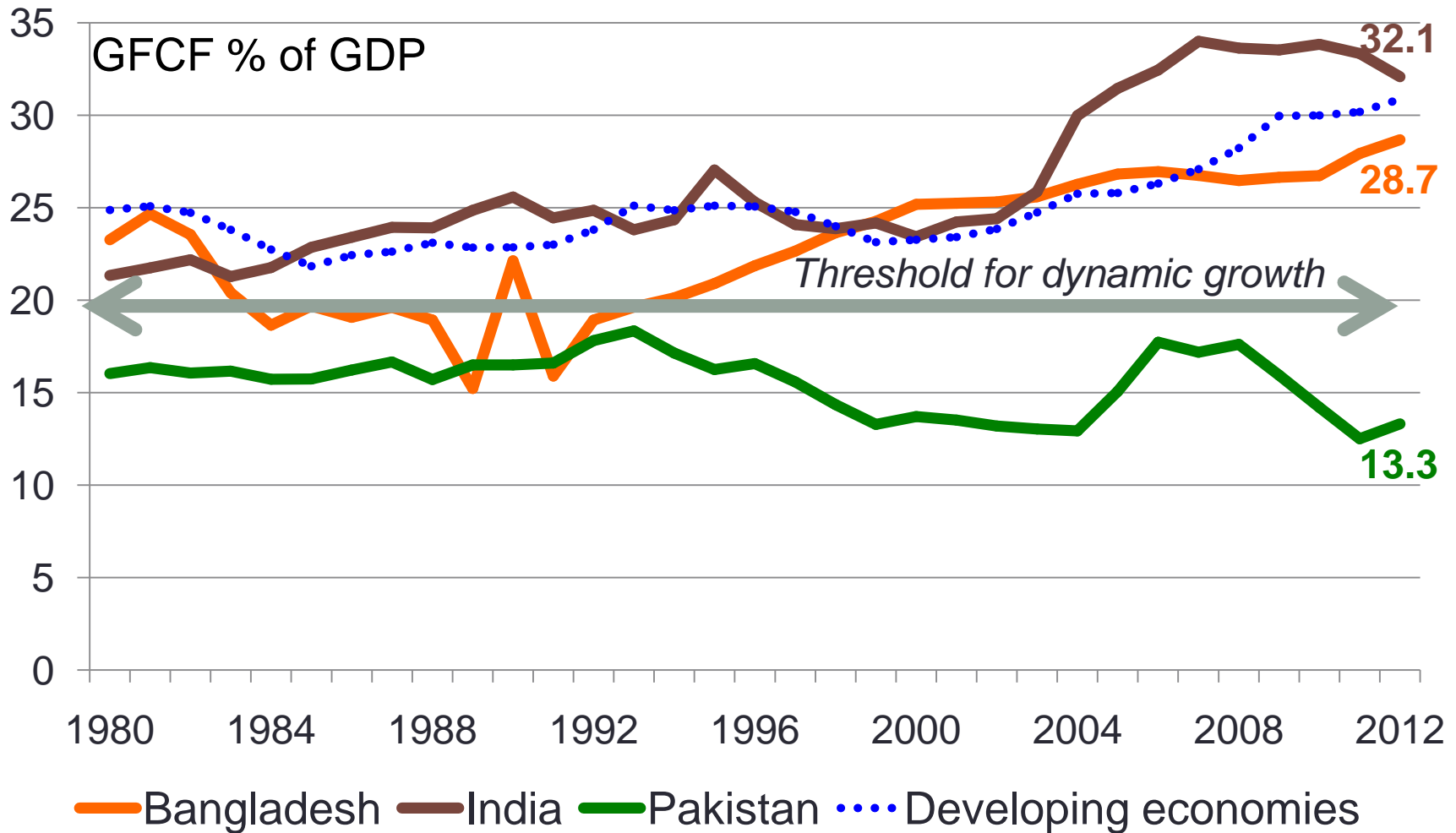
Complications

- Demographic dividend has created a rising middle class which demands consumer goods
- Worker dividend has generated large inflows of remittances that supplement low incomes and finance trade deficits
- People are getting rich but the economy cannot sustain high consumption, low investment growth

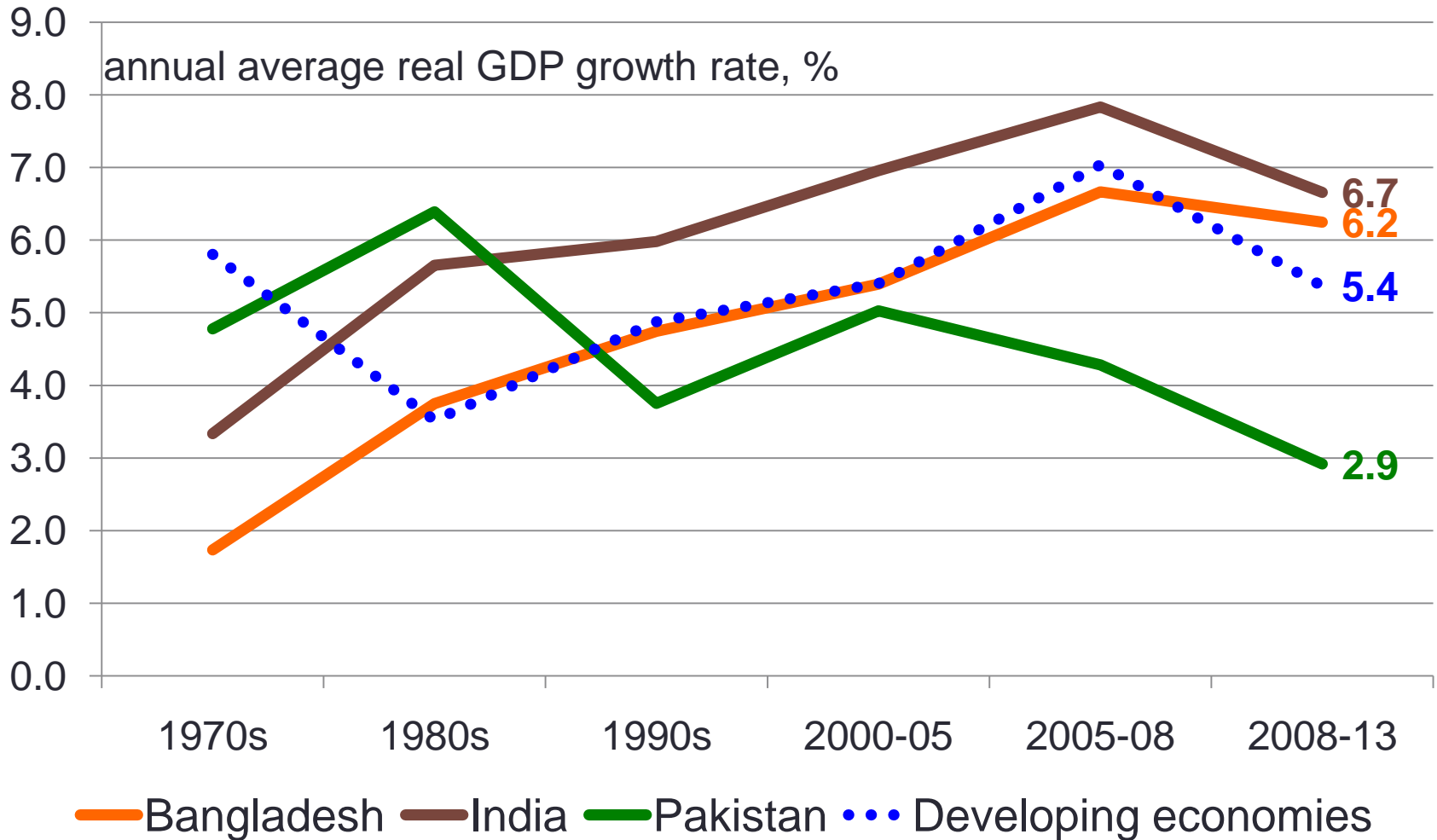
Consumption: high in Pakistan



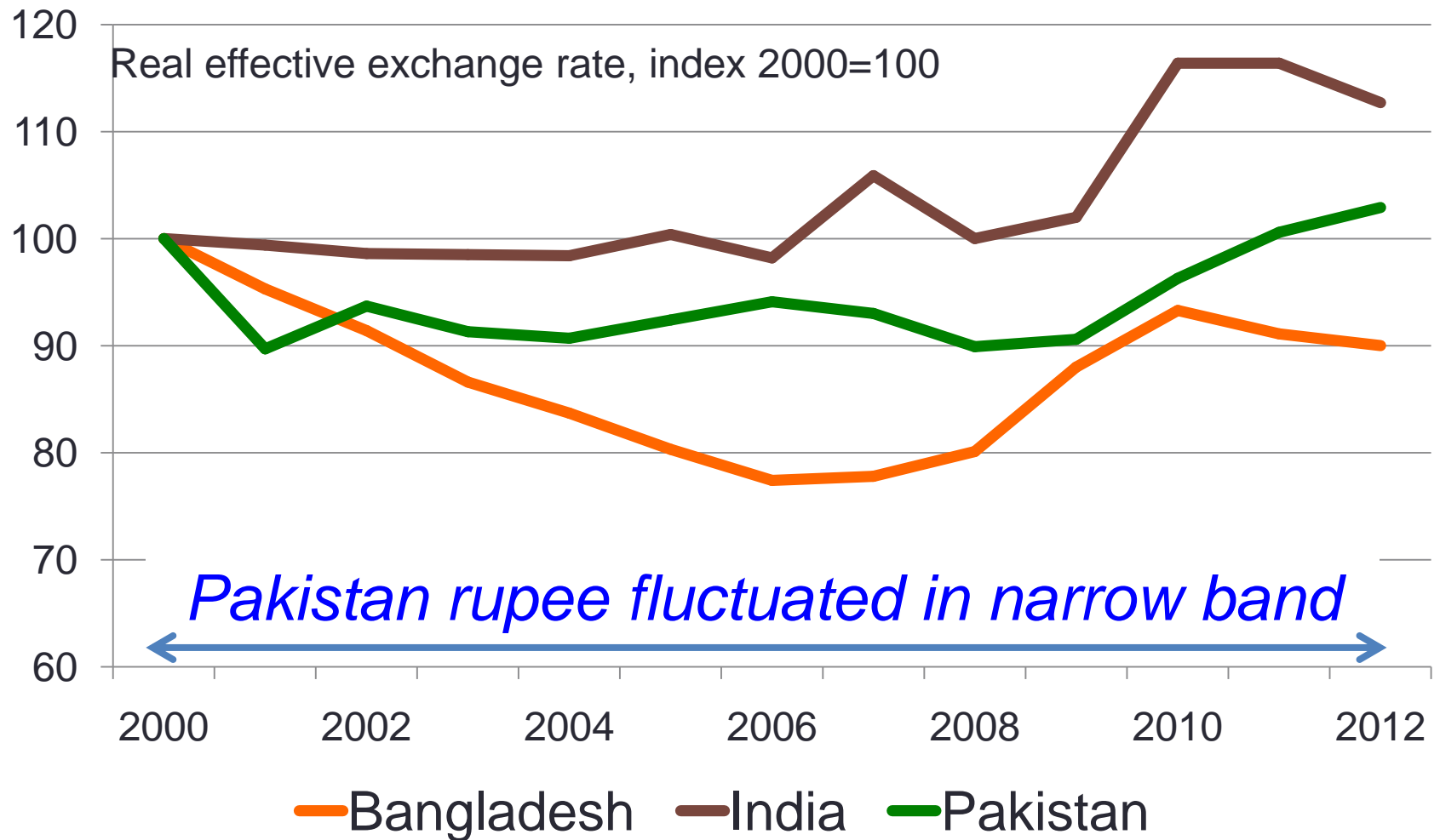
Capital formation: very low in Pakistan



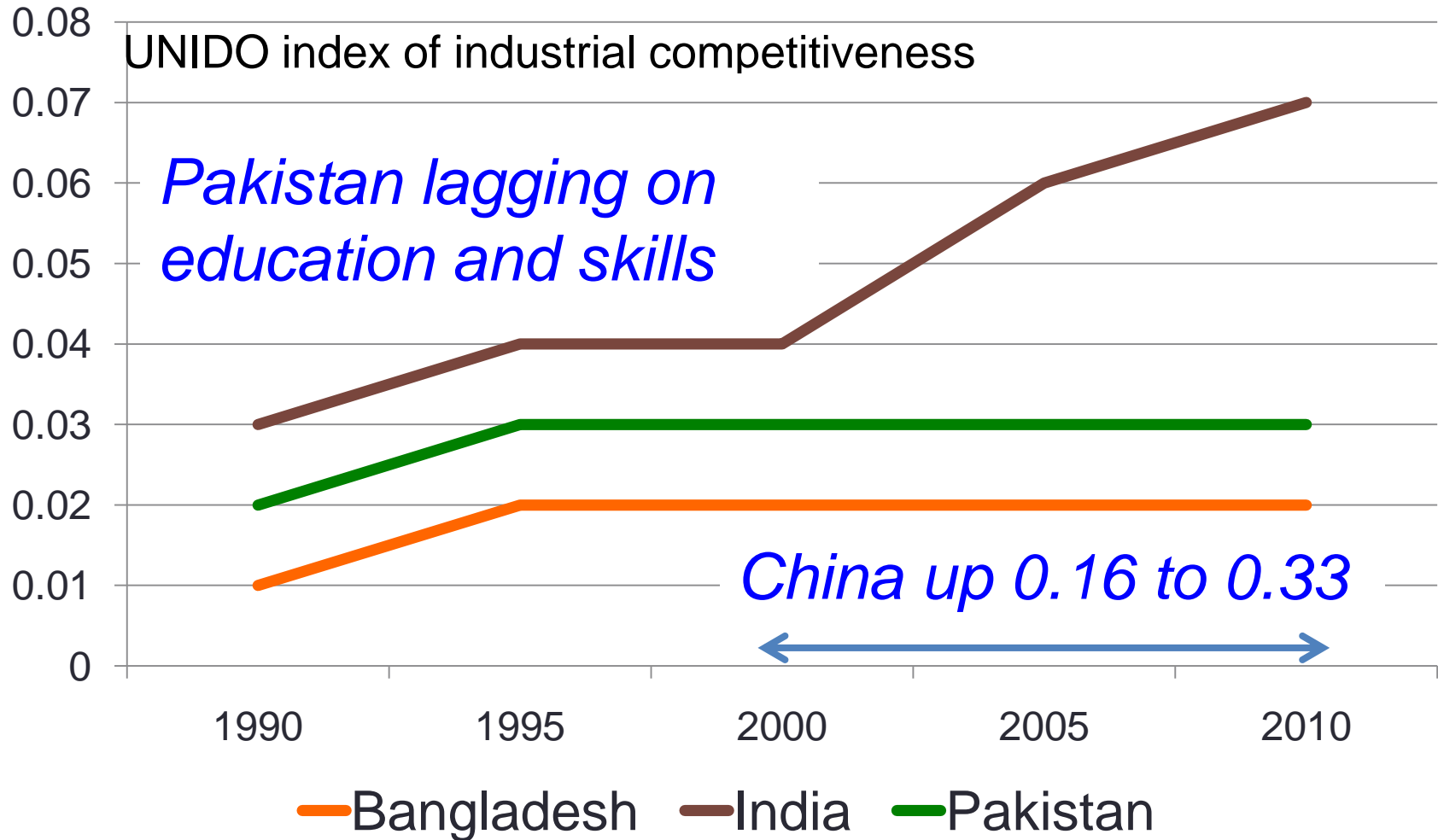
Economic growth: slowing in Pakistan



Pakistan is managing external balance well but neglecting need for dynamic growth



Technological capabilities: low & stagnant



Government should fast-track Vision 2030

- Diversify existing industrial base (technological upgrading, linkages, exports)
- Target growth industries
- Restructure state enterprises
- Encourage SMEs and entrepreneurship development
- Develop clusters of knowledge-based activities
- Education and managerial programs
- Regulatory reform

Summary

- Domestic markets do not generate adequate incentives to engage in the global economy
- TNCs see Pakistan not as an export platform but as a location for extraction and as a market
- Exports is a blind spot that needs closing
- Government should work with industry to develop export potential and better integrate Pakistan into international production

Conclusion: beware of half truths

- ✗ Large economies do not need to globalise
- ✗ Openness defines success in globalisation
- ✗ Technology is a quick fix
- ✗ Manufactures are better than commodities
- ✗ Manufactures are better than services
- ✗ Tradable and non-tradable sectors differ