

Impact of Globalization on SMEs Export Business and Economy of Pakistan by Using CGE Model

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Abstract

This research investigates the Globalization impact on the SMEs export by using Computable General Equilibrium model. The main objectives of this research are to provide detailed overview of economic reforms in the last decade by using the General Equilibrium Model. Data were collected from 300 SMEs business exports in Pakistan by using simple random technique. Structural questionnaire is used as a basic tool for measuring export potential. Data from developing countries were collected through secondary sources and data were analysis by using Gem-Software. It was revealed that from last decade, globalization has positively revolutionized the SMEs export business the economy of Pakistan. The Global trade analysis Purdue (GTAP) model is used to analyze the possible impact of Globalization on Pakistan's economy in a multi-country, multi-sector applied General Equilibrium frame work. After employing the simplified static analysis framework based on simulations reveal that Globalization and FDI have influenced positively on the economy of Pakistan. The general inflation rate is decreased and living standard is increased in urban areas. Employment opportunities are also increasing due to the investment made by the FDI and as for as cultural context is concerned, Pakistani people are more reluctant to reduce the traditional cultural barriers. On the contrary side, other consumer items like leather-made and cotton-made garments will expand after the FTA and consumer surplus will increase. This perspective enables us to identify new challenges in the global economy and to identify the multiple routes through which power and resource inequalities are reproduced within it. More positively, it helps to identify new opportunities and routes to challenging these inequalities. The application of this perspective to the impact of the rapidly-growing economy in real increase in terms of trade.

Keywords: Globalization, Economy, CGE Model, Pakistan

Introduction

Globalization is an umbrella term that describes an ongoing process of establishing various personal, cultural, and business relationships with other countries. This process embodies an increasing view of the world as a community. People and companies are interacting with others in different countries more than ever before. This includes personal communication between people that live on the other side of the world from each other. Companies are now striving to open markets in developing countries, instead of only delivering products and services domestically. (Technology is beginning to expand across nations. Information is being shared with a multitude of people throughout the world in a fraction of the time that it would take to contact someone down the hall from your office. There is a growing interdependence of one country on another. The process of globalization appears to be accelerating and growing rapidly. As time continues to pass, it appears that we are moving to a world where the lines that divide one country from another will begin to blur and eventually fade away entirely. Globalization – the growing integration of economies and societies around the world – has been one of the most hotly-debated topics in international economics over the past few years. Rapid growth and poverty reduction in China, India, and other countries that were poor 20 years ago, has been a positive aspect of globalization. But globalization has also generated significant international opposition over concerns that it has increased inequality and environmental degradation. This site provides access to some of the most recent presentations on globalization and some of the leading research on the subject. Globalization is a term that is used to describe the changing world order in which various aspects of a nation that include the economic, social, political, cultural and environmental factors are viewed as being part of a global community and not restricted in their scope. The term came to be used to describe the phenomenon of global flux in which trade as represented by capital and material can move freely across the world with lesser restrictions with respect to national boundaries. Globalization though it has been essentially connoted with economic issues synonymous with multi national companies (MNC) and their policies that directly or indirectly affect populations across the world has also consequently ushered in an era of change with respect to social and cultural matters inducing a competitive spirit in world culture for the better or worse according to the social fabric of various communities and their flexibility and adaptability. Knowledge, with respect to developments in science and technology is perceived to be the driving force behind globalization and continues to be the decisive factor what with the outsourcing trends of several MNCs to offshore destinations in recent times. Globalization has often been seen as being a subtle factor that tries to undermine welfare policies of governments across the world and individual choice and being elitist in nature but it has also unconsciously forced democratic nations to be more affirmative and inclusive with respect to the betterment of all sections of societies and also to address vital issues like the conservation of the environment.

In the area of employment creation, extrapolation from various sources suggests a possible direct employment effect of Globalization in developing countries of around 26 million jobs in 1997. Estimates of the indirect employment effect of FDI vary widely around a multiplier of 1.6 (i.e. 1.6 indirect jobs for every one direct job). Also, foreign-invested enterprises (FIEs) do generally pay higher wages than domestic companies, and even in low-wage, labor-intensive industries, FIE jobs are often considered better than the alternatives of unemployment or underemployment. However, investments in different industries clearly have different job-creation propensities which policymakers need to take into consideration. There is also an increasing recognition that ways of harnessing FDI to support small and medium enterprise (SME) sectors in developing countries, and associated employment creation, remain under-exploited. (*Heien, D, and Wessells, C.R. et al. 1990*) regarding employment practices, a key issue is the effect of FDI on female participation in the labor force. On the one hand, greater female employment at FIEs, in addition to helping level the playing field in terms of employment opportunities, results in a direct increase in household income and a higher proportion of income expended on meeting basic family needs. On the other hand, women are often paid less than men in comparable jobs, isolated from mainstream job advancement opportunities, and subject to greater employment instability. Another major issue is that of child labor, with subcontracting often making monitoring difficult, and many children serving as primary household earners. As a second-best solution to banning child labor and providing schooling instead, improved corporate governance on the part of governments, and improved corporate management on the part of companies are crucial. Progress in this area is a function of policy measures and their enforcement, and of greater dialogue and collaboration between the government and the (foreign and domestic) private sector.

It is a matter of fact that there are a lot of things in which large companies are experts while the small firms can better do some things also. If both, small and large firms do their business in which they get advantage, the welfare of the economy can be maximized and the state of specialization can be attained. When we focus on the

impact of small as well as medium firms on the whole economy, it is difficult rather impossible for us to segregate their impacts from the impact of large corporations.

This issue remained a hot topic for centuries. Economists were of the view that it is a large firm, which participates actively in the economy and also shares a large amount of foreign exchange earnings. But their point of view changes when the countries like Taiwan, Japan and Korea developed on their small and medium based business. It is crystal clear that these economies developed through the grass root level as small and medium enterprises belong to grass root. Those who believe that the large firms are only responsible for economic growth should keep in mind that the small vendors and small suppliers contribute heavily in the production of large firms. The reality on ground is that small firms are held responsible for making large firms to attain their targets. The progress and prosperity, which take place from the lower level, benefit all the classes of the society. The spill over impacts of SMEs proves to be ever lasting on the world's economy.

The situation differs in Pakistan. It is not more than 10 years that Govt. of Pakistan has established an institution named small and Medium Enterprise Authority (SMEDA) which is considered responsible to promote small and medium enterprises. SME sector is being neglected in Pakistan and so as the impacts of small and medium firms on Pakistan's economy. Pakistan is a very potential market for SMEs and if undertaken in systematic way can prosper economy within no time. Sindh province has a considerable advantage in some areas which needs to be explained quickly to reap the benefits of exports. Such benefits can increase foreign exchange rates very positively to develop a favorable framework in all areas of progress.

The awareness like fishing, education, fruit, crops, garments, cotton, sugar cane, dates ginning, wood, auto and many other areas are the basic startups for many people. This research explains the potentialities of some areas and knowledge of how these areas can contribute towards Pakistan's economy by increasing the foreign exchange rates with reference to Sindh province. The high authorities and ministry of development and product should formulate some strategies to design practical policies with the cooperation of stakeholders, such policies will be flexible in enhancing the SMEDA plans and flourish SMEs activities at the larger scale. This will give a big boost to startup ideas and create cordial atmosphere of businesses. This will aid a lot more in understanding the export of Pakistan specially Sindh sector and improve our foreign exchange earnings. The main focus will be on SMEs' roles in economic growth and poverty alleviation through the increase of entrepreneurial and small scale business activities in the country especially in Sindh.

The third chapter provides a review of theoretical and empirical literature and the significant issues related to the understanding of Small and Medium Enterprises. Literature of Small & Medium Enterprises is divided into two sections: International and National studies.

First section evaluates the existing international literature in regard to the development of SMEs, their role in economy specifically in exports, challenges and problems they are facing. Balasuriya (1992), Voerman, Wedel and Zwart (1998), Muranda (2003), Hi Lin Hoon, Stoain (2007)'s studies support the concept of export oriented SMEs and highlight the positive relationship between Exports and SME's growth. While other studies by Majumder (2004), Kacker (2005), Saleh and Ndubisi (2006) and Tambunna (2006) investigate the problems and challenges for SME's development. However, Branco (2003) argues the role and importance of small & medium enterprises in economy.

National studies also correlate the presence of SMEs with several economic factors. Berry (1998), Mustafa and Khan (2005) and Khawaja (2006) outline the importance and potential of SME sector in Pakistan's economy. Husain (2003) discusses the role of SMEs in production of exports and the challenges they are facing in local market. Coy, Shipley, Omer and Khan (2007) determine the factors responsible for attaining success in small business in Pakistan.

The fourth chapter elaborates that SMEs constituted major share in the exports of Pakistan and contributing almost thirty percent to GDP on average during the time period of last five years. The main sectors included in SMEs were Footwear Industry, automotive parts, dairy industry, meat industry, leather industry, sports goods, fabrics, garments, bed wear, towels, tents and canvas, horticulture, cutlery, gems and jewellery, blankets and traveling rugs, furniture sector, pharmaceutical sector, services sector etc. Growth in SMEs sector has a direct impact on Pakistan's exports and vice versa, which is needed to be focused on priority basis.

The fifth chapter presents a glimpse of policies related to SME in Pakistan. It highlights the advantages and incentives given to SME sector in Pakistan and also throws light on the shortfalls in the policy formulation and implementation. It also provides a comparative study of policies related to small and medium enterprises in different countries. In the last chapter some recommendations and proposals have been made for the improvement and development of the small & medium enterprises in Pakistan.

Methodology

Data Collection and Research Methodology

Data were collected from 300 SMEs business exports in Pakistan by using simple random technique and Structural questionnaire is the basic tool for measuring export potential. Data from developing countries were collected through secondary sources and data were analysis by using Gen-Stat-statistical software. The sources of the data are various issues of Economic Survey of Pakistan, database of Small & Medium Enterprises (SMEDA), publication of International Trade Centre (ITC), annual reports of State bank of Pakistan, database of Trade Development Authority of Pakistan (TDAP), publications and databases of Federal Bureau of Statistics, trade polices from Ministry of Commerce of Pakistan, databases of Ministry of Finance, etc. Literature covers the research papers and studies available on the subject on internet and journals and libraries. The study is an attempt to present comparative analysis of the various SME based economies in the world specifically from Asia.

Model: The Micro simulation method proposed in this paper relationship of both a CGE model and Household model. What distinguish from this model from the work of (*Janvry et al .1992*), (*Ajitha et al 2004-05*) and (*Bourguignon et al 2000*). Is its bi directional relationship. The model line Globalization and its impact on economy of Pakistan and poverty on both household and rural spending.

Description of the Model

Model 1. Globalization impact on SMEs export laid Growth

Computable General Equilibrium Model (CGE).

To compare the impact of Globalization on rural and urban population we started with the simple model, which however integers all the standard characteristics of the CGE model of small under developed country. The demand system is derived from the Cobb Douglas utility function with two factors of Globalization and poverty relationship. Regarding the household model we have an income function consisting of rural projects of FDI and their general impact on the rural households on consumption.

Results Analysis SMEs export laid Growth

We only performed one simulation to illustrate the approach's contribution. Different simulation has been tested to verify whether the conclusions reached in terms of impact of Globalization on SMEs business in Pakistan.

Table 2 shows production of automotive sector during last thirteen years.

Leather Industry

(Finished Leather, 2002) stated that world's leading exporters of finished leather were Italy, Republic of Korea, Argentina, USA, Germany and Brazil. Further, Hong Kong, Italy, Germany, Spain and France were important buyers of finished leather from Pakistan in 2002. During 2002, Kasur (223) was main cluster city of finished leather in Pakistan followed by Sialkot (210), Karachi (174), Gujranwala (51), Multan (43), Sheikhpura (28), Lahore (15), Sahiwal (8), Faisalabad (7), Peshawar (6), Sargodha (5) etc.

Following Table shows export of Leather Products during 2001-06. Export of leather Tanned shows variation during 2001-06 as shown in Figure. Exports of leather tanned decreases from US\$ 239,934 thousand in 2001-02 to US\$ 234,774 thousand in 2002-03 showing fall in exports by 2.15 percent during the same time period. Then, again exports of leather tanned shows increasing trend in two consecutive years of 2003-04 and 2004-05 by 7.21 percent and 20.63 percent respectively. However, it depicts decrease by 3.69 percent in 2005-06.

In the Table 3.6 export of leather gloves from Pakistan shows increasing trend except the year of 2005-06. In 2005-06 export of leather gloves stood at US\$ 151,459 thousand as compare to US\$ 164,333 thousand in 2004-05 decreased by 7.8 percent during the same time period. Major buyers of Pakistan for the product of leather gloves are USA, Germany and France with their share at 22.99 percent, 11.64 percent and 7.85 percent respectively in 2005-06.

Export of leather products in the category of apparel & clothing increased except 2002-03. The value of Export of Pakistan in this product stood at US\$ 501,786 thousand in 2005-06 as compare to US\$ 321,341 thousand in 2001-02, with an increase of 56.15 percent over the period. While Pakistan's export of leather manufactures n.s. shows growth of 558.21 percent during 2001-06.

Conclusion

The purpose of this paper to analysis the impact of Globalization on economy of Pakistan by using CGE frame work. We started with the comparative exercise of Globalization and its role in reducing poverty in Pakistan. The

Household Model this model limited only capture the heterogeneity element in household behavior. There are two main factors Globalization and their impact on GDP and economic growth. In the second model linear expenditure system (LES) replaces the demand of system derived from Cobb-Douglas utility function. This exercise highlighted the contribution household disaggregating in the context of CGE modeling exercise and marginal contribution of introducing the heterogeneity elements. According to the results Globalization has significant impact on the economy of Pakistan. CGE Model has been gaining importance in policy analysis of the inequalities of poverty. Globalizations policies can affect in not only improve the economic growth but also help in poverty reduction policies. The task of the policymaker is to coordinate policies affecting the two areas in such a way as to optimize the contribution of Globalization to alleviate poverty in Pakistan. The overall in-depth sample showed a high degree of concern over economic problems but that concern did vary. The constraint which was most uniformly faced was political instability followed by (the related constraint) uncertainty in the business climate. Those in Sindh were significantly more concerned about their lack of information on their competition and about the lack of market for their products than their peers in Punjab or NWFP. Even more dramatically, all those interviewed in Sindh were severely threatened by uncertainty in the business climate and by climatic disasters while their colleagues elsewhere were much less likely to rank these as serious constraints. More than 80% of them thought that government corruption was serious problem for them as well.

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Model 1. Globalization and Impact on Economy of Pakistan

Vari ables		Base Value	Model 1-AR	Rural	Mode 1 2 RH	Urban Poverty	Mode 1 U-C	Change
W1	Formal Wages	0.5	-0.76	-.05	-0.5	+0.1	0.5	0.5
W2	Informal wages	0.1	NA	NA	NA	NA	NA	NA
Mps	Marginal propensity to save	0.1	0.5	-0.2	0.3	+0.5	+ 0.6	0.6
FDI	Foreign direct investment	20900000	0.3	-0.4	-0.6	+0.54	0.58	0.5
GDP	Gross domestic Product	15265435.1	0.01	-0.2S	-0.5	+0.57	0.57	0.33
Rh	Rural household consumption	1455676776	0.25	0.24	-0.25	+0.787	0.56	0.44
Uc	Urban house hold consumption	324355455	0.55	0.88	-.25	+0.75	0.88	0.55

Table 1. Contribution of SME in Manufacturing and GDP of Pakistan

(Percentage)

Year	SME as a percentage of GDP	Percentage share of SME Manufacturing in Value Addition	SME as a percentage of Industrial Labour
1994-95	5.79	31.26	81
1995-96	5.90	32.8	80
1996-97	4.7	27	80
1997-98	-	35	-
1998-99	5	-	80
1999-00	-	-	80
2000-01	-	-	-
2001-02	30	30	80
2002-03	30		80

Source: Economic Survey of Pakistan, Various Issues

Table 2. Production of Automotive Sector during 1995-06

(No.)

Year	Cars	Trucks	Bus	Jeep & LCV	Pic-Up/LCV	Farm Tractor	Motor Cycles
1995-96	33,419	2,994	474	2,274	2,682	16,093	-
1996-97	37,032	2,917	456	792	4,553	10,417	106,797
1997-98	38,676	1,683	591	657	4,843	14,144	92,978
1998-99	42,927	1,083	1,124	622	3,834	26,644	87,504
1999-00	35,332	913	1,460	380	3,785	24,559	86,959
2000-01	41,556	912	1,326	459	4,982	31,635	108,850
2001-02	42,679	1,134	1,086	564	5,900	23,801	120,627
2002-03	66,432	1,929	1,296	374	7,815	26,240	175,169
2003-04	103,662	2,022	1,380	807	8,888	35,770	303,383
2004-05	133,722	3,204	1,762	1,564	16,294	43,200	416,189
2005-06	170,487	4,518	825	2,472	19,152	48,887	520,124

Source: PAMA

Table 3. Export of dairy products from Pakistan during 1999-04

(thousand rupees)

Year	Milk and cream	Butter	Eggs
1999-00	54,517	1,560	18,631
2000-01	79,445	3,621	68,627
2001-02	102,247	5,770	112,072
2002-03	290,488	5,578	90,238
2003-04	444,506	3,003	113,534

Source: Pakistan Statistical Year Book, 2005

Table 4. Export of Leather Products from Pakistan during 2001-06

(US\$ 000)

Year	Leather Tanned		Leather Gloves		Apparel & Clothing of Leather		Leather Manufactures N.S.	
	Value	Quantity (000 SQM)	Value	Quantity (000 DOZ)	Value	Quantity (000 DOZ)	Value	Quantity
2001-02	239,934	17,290	51,324	2,943	321,341	783	10,530	-
2002-03	234,774	15,349	56,969	2,718	232,316	564	97,262	-
2003-04	251,693	16,050	70,722	2,709	323,656	709	19,965	-
2004-05	303,606	18,435	164,333	5,649	329,272	737	33,169	-
2005-06	292,394	17,377	151,459	4,498	501,786	1,050	69,309	-

Source: Trade Development Authority of Pakistan, TDAP <<http://www.epb.gov.pk>>

Table 5. Export of Sports Goods from Pakistan during 2001-06

(US\$ 000)

Year	Sports Goods	% Change
2001-02	304,478	-
2002-03	335,173	10.08
2003-04	324,751	(3.11)*
2004-05	307,129	(5.43)
2005-06	343,329	11.79

* Figures in brackets shows negative values

Source: Trade Development Authority of Pakistan, TDAP <<http://www.epb.gov.pk>>

Table 6. Export of Fabrics from Pakistan during 2001-06

(US\$ 000)

Year	Cotton Fabrics	% Change of Cotton Fabrics	Knitted/Croached Fabrics	%Change Knitted/Croached Fabrics
2001-02	1,130,828	-	72,420	-
2002-03	1,345,650	19	59,466	(17.89)*
2003-04	1,711,492	27.19	54,923	(7.64)
2004-05	1,862,886	8.85	187,158	240.76
2005-06	2,108,183	13.17	51,378	72.55

* Figures in brackets shows negative values

Source: Trade Development Authority of Pakistan, TDAP <<http://www.epb.gov.pk>>

Table 7. Export of Garments from Pakistan during 2001-06

(US\$ 000)

Year	Ready-Made Garments excl. Leather Garment	% change Ready-Made Garments excl. Leather Garment	Knitwear (Hosiery)	% Change Knitwear (Hosiery)
2001-02	874,954	-	845,943	-
2002-03	1,092,607	24.88	1,146,674	35.55
2003-04	993,322	(9.09)*	1,458,736	27.21
2004-05	1,087,954	9.53	1,635,033	12.09
2005-06	1,309,990	20.41	1,751,494	7.12

* Figures in brackets shows negative values

Source: Trade Development Authority of Pakistan, TDAP <<http://www.epb.gov.pk>>

Table 8. Export of Bed Wear from Pakistan during 2001-06

(US\$ 000)

Year	Bed Wear	% Change Bed Wear
2001-02	918,558	-
2002-03	1,329,064	44.69
2003-04	1,383,334	4.08
2004-05	1,449,533	4.79
2005-06	2,038,064	40.60

Source: Trade Development Authority of Pakistan, TDAP <<http://www.epb.gov.pk>>

Table 9. PART-1

	Frequency	Percent
Missing System	51	100.0

Table 10. Nature of the Business

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Bicycles	3	5.9	5.9	5.0
Fabrication/M'facture	11	21.6	21.6	27.0
Food Processing	7	13.7	13.7	41.0
Footwear	4	7.8	7.8	49.0
Fruits & vegetables	4	7.8	7.8	56.0
Jewellery & Gems	4	7.8	7.8	64.0
Knitwear	5	9.8	9.8	74.0
OEM	5	9.8	9.8	84.0
Sports goods	3	5.9	5.9	90.0
Surgical	5	9.8	9.8	100.0
Total	51	100.0	100.0	

Table 11. Type of Ownership

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Proprietorship	23	45.1	45.1	45.1
Partnership	8	15.7	15.7	60.8
Private Ltd	18	35.3	35.3	96.1
Public Ltd	2	3.9	3.9	100.0
Total	51	100.0	100.0	

Table 12. Local Share

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	30%	1	2.0	2.0	2.0
	50%	2	3.9	3.9	5.9
	100%	48	94.1	94.1	100.0
	Total	51	100.0	100.0	

Table 13. Foreign Share

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	50%	2	3.9	100.0	100.0
	Missing	49	96.1		
	Total	51	100.0		

Table 14. What percentage of Your Materials and Parts are Imported?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	50-80%	6	11.8	13.0	13.0
	30-50%	13	25.5	28.3	41.0
	10-30%	7	13.7	15.2	56.0
	Less than 10%	19	37.3	41.3	97.0
	Nil	1	2.0	2.2	100.0
	Total	46	90.2	100.0	
Missing	System	5	9.8		
Total		51	100.0		

Table 15. Production Technology Training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Useful	2	3.9	4.3	4.0
	Quite Useful	6	11.8	12.8	17.1
	Not Useful	16	31.4	34.0	51.0
	Not Available	23	45.1	48.9	100.0
	Total	47	92.2	100.0	
Missing	System	4	7.8		
Total		51	100.0		

Table 16. Production Skill Training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Useful	2	3.9	4.3	4.0
	Quite Useful	5	9.8	10.9	15.0
	Not Useful	14	27.5	30.4	45.1
	Not Available	25	49.0	54.3	100.0
	Total	46	90.2	100.0	
Missing	System	5	9.8		
Total		51	100.0		

Table 17. Management Training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Useful	2	3.9	4.3	4.0
	Quite Useful	10	19.6	21.3	25.0
	Not Useful	9	17.6	19.1	44.0
	Not Available	26	51.0	55.3	100.0
	Total	47	92.2	100.0	
Missing	System	4	7.8		
Total		51	100.0		

Table 18. Design Training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Useful	2	3.9	4.3	4.0
	Quite Useful	8	15.7	17.0	21.0
	Not Useful	11	21.6	23.4	44.1
	Not Available	26	51.0	55.3	100.0
	Total	47	92.2	100.0	
Missing	System	4	7.8		
Total		51	100.0		

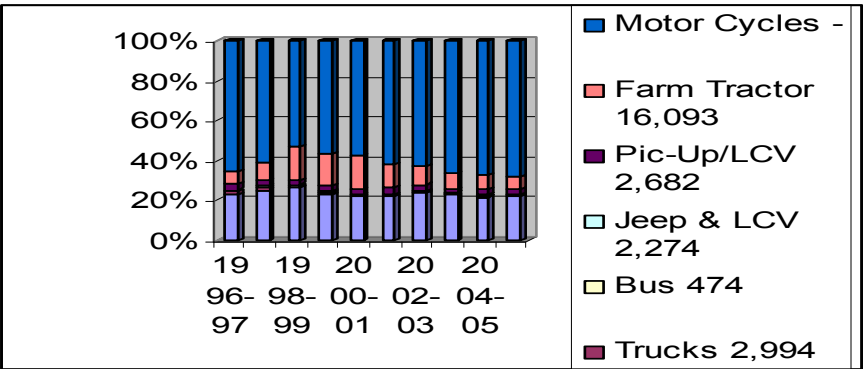


Figure 1.

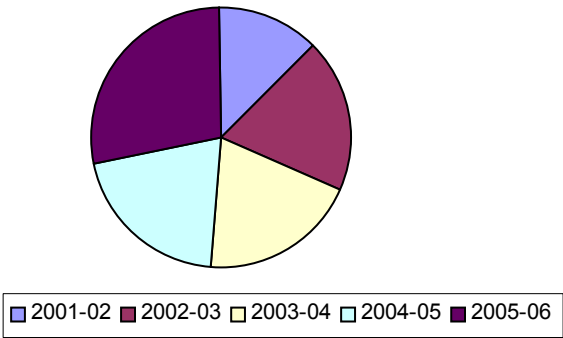


Figure 2. Export of Bed Wear from Pakistan during 2001-06