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Papers may be written in English with abstracts. The manuscript should be typewritten (double-spaced, with ample margins) on left side of the paper only. Two copies of the manuscripts along with soft copy should be submitted. Authors should organize their papers according to the following scheme, as closely as possible: (a) title of paper, (b) author's name (and affiliation written at the bottom of the first page), (c) abstract, (d) introduction, (e) material and methods, (f) results, (g) discussion, (h) conclusion (i) acknowledgement (j) literature cited (arranged alphabetically), using the following illustrated format:

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However, in case of short papers and communications, results and discussion could be combined in one section.

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Tables should be reduced to the simplest form and should not be used where text or illustrations give the same information. They should be typed on separate sheets at the end of the text and must in no case be of a size or form that will not conveniently fit onto the Journal page size. Units of measurement should always be clearly stated in the column headings; any dates relevant to the tabulated information should be stated in the table title or in the appropriate column heading.

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## **Editorial**

Rapid changes in technology have created a revolution in the way libraries provide access to information. University students are no longer limited to the physical library for scholarly sources of information, yet the library and its librarians remain central in selecting and organizing authoritative information and educating the University community about these resources. The eighth issue of the “Business Strategies, J” contains eight research papers.

Dr Sajjad Akbar, et al, in the first paper, on “*Impact of Strategic Leadership on Organizational Commitment in Telecommunication Sector of Pakistan*” have highlighted that decisions of any organization are influenced by strategic leaders because they provide vision to the organizational plans.

Dr Anwar Ali Shah G Syed, et al, in the second paper, on “*Causality Relationship between Globalization, Economics and Trade Growth in Pakistan*” have revealed that under VAR model the integration and co- integration analyses suggested that there is a long run relationship among the factors. The results of VECM causality test find bi-directional causality between foreign direct investment, export and economic growth which are two important factors that influence the effect of economic growth in Pakistan.

Muhammad Suhail Nazar, et al, in the third paper, on “*Determinant of Export Performance of Small and Medium Enterprises*” have developed a synthesized model which may provide a broader understanding of the export behavior of the SMEs to enhance their export performance.

Ms Hina Shah, et al, in the fourth paper, on “*Globalization and Recent Trends in Corporate Governance and Strategic Management*” have revealed that as global corporations are confronted with the challenges of balancing control and collaborations many have turned to inter-organization relationship, to compete in the global market place.

Muhammad Akram Chaudhry, et al, in the fifth paper, on “*Impact of Supportive Leadership and Organizational Learning Culture as a Moderator on the Relationship of Psychological Empowerment and Organizational Commitment*” show that presence of organizational learning culture and supportive leadership

psychological empowerment of employees will lead to organizational commitment.

Dr. Muhammad Saleem Rahpoto, et al, in the sixth paper, on “*Export Potential of Pakistan’s SMEs Compared to Developing Countries*” have revealed that the export potential of SMEs in Pakistan is much better than among third world countries but compared to developing countries we are bit slow in developing export markets in the world. Results further show that Pakistani SMEs are using only small portion in the export of the SMEs products, whereas other developing countries like Malaysia, Thailand and Japan, they develop their economy through SMEs.

Ms Hina Shah, et al, in the seventh paper, on “*Impact of SMEs on the Rural Development of Sindh-Pakistan*” have investigated and proved that in the rural development of Sindh, SMEs could play a vital role.

Dr Muhammad Saleem Rahpoto, et al, in the eighth and last paper, on “*Modern Growth Theories and Trade Liberalization: Measurement of the Effect of Technology Transfer on Pakistan’s Economy*” have depicted the importance of the trade as major policy variable. Trade openness affects efficiency and growth increase market size, leads to technological spillover, economies of scale through research and development and higher profits to investors.

The Editorial Board welcomes from readers any suggestions for further improving the technical standard, presentation and usefulness of the Journal.

**Prof. Dr. Muneer Ali Shah Rizvi**

Editor-in-Chief



# Impact of Strategic Leadership on Organizational Commitment in Telecommunication Sector of Pakistan

Dr Sajjad Akbar\*  
Sameera Zaman\*\*

## ***Abstract***

*The purpose of this research is to find out the extent of strategic leadership and its impact on organizational commitment in telecommunication sector of Pakistan. Through this research paper we are able to understand the leaders' commitment with the organizations that governs and enhances the organizational performance. The data was gathered through questionnaire distributed to 200 different employees and managers across Pakistan. Strategic leadership shows positive relationship with the organizational commitment. Leaders show high involvement in the strategic decision of the organization. Leaders are more conscious and career oriented. They associate the success of the organization with themselves. In general, decisions of any organization are influenced by strategic leaders because they provide vision to the organizational plans. Different recommendations regarding strategic leadership are also discussed.*

**Keywords:** *Strategic Leadership, Organizational Commitment, Leadership Styles, Management*

## **Introduction**

There is a considerable amount of research conducted on strategic leadership in under development countries. There is some research on strategic leadership but not enough to determine the relationship with the organizational commitment. The findings of these studies although provide us an idea about the outcomes of strategic leadership still these cannot be applied in other parts of the world. Especially the developing countries like Pakistan. The ability to influence the workforce to make decision that improves the outcome of the organization is the most significance part of strategic leadership (Rowe, 2001). Framing the vision for public utilization and pushing the action forward is done by the strategic leadership (Nutt and Backoff, 1996). To develop the link between the strategic plans and leadership vision, the integrity plays an important role in strategic leadership (Worden, 2003). Professional cultural norms and structural constraints provide guidance to strategic leadership as it is semi autonomous process (Shrivastava and Nachman, 1989). Value of organization can be reduced by the religion in strategic leadership (Worden, 2005).

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For designing information systems and decision making process, organizations use strategic leadership patterns (Shrivastava and Nachman, 1989). Organizational commitment is involvement and identification of an individual with an organization; this is the positive social relationship between an individual and organization.

Hence our study will show the association among strategic leadership and organizational commitment in telecommunication sector of Pakistan. Organizational commitment of the employee is a major problem with in the organizations which has strongly affected the performance of the employees at certain level. So there is a great need of the telecommunicating sectors to be focused by the researchers because the investor invests huge money on employees. This research will conclude that strategic leadership does have some positive or negative impact on organizational commitment in telecommunicating sectors.

## **Literature Review**

### **Strategic Leadership**

“Strategic leadership relates an organization’s ideologies, identity, mission and view of the macro environment system to it are differentiating core competencies” (Worden, 2003). A process of guidance that set a fresh strategy in work place is considered as strategic leadership (Nutt and Backoff, 1996). Maintaining the short term financial stability and improving the long term viability of the organization by influencing other to make day to day decision is known as strategic leadership (Rowe, 2001). The responsibility of the executive’s strategic leadership is to start change that will make the feasible future for the organization is the part of the definition of strategic leadership (Thomas, Schermerhorn, Dienhart, and Bartles, 2004). Strategic choice does not diminish by strategic leadership (Worden, 2005). Treating leaders as those having superhuman qualities is a big mistake. They are the role model for their followers for the right time and know better about their opportunities. Visionaries of yesterday fade into obscurity and become the villains of today as times and contexts change (Westley and Mintzberg, 1989). The leadership group may try to respond to external pressures and lose its position with its organizational base (Denis, Lamothe and Langley, 2001). The strategic leader would be involved religiously in other sphere of his life but not his religious belief into leadership role (Worden, 2005). Strategic leadership has to focus on the personality and background etc of the decision makers. And “who decision makers know” because their social capital is equally related to organizational outcomes (Geletkanycz, Boyd and Finkelstein, 2001) Formulation and implementation of the activities of leadership managing strategy derive from the strategic decision (Shrivastava and Nachman, 1989). In Strategic decision making process, the strategic

leadership will appear. These processes are considered as a vehicle to structure the organizational strategies for the team and individuals (Shrivastava and Nachman, 1989). Individual managers to manage and take charge of the organizations are not required by the strategic leadership. Cultural, structural and political forms of strategic leadership are performed by employees at several levels of organizations (Shrivastava and Nachman, 1989). The use of organizational rules and procedures, sharing of information, the interpersonal control and influence, and managerial interactions may require different quality and quantity of information by the strategic leadership for strategic decision making (Shrivastava and Nachman, 1989). Organization becomes happier place for the leaders. Leaders, without being visionary, are considered more effective for the organizations (Westley and Mintzberg, 1989). Analysis describes that normative complex task need the strategic leadership (Worden, 2005). Role vision play an important role in building the new bond between employees and the organizations because emotions. Vision which is settled down by the CEO of the organization is important and positively related with employees and organizational AC but unrelated with continues commitment (Dvir, Kass and Shamir, 2004). General organizational decision processes are persuaded by the strategic leadership patterns (Shrivastava and Nachman, 1989).

## **Organizational Commitment**

Organizational commitment is involvement and identification of an individual with an organization; this is the positive social relationship between an individual and organization. Organizational commitment is a factor that influences OCB. Organizational commitment is defined as one's strong belief and acceptance for organizational goals and desire and intention to maintain membership with organization (Dyne et al, 1995). Organizational commitment has a significant relationship with the organizational and subculture variable. Subculture variables have more significant and strong relationship than the organizational variables. Subculture variables like innovation in region (ward innovation) and region support (ward support) has a stronger relationship with the organizational commitment. There is the positive relationship in both organizational subculture and organizational commitment. Organizational subculture variables are the job satisfaction variables which are related in the Maslow's hierarchy and have the strongest relationship with the organizational commitment (Lok and Crawford, 1999). There are the environmental differences in the marketing areas and these differences have impact on the ethical values but also in little amount on the commitment. There are many employees who ignore or the ethical value because of the organizational commitment. They don't accept that there is any unethical issue in the organization. They simply think that I am committed with organization so there is no ethical

problem in the organization (Hunt, Wood, and Chonko, 1989). Indeed interaction and effect of self-sacrifice are the independent variables which have the effective and beneficial consequences on the employees' commitment, if there is unfair evaluation is doing in the organization (Cremer, Dijke and Bos, 2004). Empowerment to the employee has a significant and positive relationship with organizational commitment. The employees who will empower, they will be more committed with their organization rather than those who have less empowerment (Avolio, WZhu, Koh and Bhatia, 2004). It's not important that employer is caring about which dimension of the commitment. Important is to avoid those impression which is generate by the opposition of the company toward the employees' interest (Benkhoff, 1997). There is very limited impact of the controlled decision mankind and role of procedural justice on the organizational commitment (Johnson, Korsgaard and Sapienza, 2002). Employee performance has no significant relationship with the organizational commitment but there is a significant relationship between the job satisfaction and organizational commitment. When the organizational commitment is high then the job satisfaction will be low because there is a negative relation ship between both variables. Supportive culture of the organization affects this relationship (job satisfaction and the organizational commitment). There is no significant impact of innovative and Bureaucratic cultures of the organization on the relationship of the organizational commitment and job satisfaction. All these three types of the culture have no significant effect on the organizational commitment and the employees' performance (Yiing and Ahmad, 2009). WLOC is moderator between the organizational commitment and well being (Jain, Giga, and Cooper, 2009). Emphases on the social value are generating the AC but the achievement oriented values are not generating the AC (Dvir, Kass and Shamir, 2004). Job satisfaction and patient commitment have no significant relationship with the organization culture so these variables are not affected by the organizational culture. There are some aspects of the culture which can affect the organizational culture. Bureaucratic culture is effected the patient commitment. There is a significant relationship between the extra role behavior and patient commitment. Extra role behavior is preferable for the employees who have patient commitment. Professional leadership is an official part of the leadership and it is affective for attaining the organizational goals. Professional leadership is important for the leadership and it's a first step toward the leadership. The leaders who set their vision and the mission according the components of the professional leadership and easily motivate their follower for attain these goals and these employees are very satisfied with their jobs and are more committed with their organizations (Eddy, Lorenzet and Mastrangelo, 2008). Role stress and expected level of leadership affect the mediating role of the organizational commitment because role stress and leadership have a significant relationship with organizational

commitment (Agarwal, DeCarlo and Vyas, 1999). Organizational commitment and the job satisfaction have a strong and positive relationship with the democratic style of leadership. Democratic styles of leadership enhance the employees' satisfaction and the commitment with organization positively (Savery, 1994). Job satisfaction and organizational commitment influenced by the leadership styles. Consideration variables and the structure variables of the leadership influence differently to the organizational commitment. Consideration variables of the leadership style influence strongly to the organizational commitment rather than the structural variables of the leadership (Lok and Crawford, 1999). Altruism of the leadership styles can be perceives by the commitment with organizational goals (Cremer, Dijke and Bos, 2004). Organizational commitment positively effected by the leadership. Leaders' behaviors matter very much in the commitment. Descriptive, directive and the supportive behavior of the leaders effect the organizational commitment significantly and positively. The relationship of these behaviors (supportive, directive and participative) with the organizational commitment is considerably affected by the innovative, bureaucratic and supportive culture of the organization. Innovative and supportive cultures of the organizations have a considerable affect on the relationship of the leaders' behavior and the organizational commitment but the bureaucratic culture has no significant affect (Yiing and Ahmad, 2009). Leaders can enhance their subordinates in the positive manner fore the organizational commitment. Organizational commitment gets affected by the leaders behavior. Close followers can observe the variation in leaders' behavior and also can judge how can this variation effect commitment of the employees. Employees prefer the high level leadership to the middle level and they show more commitment for the high level leadership (Avolio, Zhu, Koh and Bhatia, 2004).



*Hypothesis*

Strategic leadership is associated with Organizational commitment.

**Methodology**

Questionnaire was adopted form strategic leadership and organizational commitment. It contained 25 items and 3 sections. The population for data collection was employees of telecommunication industry in Pakistan. The sample was collected from various cities of Pakistan and the sample size was 150 people. The questionnaire was personally administered through HR department of the organization and total 150 hundred questionnaires were distributed out of 132 questionnaires were received back by making response rate 88%.

## Characteristics of Sample

Table 1: Characteristics of Sample

S.No.	Items	Items	Frequency	Percentage of frequency
3	Gender	Female	30%	22.7
		Male	102%	77.3
2	Age	16-20	9%	6.8
		21- 25	66%	50
		26 – 30	54%	41
		31 – 35	0%	0
		36 – 40	3%	2.2
1	Qualification	Metric	0%	0
		Inter	11%	8.3
		Graduate	67%	50.7
		Masters	54%	41
		PhD	0%	0

## Findings

Table 2: Correlation

	Strategic leadership	Organizational commitment
Strategic leadership	1	.466**
Organizational commitment	.466**	1

n = 132, \*\*Correlation is significant at 0.01 level

Correlation analysis indicates the strong relationship between Strategic leadership and/or Organizational commitment (.466\*\*)

Table 3: Regression

Models	Beta	t	Sig.
Strategic leadership	.466	6.010	.000

Dependent variable: Organizational commitment n = 132

R square = 0.217

Adjusted R square = 0.211 F = 36.122 Sig. = 0.00

## **Discussion**

All the strategic decisions and the actions which are implemented by the organization involve strategic leadership. It is an important part of the organizations which develop the plan on the basis of future vision. Through the research it is cleared that telecommunication organizations are more closely attached to the strategic leadership. 150 questionnaires were distributed among telecommunication sectors employees. In all, 132 usable surveys were returned which represented the relationship between both variables. The results of the study showed that strategic leadership has very significant impact on organizational commitment in telecommunication sector. From this research we found that both are interdependent. Strategic leadership helps in the formulation and implication of strategy in the organization and helps in providing guideline. Strategic leadership is provided by the managers and chief executive officers. Strategic leaders encourage and rewarded the innovation by creating such environment in work place. Strategic leaders give precedence to technical, political, economic, social and ethical systems in the organizations. Strategic leaders also help employees to be successful by enhancing their productivity and encourage behaviors that will lead to better retention, superior job performance, and greater career satisfaction. The resulting response of the employees to such leadership efforts will lead to increase the organizational commitment. Strategic leadership emphasis on day to day operating decisions and strategic responsibilities plan and execute strategies for immediate impact and preservation of long-term objectives to improve organizational continued existence and growth. They expect positive performance from the superiors, peers, subordinates, and themselves use strategic controls and financial controls. Organizations must provide the open communication, trust, and caring, creating opportunities, providing the proper direction and inspiring a shared vision to enhance their organizational commitment. Employees' participation in decision making and the feeling that the management is receptive of the suggestion is the other factor which positively related to commitment.

## **Implication**

The strategic leadership has very strong relationship with the organizational commitment. There are many other reasons which directly influence the strategic decision of the organization. But strategic leadership frames the strategic vision of the organization that describes purpose and suggests a map for action. Both variables are mostly interdependent. There is a need to focus on the out comes of strategic leadership in the organizations. And know the process required to implement strategic leadership in the organizations. Employees have to see themselves as leaders' persons that can contribute individually and collectively to the strategic

success of their institutions. Organizations need managers to develop the skills and abilities required to use strategic leadership.

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# Causality Relationship between Globalization, Economic and Trade Growth in Pakistan

Dr. Anwar Ali Shah G Syed\*

Faiz M. Shaikh\*\*

## **Abstract**

*—The research investigates the causality relationship between Globalization, Trade Economic growth in Pakistan. Using quarterly time series data from 1998 to 2009, this paper examines the causality relationship between foreign direct investment, international trade and economic growth in Pakistan. In VAR model, the integration and cointegration analysis suggested that there is a long run relationship among the factors. The results of VECM causality test find bidirectional causality between foreign direct investment, export and economic growth, which are two important factors that enhance the effect of economic growth in Pakistan. Foreign Direct Investment has positive impact on the trade growth in Pakistan. It was revealed that government should play a positive role in proving security to the investors around the globe. It was further revealed that investment should be done in various parts of Baluchistan as well as rural parts of Sindh province.*

**Keywords:** Globalization, Trade, Economic Growth, Granger Causality

## **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

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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 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 Globalization 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 gen-

erally pay higher wages than domestic companies, and even in low-wages, 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 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 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 term of employment opportunities, results in a direct increase in household income and a higher proportion of income expended on meeting basis 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. FIEs can make an important contribution in various ways to human capital formation in developing countries. They can help develop the skills of (often unskilled) workers and often generate training spillovers outside the firm. However, there is so much that foreign investors can do by themselves and the role of host country policy is paramount, sometimes in collaboration with foreign investors. The economic and social returns to policies aimed at improving basic education levels in developing countries are by now well known, but there is also much potential in the area of promoting targeted vocational training in certain industries in conjunction with foreign investors. One good example at the higher end of the skill spectrum is the collaboration amongst Intel, the government of Costa Rica, and the country's educational institutions to promote vocational training for the electronics sector.

## **2.1. Economic growth**

Pakistan's economic growth rates were dramatically increasing since 1986 (table 1). From a low economic growth rate of 2.8% in 1986, the annual growth rate of Pakistan has increased to 6% in 1988 and increased to over 9% in both 1995 and 1996. The first decreased in the growth rate was in 1989 and 1990 due to the begin-

ning collapse of the Socialism system of Soviet Union and Eastern Europe. From 4.4% of average GDP growth rate in 1986-1990, it was increased dramatically up to 8.18% in 1991-1995. This resulted in increasing per capita income from \$100 in 1987 to over \$300 in 1996 (Ben, 1999). However, due to effectiveness of Asian financial crisis in 1997-1998, the GDP growth rates were declined to 5.8% in 1998 and lowest rate at 4.8% in 1999. The economy was successfully recovery after the crisis and developed at 7.48% of growth rate at the five-year plan 2001-2005. Overcoming several difficulties and challenges, with 8.4% of economic growth in 2005, Pakistan has finished the year of 2005 with highest growth rate during the first five years of the 21 century. This achievement and the stable development of the society showed the chosen renovation of Pakistan leader going in the right goals, contents and implemented measures at macro level to ensure growth and overcome the crisis. Pakistan economy has been transformed towards increasing in the industry and service and decreasing in the agriculture, forestry and fishery since 1986. Table 1 shows that agriculture, forestry and fishing factor was accounted for 49% of total GDP output during 1981-1985, and it continuously decreased until 22.29% in 2001-2005. Industry and services sectors are more important share in GDP by counting for 39.44% and 38.27% in the first half of the 21 century, increased nearly 12% share in industry and 15% share in services.

#### **4. Methodology of Globalization, trade and economic growth's causality testing**

The objective of this paper is to recognize the directly causal relationship between globalization inflows, economic growth and trade (including export and import) in Pakistan based on a systematic approach. Granger's definition of causality is framed in terms of predictability. The basic principle of Granger-Causality analysis (Granger, 1969) is to test whether or not lagged values of one variable help to improve the explanation of another variable from its own past. Considering two time series stationery variables  $X_t$  and  $Y_t$ , according to Granger (1969),  $Y_t$  is said to "Granger-cause"  $X_t$  ( $Y \rightarrow X$ ) if and only if lagged  $Y_t$ 's help predict and improve  $X_t$ . Many tests of causality have been derived and implemented such as Granger (1969), Sims (1972) and Geweke et al. (1982) (see Hamilton (1994)). However, one of the most well-knowing methods to solve this matter is Vector Auto Regression (VAR). Extended from Granger causality analysis of Granger (1969), the VAR technique in econometric modeling was the first to introduce in the *Econometrica Journal* by Christopher A. Sims in 1980. To analyze the dynamic impact of random disturbances on the systems of variables, VAR methodology superficially resembles simultaneous-equation modeling (SEM) in that we consider several endogenous variables together. Each endogenous variable is explained by its lagged values and the lagged values of all other endogenous variables.

## 5.1. Data

The empirical analysis was presented by time series model. The time period of analysis is quarter time series data from 1988 to 2005 in Pakistan. Most of the data on variables used in the tests are taken and calculated from Pakistan's Statistical Yearbook of General Statistics Office, Pakistan. Since 11GDP is denominated in Pakistan and the ,import and export are in US dollars, the , import and export data are converted into Pak-rupee using yearly average VNR/US dollar exchange rate obtained from the socio-economic data indicators in Pakistan – 20 years of renovation and development, General Statistics Office, Pakistan. Then all data is converted to the based year data 1994 by using the GDP deflator (1994=100) for better comparisons.

## 5.2. Unit Root Tests

We used the Augmented Dicker Fuller (ADF) test for testing the unit root in time series. Lag length of each variable is chosen by computer automatically based on minimum values of Schwartz Info Criterion (SIO) statistics and max lag is 11. The test equations include constant. The results are presented in Table 1. The results shown in Table 3 suggest that the null hypothesis of a unit test in the time series can not be rejected on variable levels in a logarithm form. However, all of variables are stationary in their first differences Therefore; all the variables are integrated of order one, I (1).

**Table 1: ADF Unit Root Test**

**Null hypothesis: In, InEX, InIM and InGDPC contain Unit Root Variable**

	ADF Test Statistic (p value)	
	On level series	On 1 <sup>st</sup> difference series
Ln	-1.96 (0.30)	-4.85 (0.00)***
InEX	-0.34 (0.91)	-5.86 (0.00)***
InIM	0.28 (0.97)	-8.03 (0.00)***
InGDPC	1.25 (0.99)	-6.47 (0.00)***

Note: (1) Test critical values at 1%, 5% and 10% level are -3.53, -2.91 and -2.59, Respectively

(2)\*\*\*, \*\* and \* denote rejection of null hypothesis at 1%,5% and 10% level of significance, respectively.

## 5.3. Cointegration test

As presented in the last part, the important point of Vector Autoregressive model is the number of lag's order of variables. A chosen appropriate lag length of the variables could create the best model with uncorrelated and homoskedas-

tic residuals. The optimal lag length can be selected from computed data as the minimum value of the Akaike Information Criterion (AIC) and Schwartz Bayesian Criterion (SBC) statistics. Table 2 suggested the lag order of 3 that yields the minimum Akaike's Final Prediction error (FPE), Schwartz Information Criteria (SIC), Hannan-Quinn information (HQ) and LR values.

**Table 2: VAR Lag Order Selection Criteria**

Lag	Log L	LR	FPE	AIC	SC	HQ
0	-73.65246	-5.65246	0.0001	24 2.353 105	2.4858	112.405543
1	344.5202	772.9859	6.31e-10	-9.833947	-9.17041	-9.571754
2	370.5407	44.94444	4.68e-10	-10.13760	-8.943240	-9.665650
3	377.8022	11.66235	6.19e-10	-9.872793	-8.147610	-9.191091
4	396.8769	28.32316	5.79e-10	-9.965968	-7.709960	-9.074512
5	-12.19266*	-9.405827*	-11.09145*	486.3578	122.0193*	6.53e-11*
6	500.7193	17.84312	7.34e-11	12.14301	-8.825351	-10.83204

\* indicates lag order selected by the criterion

- LR : sequential modified LR test statistic (each test at 5% level)
- FPE : Final prediction error
- AIC : Akaike information Criterion
- SC : Schwartz information criterion
- HQ : Hannan-Quinn information criterion

As all variables are determined I (1), the Cointegration test is performed for the long run relationship among series by using Johansen cointegration test.

Table 3 presents the results of Johansen cointegration test with a cointegration rank of four and two in both the trade test and the maximum Eigen value test, thereby there are exiting the long run relationship among the variables.

**Table 3: Johansen Cointegration Test**

**Null hypothesis, InEX, InIM and InGDPC are no cointegration, VAR lag = 5**

Null	Alternative	Trace Statistics	95% Critical value	Max-Eigen Statistics	95% Critical value
Rank = 0	r > 1	61.7788****	43.74	36.77***	26.78
Rank < 1	r > 2	30.5667****	23.87	17.89	20.89
Rank < 2	r > 3	11.234**	13.67	11.34	13.56
Rank < 3	r > 4	3.30*	3.90	3.90**	2.90



Note (1) Test includes intercepts (not trend) and linear deterministic trend  
 (2)\*\* and \*\*\* denote rejection of null hypothesis at the 5% and 1% level,  
 Respectively

**5.4. Granger causality test in Vector error correction mechanism model (VECM)**  
 Based on the results of unit root and cointegration test, we will use vector error correction mechanism is a VAR model to recognize the direction of the variables. Causality inferences among pairs of variables in the multivariate VECM model are based upon estimating the parameters of the model, subject to the predetermined number of co-integrating vectors in the 13 system, using the Johansen maximum likelihood method.

**The results presented in Table 3.**

As shown, the bidirectional causality between Globalization and GDP, and EXPORT, GDP and EXPORT, and IMPORT and EXPORT. There are only unidirectional between GLOBALIZATION AND IMPORT, and GDP and IMPORT. However, there are only unidirectional causal connection running from IMPORT to GLOBALIZATION and GDP. The results are consistent with growth theories that export promotion and attracting Globalization can generate permanent effects on the level of GDP. It is also consistent with the theories about determinant of Globalization that economic growth and openness of a country are the important factors attracting inflows. The results suggested that FDI invested in Pakistan was attracted by its economic growth and its foreign trade strategy. On the other hand, the results also illustrated that GLOBALIZATION and trade are two important factors that affect economic growth in Pakistan.

Table 6: VEC Granger Causality/ Block Exogeneity Wald Tests, VAR lag = 5

Null hypothesis: column variable does not cause the row variable

Note:\*\*\*, \*\* and \* denote rejection of null hypothesis at the 1%, 5% and 10% level of Significance, respectively

Dependent variables

Chi square test statistics Causality directions

$\Delta \ln \text{GLOBALIZATION}$   $\Delta \ln \text{GDP}$   $\Delta \ln \text{EXPORT}$   $\Delta \ln \text{IMPORT}$

$\Delta \ln \text{GLOBALIZATION}$  10.68\* 26.17\*\*\* 35.16\*\*\* GDP? GLOBALIZATION  
 EXPORT? GLOBALIZATION  
 IMPORT? GLOBALIZATION

$\Delta \ln \text{GDP}$  10.83\* 62.02\*\*\* 36.67\*\*\* GLOBALIZATION? GDP  
 EXPORT? GDP  
 IMPORT? GDP

$\hat{\ln} \text{EXPORT}$  10.03\* 13.58\*\* 55.55\*\*\* GLOBALIZATION ? EXPORT

GDP? EXPORT

IMPORT? EXPORT

$\hat{\ln} \text{IMPORT}$  4.01 7.94 9.26\* EXPORT? IMPORT

Conclusion: Final Causality direction GLOBALIZATION? GDP

GLOBALIZATION? EXPORT

GDP? EXPORT

IMPORT? EXPORT

IMPORT? GLOBALIZATION

IMPORT? GDP 14

## 6. Conclusion

The purpose of this study is to examine the link between Globalization, trade and economic growth in Pakistan. The paper first presents some stylized facts of patterns of inflows, international trade and economic growth in Pakistan. This shows that both international trade and economic growth are increasing over time period. Globalization in Pakistan fluctuated in the 1990s, and then increased in the first half of 21<sup>st</sup> century. Next, a three – step – empirical analysis of the causations between Globalization, trade and economic growth is presented in quarterly data of Pakistan from 1988 to 2005. As those variables are integrated in 1 (1) and cointegrated, the VECM frameworks used to test the causality relationship between the variables. Paper show the two way causal connections exist between economic growth, export, with unidirectional of import to export and Globalization. This could conclude that FDI invested in Pakistan was attracted by its economic growth and its foreign trade strategy. Moreover, Globalization and trade are two important factors that enhance the affect of economic growth in Pakistan. Foreign direct investment has positive impact on economic growth of the country.

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# Determinants of Export Performance of Small and Medium Enterprises

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## **Abstract**

*The current research investigates the Contribution of small and medium enterprises (SMEs) in global export is becoming significant but still a large number of these are unable to outperform in international market. In this study, we have identified and classified the firm-level controllable determinants of export performance. Based upon a comprehensive and systematic literature study we finally developed a synthesized model which may provide a broader understanding of the export behavior of the SMEs to enhance their export performance. Many information sources have been explored to collect the relevant literature. The determinants found from the literature are classified into firm's characteristics, management characteristics, and export marketing strategic capabilities. In this paper, we have proposed a synthesized model for the researchers who are interested to investigate the issue further (i.e. about SMEs export performance determinants).*

**Keywords:** *Export, determinants, SMEs model, Advantages & Incentives.*

## **Introduction**

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. With the increasing trend of globalization the arena of market and competition for an enterprise has expanded from domestic markets to the international markets. However, the position of SMEs as an important player in international markets is now well recognized. Ibeh (2004) have documented that SMEs share in the world's manufactured exports is 25-35 percent and their contribution to the GDP is 4-6 percent and 12 percent in OECD (Organization for Economic Co-operation and Development) countries and Asian economies respectively. Neither all SMEs are involved in exporting nor do all exporting SMEs perform at equal success level. Various researchers investigating about how firms perform in exporting have

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identified a lot of factors as determinants of export performance (Aaby and Slater (1989); Ibeh (2003); Dijk (2002); Zuo and Stan (1998)). These determinants have been classified differently; however, a major classification has been as controllable and uncontrollable. The controllable determinants are internal firm-level and uncontrollable are external environmental determinants (Tesfom and Lutz (2006); Aaby and Slater (1989); Dijk (2002)).

In this study we focus on the factors that are classified as firm-level controllable determinants which influence the export performance of SMEs. Although various researchers have already investigated this issue and have identified different firm-level determinants, such as:

- firm structural characteristics, market orientation, market characteristics, managerial attitudes (Chetty and Hamilton (1993); Madsen (1989)),
- competencies, market orientation, firm characteristics and management perception (Aaby and Slater (1989));
- strategy factors, management attitude and perception, export marketing strategy and marketing mix variables (Zou, Stan (1998));
- behavioral control strategy, export sales organization design, export manager characteristics, export manager behavioral attributes (Katsikea and Skarmeas (2003)) and;
- firm specific characteristics and product characteristics (Julian (2003)).

But, the changes in environmental factors such as technological, economic, and social conditions guide to innovative research questions and alternative elucidations for how firms export performance is determined. At present, adequate literature is available on the issue, however, what is desirable is to systematically synthesize the existing literature in order to spot the similarities and synthesize these determinants to provide a comprehensive integrated model to reach at a common base for supplementary exploration. Thus, the primary objective of this paper is to recognize the firm level determinants and categorize them to develop a synthesized model.

From the literature review dozens of variables are found. However, these variables can be clustered into a condensed number of more wide-ranging variables on the bases of their conceptualized similarity. The purpose is to avoid the repetition of variables with different names and to facilitate the answer to research questions in order to develop a synthesized model (please see Figure 1):

## **Export Performance**

Shoham (1996) has generally defined export performance as the result of a firm's actions in export markets. Although, growing body of literature has addressed the issue but still there is no evenly accepted conceptual and operational

framework (Cavusgil and Zou (1994); Shoham (1998)). Sousa (2004) has identified about 50 dimensions of export performance measure which are classified as subjective and objective measures of export performance. However, Leonidou et. al. (2002), have identified that export proportion of sales or export intensity, export sales growth, export profit level , export sales volume, export, market share , and export profit contribution are mostly used measures of export performance.

### **Management Characteristics:**

The occurrence of controllable factors suggests that export performance is under the control of the organization and its executives, so they are considered to be the responsible for both excellent and poor performance of export (Zou, Stan (1998)).

Many researchers have studied the management characteristics as determinants of export performance through different dimensions (Aaby and Slater (1989); Ibeh (2003); Suárez-Ortega et. al. (2005)). To synthesize these diverse characteristics are classified into categories namely “attitudinal characteristics” “skill based characteristics” and “behavioral characteristics”

#### ***Attitudinal Characteristics***

A number of determinants are found that can be classified as the management attitudinal determinants. These include, among others, management’s international orientation, management’s export commitment; management’s perceived export advantages and barriers of exporting (Zou and Stan (1998)).

- **Management Commitment:** Management’s export commitment is one of the key determinants of export performance (Aaby and Slater (1989); Zou and Stan, (1998)). Cavusgil and Zou (1994) found that high management commitment allows to follow successful export marketing strategies that help to enhance export performance which is confirmed by Julian (2003)
- **Management perception toward competitiveness:** Management perception in the competitiveness of the export product has relation with the exporting result of the companies (Madsen (1998); Eusebio et. al. (2007)), found that Greater management confidence in the competitiveness of the export product increase the export intensity of the firm.
- **Management Perception towards export advantages:** How management foresee the export advantages and their contribution to export profits are the good determinants of export performance. (Axinn (1988); Aaby and Slater (1989); Zou and Stan (1998)).
- **Management Perception toward export barriers:** Literature reviewed by Aaby and Slater (1989); Zou and Stan (1998) found Management perception

toward supposed export barriers such as expected risk, costs involved and intricacy of export to be the important forecaster's of export excellence.

- **Management's international orientation:** International vision (Aaby and Slater (1989)) and international orientation (Zou and Stan, (1998)) are considered to be regular forecaster of export performance. Most probably, an international firm can better see opportunities and stay away from threats
- **Management's customer Orientation:** Katsikea and Skarmas (2003) has found that export manager's high level of customer orientation contribute to effective export performance and low level leads to less effective export performance.

### *Skill Based Characteristics*

A number of determinates are found that can be classified as the management skill based determinants of export performance. These include managers' experience, education level, and foreign language proficiency.

- **Export Experience:** There is a positive relationship of export experience with export propensity (Ibeh (2003)) and intensity (Suárez-Ortega and Álamo-Vera, (2005)).
- **Foreign Language Proficiency:** Suárez-Ortega and Álamo-Vera, (2005) have found managers' foreign language proficiency positively correlated with both export propensity and intensity. Similar results are found by Louter et. al. (1991)
- **Education Level:** Suárez-Ortega and Álamo-Vera, (2005) have identified a positive however weak correlation of education level with export performance.

### *Behavioral Characteristic*

Katsikea and Skarmas (2003) has identified that the fashion of managers' involvement in export sales planning, export sales presentation, adaptive selling and sales support etc. to differentiate low and superior export sales effectiveness.

### **Firm's Characteristics and Competencies:**

#### *Firm Size*

Firm size is taken as controllable factor and is an important determinant of export performance (Aaby and Slater, 1989). A literary review by Zou and Stan (1998) has found its mixed affects; firm size has positive effect on export performance if measured in terms of total sales and its negative effects are found on export profits if measured by number of employees a firm has.

#### *Technology level*

Technological intensity has a mixed outcome on export performance (Zou and Stan (1998)). However, Madsen (1987); and Aaby and Slater (1989) have found that



technological orientation of a firm has vague effect on the export performance.

### ***Foreign Contacts and networking***

Louter et al. (1991) found frequent customer contact to be a determinant of export performance. Babakus and Yavas (2006) have found that the foreign networking (i.e. having ties with foreign entities) has a significant positive influence on export performance.

### ***Knowledge***

Firms' export market knowledge is a critically important competence which influence export performance (Aaby and Slater (1989)) which positively affect the export performance Hart et. al. (1994), however, Toften (2005) has found a weak correlation between the two.

### ***Export Planning***

Aaby and Slater (1989) found systematic export planning very important in export operations. Zou and Stan (1998) found export planning is a reliable determinant of export performance.

### **Export Marketing Strategic Capabilities:**

According to Shamsuddoha and Ali (2006) it is ability of a firm to respond to marketing forces to achieve its objectives. Cavusgil and Zou (1994) pointed out that the exporting firm's performance can be measured by its marketing strategies and her ability to apply them. Export marketing strategy is usually considered as result of firms characteristics (Aaby and Slater (1989); Cavusgil and Zou (1994)) but here we take strategic capability as an independent factor. Export marketing strategic capabilities include among others the capabilities to adapt marketing mix (e.g. Product, Price, Promotion and Placement) and marketing channel strategies such as channel type and channel relationship etc. Zou and Stan (1998).

### ***Utilization of international marketing research***

It includes the firms capability to conduct international marketing research for development. Madsen (1987) found that a firm's ability to utilize international marketing research has positive effect on export sales, growth and ultimately on export performance.. Many rehearses have confirmed this relationship (Zou and Stan (1998)).

### ***Segmentation and Targeting***

It includes firm's capability to implement segmentation and concentration target strategy. A meta-analysis by Leonidou et. al. (2002) found that firm's strategies of segmenting market and concentration targeting have positive relation with export performance.

### *Product Capabilities*

The firm's ability to offer a complete product or brand mix in export markets is positively correlated with export performance (Leonidas et. al. (2002))

- **Product Strengths:** Julian, (2003) has found that product strengths (e.g. product uniqueness, patents, exposure to market etc.) have positive influence on export performance of the firm. Export product uniqueness (Zou and Stan (1998)) its quality and design (Leonidou et. al. (2002)) are positively correlated with firms' export performance.
- **Product Adaptation:** Leonidou et. al. (2002) product adaptation is correlated with superior export performance. However, Eusebio et. al. (2007) found this relationship positive.
- **Warranty and Customer Services:** Firms' ability to offer augmented lever of product (i.e. warranty and provisions for pre- and after-sales services etc.) are positively linked with export performance as the customer is more concerned with exporters' ability to offer necessary services (Leonidou (2002)).

### *Pricing Capabilities*

It includes the firm's capability to adapt the prices and to offer low prices. Price adaptation and ability to offer lower prices (i.e. penetration pricing strategy) are positively correlated to the export performance (Leonidou et. al. (2002)).

### *Distribution Capabilities*

It includes the firms capability of establishing its own/direct channels, providing support to channel members, adapting distribution channels and providing in-time delivery.

- **Direct Channels:** Eusebio et. al. (2007) has documented that the use of corporate distribution channels, export sales representative's office and direct buying in foreign markets are positively correlated with export performance.
- **Channel Relationships:** Generally defined as channel members working affiliation, motivation, support and involvement have emerged as important determinant of export performance (Cavusgil and Zou (1994); Zou and Stan (1998))
- **Distribution Adaptation:** Many studies researched distribution adaptation, which refers to the adjustment of the exporting firm's channel design in export markets. The strong positive linkage with export performance was found. However, Zou and Stan (1998) found a mixed relationship.
- **Delivery time:** Delivery time plays an important role in influencing the export performance of the which is found to have a positive relationship with export performance

## Promotion Capabilities

It includes firm's capability to use advertising, sales promotion, personal selling, promotion adaptation and use of export promotion programs in their export markets.

Advertising is positively related to the export performance. Similar results are found for sales promotion and personal selling, however, promotion adaptation is strongly positively correlated to export performance (Leonidou et. al. (2002); Zou and Stan, (1998)). Francis and Collins-Dodd, (2004) and Shamsuddoha and Ali (2006), have found the positive impact of use of export promotion assistance program on export performance.

## Conclusion



Figure 1: Conceptualization of Theoretical Framework

Based on systematic literature review it has become possible to suggest an export performance model which may help SMEs to enhance their export performance in export market as shown in figure 1. This model synthesizes dozens

of export performance determinants already documented by researchers/scholars in various publications in order to develop a classification that may provide a comprehensive base for understanding firm-level determinants of export performance. Determinants were subjectively classified into three main categories: management characteristics; firm's characteristics; and export marketing strategic capabilities.

Management characteristics that affect the export performance of the firms are further classified into attitudinal characteristics, skill based characteristics and behavioral characteristic. Firm's characteristics and competencies such as firm size, technology level knowledge etc. and export marketing strategic capabilities such as utilization of international marketing research, segmentation and targeting, product capabilities etc. also play a central role in the export performance of the SMEs.

### **Implications for Future Research**

The behavioral characteristics like use of export sales presentation, careful export planning etc. are also found to positively influence the SMEs' export performance. In other words, managers with the suitable mix of qualities who would tend to show favorable export behavior will positively influence the export performance of SMEs. So management of SMEs should be given trainings to develop these qualities. Management must have international orientation and customer orientation to outperform in the export markets.

This synthesized model is consistent which may be used for advanced level researches on the issue, particularly, from developing countries. It also helps managers to understand the controllable factors that contribute in explaining the export performance of firms. It can also be used to develop a questionnaire in order to examine the relative impact of these variables on export performance for SMEs.

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# Globalization and Recent Trends in Corporate Governance and Strategic Management

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## **Abstract**

*The aim of this paper is to investigate the Globalization and recent trends in Strategic management and corporate Governance in Pakistan. The data were collected from various secondary sources. It was revealed that As Global corporations are confronted with the challenges of balancing control and collaboration, many have turned to interorganization relationship, to compete in the global market place. The engagement in interorganization relationships results in the emergence of new organizational forms such as strategic alliances, joint ventures, and cooperative net work. For many reasons the efforts to drive down costs, to speed up innovation and time to markets and to tap into a firm-specific repertoire of knowledge and technology-TNCs often prefer to cooperate in order to compete.*

**Key Words:** *Globalization, Recent Trends, Strategic Management, Corporate Governance*

## **Introduction**

Recent research in business and management studies has clearly pointed to emerging trends in organizing international business activities among global cooperation's-what Paul DiMaggio has termed a model of the twenty first century firms "three of the most significant trends are associated with changing organizational form, increasing reliance on capital markets and financial institutes for cooperative finance, and growing separation between ownership and control. 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

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multi national companies (MNCs) 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. 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 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 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. FIEs can make an important contribution in various ways to human capital formation in developing countries.

### **Organizational Change:**

Historically, transnational corporations (TNCs) have been organized in hierarchical form that offers parents from tight management control over both information and knowledge. In today Global economy, tight parent-subsidiary

control relationships do not engender the flexibility and adaptability necessary to manage world wide operations effectively. To promote greater subsidiary initiatives and local competitiveness. TNCs are consistently balancing global integration and local responsiveness.

As Global corporations are confronted with the challenges of balancing control and collaboration, many have turned to interorganization relationship, to compete in the global market place. The engagement in interorganization relationships results in the emergence of new organizational forms such as strategic alliances, joint ventures, and cooperative network. For many reasons- the efforts to drive down costs, to speed up innovation and time to markets and to tap into a firm-specific repertoire of knowledge and technology-TNCs often prefer to cooperate in order to compete. In his portraits of the twenty-first century firm, Walter Powel argues that “firms are coming to resemble a network of treaties because these multi-standard relationships encourage learning from a broad array collaborators and promote experimentation with a new methods, while at the same time reducing the cost of expensive commitments. Regulatory constraints may also explain the rise of many cross border alliances and cooperative ventures. Firms that adapt and align their organizational structures to this new global reality of simultaneous competition and cooperation tend to do much better in their financial performance and market reach.

### **International Financing**

Globalization has also opened access to international capital markets and financial institutions for companies around the world. The international financing is not something new or surprising. The greater reliance of TNCs on international capital markets and financial institutions fundamentally reshapes international business activities. TNCs can now use a variety of sources to finance their projects. Since virtually all TNCs are now listed on one or more national stock exchanges, they are able to raise capital effectively and cheaply by issuing new shares or by selling bonds underwritten by international financial institutions, (e.g investment banks and off shore banks). TNCs can also borrow from syndicates of international banks at attractive rates. As a result the home countries of TNCs are no longer the exclusive or even the major source of capital to finance their international transactions. Globalization of finance and business makes the role of intermediaries-brokers, financiers, credit-rating agencies, and media operators-indispensable.

### **Separation of ownership and Management**

A third factor influencing business organization and practice in global economy

is the continuing separation of ownership from management, a process that has been taking place in advanced economies, since the beginning of last century. The separation of ownership and management and the rise of professional managers have been the Hallmark of what Alfred D. Chanlers term Managerial Capitalism. The reality of corporate governance around the world however is expecting messier. Globalization has accelerated this historical trend towards greater professionalization and formalization of corporate governance. The stronger institutional investors in corporate governance and the internationalization of management education have further encouraged professionalization. As the tasks of managing cross borders have become more complex and difficult, the demand for professional and formal cooperate governance has increased.

### **Special Diffusion of Business Norms and Practices**

For any spatial diffusion to take place requires that it be done by “agent”. In the case of international business norms and practices, these agents are likely to be business owners, family members of owner’s shareholders, senior executive, and government officials and people in international business and finance. Actors in different business systems compete with each other through continuous innovations and changes. This interactive process of organizational adoption and change defines the dialectics of globalization because it both creates pressures for the homogenization of business systems and reinforces differences. The emergence of Asia as a major economic power is linked to both entry of non-Asian firms into Asia host economies. This two way globalization of business between Asia and other region implies that key actors in Asia are compelled to learn new management and business practices from their competitors. Suppliers, customers, and others and how to compete differently against foreign firms.

The effects of internationalizing financial flows on business-system characteristics could be considerable under certain conditions. If for instance most of the leading firm in credit-based financial systems were to raise the bulk of their of external finance from international capital markets instead of relying on their usual business partners, this could alter the strategic priorities of these firms and eventually affect the nature of their domestic business system.

To ensure that global financial elites are comfortable with their financial positions and obligations, key actions in Asia are required to follow certain accounting standards and business norms in global capital markets. As early as 1992. Globalization of business knowledge is linked to the emergence and perhaps, domination of top business schools, located in North America. Key actors in Asian businesses now face the challenge of professionalization their management and business practices. Other actors in non family business are also

active in organizational and management restructuring to prepare the global competition.

## **Corporate Governance and Pakistani Firms**

Pakistani firms are adjusting to Globalization by adopting innovative changes in their organizational structures and corporate governance. Let me describe briefly the traditional modes of Pakistani Business. This analysis is imperative because Globalization and the rise of the so-called new economy have raised serious questions about the viability of traditional governance and practices in Pakistani business.

## **Organizational Restructuring**

The organizational specialization in sectors that demand much greater capital investment, management knowledge and technological competence reflects a move in Asian firms away from serving merely as subcontractors or suppliers for global corporations. Specializing in High tech sectors also pressures these leading Asian firms to transfer themselves from locally oriented national firms to emerging corporate giants that have set their sights on global arena.

## **Analysis of few firms Diversifying their business due to Global Environment**

The incorporation of BenQ in December, 2001 is largely explained by its potential to be major Global player in electronics life style products. In fact, BenQ stand for “Bring Enjoyment and quality to life”. This shift in strategic focus could not have been achieved within Acer Inc. BenQ diversify their business in IT (Information Technology) products.

## **Samsung**

Innovative changes in organizational forms, however, are clearly not only restricted to the Acer group of companies. We can observe similar innovative organizational changes among family-controlled Asian firms. The family-controlled South Korean electronic giant, Samsung electronics, has completely shifted from a region-centric management system to product based global management systems since the late 1990s. Samsung currently has thirteen global business units (GBUs) and the heads of each determine everything, including what and where to produce, where to how to sell those products and so on. This significant shift is explained by pressing need to ensure speedy and responsive decision making. It is often the case that responsibility is not clearly distinguishable between regional heads and production heads.

## **OOCL**

OOCL from Hong Kong one of the world's largest integrated international container transportation, logistics and terminal companies and one of Hong Kong's most recognized global brands. OOCL significant investment in IT infrastructure in a typical Chinese family oriented owned and controlled by the Tung family, according to its chairman and CEO has significantly transformed its organizational capability to compete against the giants from Europe and Asia.

## **Professionalization of Management**

The separation between ownership and control, while occurring among an number of leading Asian firms, is not an inevitable of financial globalization. There are always mixed advantage associated with separation and corporate success is not granted. For those family firms with greater separation between ownership and control (e.g., CLP holding from Hong Kong) improved corporate governance comes about through the employment of professional managers who have both a global outlook in their managerial vision and tremendous experience in the respective sectors(e.g. finance).

## **Conclusion**

The empirical analysis of this research may point to the convergence of Pakistani firms in their business norms and practices toward global trends in organizational processes and corporate governance. Many of the leading firms that they diversified their businesses according global environment. Despite global indications that changes and adjustments in their areas of business. The domestic firms which are operated in various part of Pakistan change and adjustment is quite difficult due to the nature of the business firm.

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# Export Potential of Pakistan's SMEs Compared to Developing Countries

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## **Abstract**

*This paper analyses the importance of Small and Medium Enterprises (SME's) in economic development in general and with reference to the export performance in particular, to analyze the export potential of Pakistani's SME's compared to the developing countries. Data were collected from 100 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 analysed by using Gen-Stat-statistical software. It was revealed that the export potential of SME's in Pakistan is much better than among third world countries but compared to developing world we are bit slow in developing export markets in the world. The strategic planning and resources is needed for increasing export through SME's. The results showed that Pakistani SME's are using only small portion in the export of the SME's products where as other developing countries like Malaysia, Thailand, Japan they develop their economy through SME's.*

**Key words:** SME, Export, Performance, Comparison, Developing, Countries

## **Introduction**

Pakistan is the seventh largest population in the world. Pakistan is recently facing a lot of problems like unemployment, and slow growth in agriculture we imported different agriculture related product from the world. Therefore, we have to look at sectors of the economy that have the potential to provide this employment, and simultaneously we have to ensure that the young are provided quality education and training for these more productive sectors of the economy. The greater growth potential lies in the modern high technology industries but it is also present in the labor-intensive industries of the traditional Small Enterprise sector and in the services that support it. "Young people in the future are more likely to end (therefore) should be working in organizations closer to the entrepreneurial mode" (Allan Gibbs).

It is a worldwide phenomenon that Small Enterprises are an important part of a nation's economic and social structure. "Enterprise is the antithesis of com-

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mand and control". On a global perspective Small Enterprises have acquired a significant stature in the economic development of a country. Globalization has put Small Enterprises directly in the limelight. Small Enterprises are increasingly a major force for national economic growth. The entrepreneurs who drive them are receiving serious attention from economists, planners, multilateral agencies and governments all over the world (Carter,Camille. 1999).

## **Creating Socio-Economic Harmony**

Undoubtedly SME's have a significant contribution to make to our economy. In the contemporary environment there are multidimensional and international pressures on SMEs to perform effectively and efficiently. The free forces of the market have a tendency to create social and economic imbalances. It is expected that SME's will help to create a balance in ownership and across regions. SME's provide an economic force that will be able to harness available resources and utilize these most efficiently for the betterment of society (Hannah Galvin).

Whereas, the wave of western technology swept aside local skills, appropriate technology, herbal medicines, natural environment and conventional wisdom, SMEs have the potential and the capacity to re-harness these and bring them back into the main stream of the economy. SMEs can give personalized service and create customer satisfaction. SMEs can cater to the niche markets and break the mass production barriers by catering to the smaller production economy.

Increasing pressures brought on by globalization through product or technology obsolescence, information and communication, technology and flow of capital and assets have created the environment for rapid change. This change can be seen in the realignments and creation of strategic alliances, sub-contracting, private public partnerships, deregulation, and privatization; all of which are now recognized as the reasons behind the emerging small enterprise force for socio-economic harmony.

## **The Emergence of the Small Enterprise Force**

We need to look into some of the factors that have fostered the emergence of SMEs. Our understanding of free markets leads us to believe that privatization must be carried out because the market is more efficient guide to decision making. Government interference is generally inefficient. Our observation tells us that only private enterprise can be relied upon to innovate, to satisfy customers



and to produce efficiently.

By the beginning of the nineties the move back to the market based policies and reforms had been accepted globally. Privatization brought with it the techniques of writing off past debts, allocating shares to workers, splitting monopolies, unbundling and creating space and leaving only those core functions to survive that could be sustained by the markets. This generally required downsizing, setting up SMEs and creating laws and regulatory measures to cope with the phenomena. It invigorated the ailing economies of the 1980s and thus reinforced the confidence in the market economy.

The growth of SMEs cannot be explained by any single ideology (e.g. Thatcherism). Alan Gibbs attributes this phenomena's growth partly to the growth of the service sector and the boom in the information communication technology. Evidence from a cross section of countries from Europe and Asia supports this observation.

“Going international” used to be the domain of large firms only but this is no longer so today. Small and Medium-sized enterprises (SMEs) that makeup the small industry sector are beginning to penetrate the international market. Going international has allowed SMEs to tap new markets, overcome domestic constraints, and keep abreast of new trends in technology. However, these firms do face problems when venturing into foreign markets. These include different languages and cultures, disparate business environments, entry barriers, limited financial resources, lack of marketing information and skills, lack of supportive government policies for small industry, lack of good distribution networks and mental blocks. (Ho Lin Hoon)

### **Export Assistance Programs**

There is a need to come out of the export awareness program syndrome. Upgradations of training programs are required. These programs must be designed around the growing need to understand markets and the WTO implication. Repeating the some programs over and over again is sheer waste. Export education and assistance are offered to companies through numerous public private sector programs the effectiveness of such program is reduced because of unnecessary duplication of efforts. Often the credibility of such program may be perceived by companies to be limited because of their nature e.g. narrow in coverage or not rigorous enough. Similarly coordination between various government agencies in ex-assistance is needed. A healthy partnership must be sought

with education institutions, trade associations, chambers of commerce, world trade clubs, business development centers and other groups. SMEs have not always enthusiastically sought out assistance from agencies.

The perceived credibility of the agency has been the barrier. Often when SMEs do not view agencies as providing practical and affordable assistance and prescripts in an effective and timely manner, they have been reluctant to approach them.

### **Developing Countries' Policies for SMEs**

1. SME Development in Turkey and Modalities of Intervention as was the practice of most countries; Turkey also practiced a state directed economy since its inception in 1923. Hoping to achieve rapid industrialization it followed import substitution policy and relied on State Economic Enterprises, because it was the common belief that economic growth depended on heavy investment in large, capital-intensive industrial projects. Notwithstanding the imbalance of such a policy there was considerable growth of approximately 7% per annum. However true to the world pattern the growth declined in the 1970s and a new trend emerged in the 1980s. It was the trend based on free market economy and hence structural reforms were undertaken to give the economy a new shape.

## **Global Exporting SME's Scenario**

### **Global SME Scenario.**

#### **Pakistan's Export SME share with compare to world export SMEs**

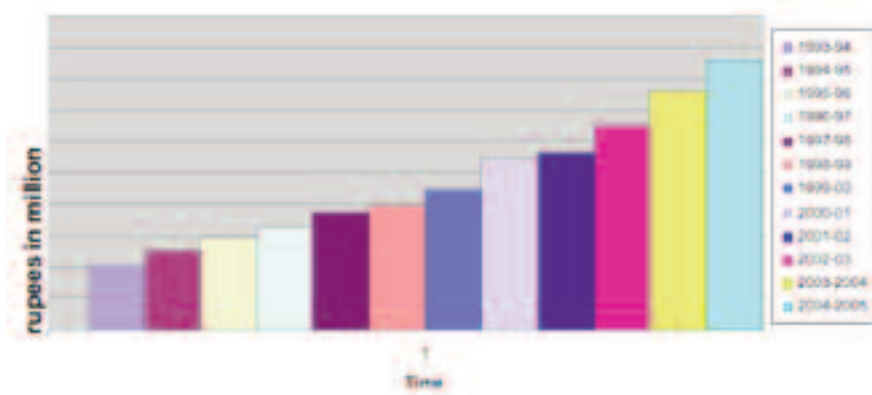
Figures in Percentage of Total Export

	<b>1990</b>	<b>2005</b>
China	1.85	6.8
Mexico	1.06	3.1
Malaysia	.66	2.5
Thailand	.61	2.01
India	.52	1.08
Maldev	.22	1.0
Srilanka	.33	2.0
Pakistan	.18	.32

*Source : Lall, S. (2003) 'SMEs Reinventing Manufacturing strategy: The role of government policy in building industrial competitiveness', paper for the Intergovernmental Group on Monetary Affairs and Development (G24).*

## Increase in exports.

1993-94	2063.11
1994-95	2522.64
1995-96	2960.51
1996-97	3279.76
1997-98	3764.55
1998-99	3938.43
1999-00	4471.52
2000-01	5427.81
2001-02	5652.54
2002-03	6552.37
2003-2004	7569.29
2004-2005	8603.40



## Economic Importance of SME's Export in Pakistan

Sub-sectors	Percentage Share
Cotton Weaving	13 %
Other Textiles	6 %
Metal Products	7 %
Carpets	4 %
Art Silk	5 %
Grain Milling	16 %
Jewelry	4 %
Wood & Furniture	10 %

*Source: Economic Survey of Pakistan, 2004-05*

## Increase in Employment through SMEs of Pakistan

### Data Collection and Research Methodology

Data were collected from 100 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 analysed 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.

**Table 3.1: Contribution of SMEs in Manufacturing and GDP of Pakistan**

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

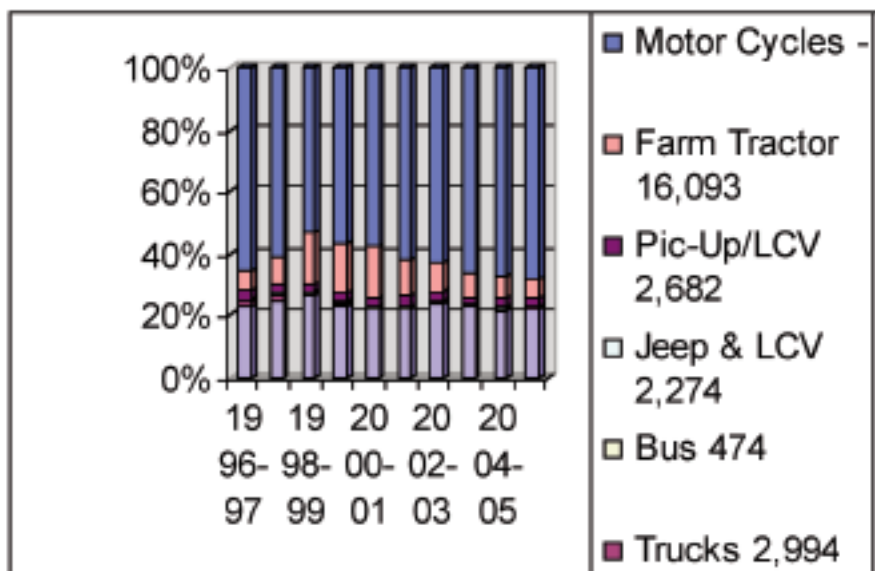
Source: Economic Survey of Pakistan, Various Issues

**Table 3.2: Production of Automotive Sector during 1995-06**

(No.)

Year	Cars	Trucks	Bus	Jeep & LCV	Pick-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 3.3: 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

## 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 tanned leather 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 per cent 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 per cent and 20.63 per cent respectively. However, it depicts decrease by 3.69 per cent in 2005-06.

In the Table 3.4 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 compared to US\$ 164,333 thousand in 2004-05 decreased by 7.8 per cent 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 per cent, 11.64 per cent and 7.85 per cent 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 compared to US\$ 321,341 thousand in 2001-02, with an increase of 56.15 per cent over the period. While Pakistan's export of leather manufactures shows growth of 558.21 per cent during 2001-06.

**Table 3.4: 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 3.5: 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 show negative values

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

**Table 3.6: Export of Fabrics from Pakistan during 2001-06**

(US\$ 000)

Year	Cotton Fabrics	% Change of Cotton Fabrics	Knitted/Croachedted Fabrics	%Change Knitted/Croachedted 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 show negative values

Source: Trade Development Authority of Pakistan, TDAP <<http://www.epb.gov.pk>>**Table 3.7: 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 show negative values

Source: Trade Development Authority of Pakistan, TDAP <<http://www.epb.gov.pk>>**Table 3.8: 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>>**Figure. Export of Bed Wear from Pakistan During 2001-06**

## SPSS Results and Analysis

### PART-1

		Frequency	Per cent
Missing	System	51	100.0

### Nature of the Business

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Bicycles	3	5.9	5.9	5.0
	Fabrication/M'factice	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	

### Type of Ownership

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
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	

### Local Share

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
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	



### Foreign Share

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	50%	2	3.9	100.0	100.0
Missing	System	49	96.1		
<b>Total</b>		51	100.0		

### What percentage of Your Materials and Parts are Imported?

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
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		
<b>Total</b>		51	100.0		

### Do you have Your Own Brand Name?

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Yes	16	31.4	33.3	33.3
	No	32	62.7	66.7	100.0
	Total	48	94.1	100.0	
Missing	System	3	5.9		
<b>Total</b>		51	100.0		

### PART-2

		Frequency	Per cent
Missing	System	51	100.0

### Difficulty in obtaining the Financing

		Frequency	Per cent	Valid Percent	Cumulative Percent
Valid	Severe	18	35.3	36.0	36.0
	Moderate	19	37.3	38.0	74.0
	Slight or None	13	25.5	26.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
<b>Total</b>		51	100.0		

### Increased Overall Production Costs

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Severe	24	47.1	48.0	48.0
	Moderate	17	33.3	34.0	82.0
	Slight or None	9	17.6	18.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
Total		51	100.0		

### Increased Costs of Materials and Parts

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Severe	25	49.0	50.0	50.0
	Moderate	14	27.5	28.0	78.0
	Slight or None	11	21.6	22.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
Total		51	100.0		

### Availability of Skilled Workers

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Severe	12	23.5	24.0	24.0
	Moderate	23	45.1	46.0	70.0
	Slight or None	15	29.4	30.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
Total		51	100.0		

### Availability of Unskilled Workers

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Severe	11	21.6	22.0	22.0
	Moderate	1	37.3	38.0	60.0
	Slight or None	20	39.2	40.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
Total		51	100.0		

### Labor Relation/Union Actions

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Severe	15	29.4	30.0	30.0
	Moderate	12	23.5	24.0	54.0
	Slight or None	23	45.1	46.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
Total		51	100.0		

### Production Technology

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Better than Competitors	20	39.2	40.0	40.1
	About the same as Competitors	24	47.1	48.0	88.0
	Not so Good as Competitors	4	7.8	8.0	96.1
	Not sure	2	3.9	4.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
Total		51	100.0		

### Product Quality

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Better than Competitors	22	43.1	44.0	44.1
	About the same as Competitors	21	41.2	42.0	86.1
	Not so Good as Competitors	4	7.8	8.0	94.0
	Not sure	3	5.9	6.0	100.0
	Total	50	98.0	100.0	
Missing	System	1	2.0		
Total		51	100.0		

### Product Design/Development

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	19	37.3	38.0	38.0
	About the same as Competitors	25	49.0	50.0	88.0
	Not so Good as Competitors	4	7.8	8.0	96.1
	Not sure	2	33.9	4.0	100.0
	Total	50	98.0	100.0	
<b>Missing</b>	System	1	2.0		
<b>Total</b>		51	100.0		

### Product Range / Diversity

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	19	37.3	38.0	38.1
	About the same as Competitors	26	51.0	52.0	90.0
	Not so Good as Competitors	3	5.9	6.0	96.1
	Not sure	2	3.9	4.0	100.0
	Total	50	98.0	100.0	
<b>Missing</b>	System	1	2.0		
<b>Total</b>		51	100.0		

### Product Image / Brand Image

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	18	35.3	37.5	37.0
	About the same as Competitors	21	41.2	43.8	81.1
	Not so Good as Competitors	5	9.8	10.4	91.0
	Not sure	4	7.8	8.3	100.0
	Total	48	94.1	100.0	
<b>Missing</b>	System	3	5.9		
<b>Total</b>		51	100.0		

### Pricing / Value for Money

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	12	23.5	24.0	24.0
	About the same as Competitors	29	56.9	58.0	82.0
	Not so Good as Competitors	2	3.9	4.0	86.0
	Not sure	7	13.7	14.0	100.0
	Total	50	98.0	100.0	
<b>Missing</b>	System	1	2.0		
<b>Total</b>		51	100.0		

### Productivity / Unit Costs / Profit Margins

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	19	23.5	24.0	38.0
	About the same as Competitors	25	56.9	58.0	89.0
	Not so Good as Competitors	2	2.9	4.0	93.0
	Not sure	3	13.7	14.0	100.0
	Total	49	98.0	100.0	
<b>Missing</b>	System	2	2.0		
<b>Total</b>		51	100.0		

### Access to Domestic Markets

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	11	21.6	23.9	23.0
	About the same as Competitors	27	52.9	58.7	82.0
	Not so Good as Competitors	5	9.8	10.9	93.0
	Not sure	3	5.9	6.5	100.0
	Total	46	90.2	100.0	
<b>Missing</b>	System	5	9.8		
<b>Total</b>		51	100.0		

### Access to Export Markets

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	18	23.5	36.7	36.0
	About the same as Competitors	24	47.1	49.0	85.1
	Not so Good as Competitors	5	9.8	10.2	95.1
	Not sure	2	3.9	4.1	100.0
	Total	49	96.1	100.0	
<b>Missing</b>	System	2	3.9		
<b>Total</b>		51	100.0		

### Access to Technology

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	12	23.5	24.5	24.0
	About the same as Competitors	30	58.8	61.2	85.1
	Not so Good as Competitors	4	7.8	8.2	93.0
	Not sure	3	5.9	6.1	100.0
	Total	49	96.1	100.0	
<b>Missing</b>	System	2	3.9		
<b>Total</b>		51	100.0		

### Access to Finance

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	11	21.6	22.4	22.0
	About the same as Competitors	28	54.9	57.1	79.0
	Not so Good as Competitors	6	11.8	12.2	91.0
	Not sure	4	7.8	8.2	100.0
	Total	49	96.1	100.0	
<b>Missing</b>	System	2	3.9		
<b>Total</b>		51	100.0		

### Workers Skills

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	17	33.2	34.7	34.0
	About the same as Competitors	26	51.0	53.1	87.0
	Not so Good as Competitors	4	7.8	8.2	95.1
	Not sure	2	3.9	4.1	100.0
	Total	49	96.1	100.0	
<b>Missing</b>	System	2	3.9		
<b>Total</b>		51	100.0		

### Ability to Use Information Technology

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	Better than Competitors	12	23.5	24.5	24.0
	About the same as Competitors	31	60.8	63.3	87.1
	Not so Good as Competitors	3	5.9	6.1	93.1
	Not sure	3	5.9	6.1	100.0
	Total	49	96.1	100.0	
<b>Missing</b>	System	2	3.9		
<b>Total</b>		51	100.0		

### **PART-3**

		Frequency	Per cent
Missing	System	51	100.0

### Total Production Volume

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	More than 10% Higher	10	19.6	20.8	20.0
	5-10% Higher	13	25.5	27.1	47.0
	About the same	21	41.2	43.8	91.1
	5-10% Lower	2	3.9	4.2	95.0
	More than 10% Lower	2	3.9	4.2	100.0
	Total	48	94.1	100.0	
<b>Missing</b>	System	3	9.5		
<b>Total</b>		51	100.0		

## Total Sales

		Frequency	Per cent	Valid Per cent	Cumulative Per cent
<b>Valid</b>	More than 10% Higher	9	17.6	185.8	18.0
	5-10% Higher	14	27.5	29.2	47.0
	About the same	18	35.3	37.5	85.0
	5-10% Lower	5	9.8	10.4	95.0
	More than 10% Lower	2	3.9	4.2	100.0
	Total	48	94.1	100.0	
<b>Missing</b>	System	3	5.9		
<b>Total</b>		51	100.0		

## Conclusion

In the 21<sup>st</sup> century, export industries will concentrate more on creativity and responsiveness to market and technology change. This paper has examined the set of policy and strategy alternative for the support of SME's export business in Pakistan and comparison with under developing countries. The Exports are increased through SME especially in the Year 1999-2000. The employment increased in Pakistan as well as in Sindh that led to poverty reduction. By primary research we got result that still there are problems faced by the exporters if they can be solved the export increased to 60% more. In the comparison of other Asian countries like Japan and Thailand where most of their development progress through SME's. So we will utilize all the possibilities of export different SMEs product to the Asian as well develop countries to increase the export as well as strengthening the economy of Pakistan.

## Recommendations

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.

They did not perceive that there was increasing credit available inspite of SMEDA or SBFC or that the government had begun to be interested in their welfare



and had begun to devise policies to support them. More than half the respondent entrepreneurs thought that government support had substantially decreased.

Entrepreneurs' concern regarding the changes in Government policies and taxes. What may be seen by economists as having positive effects on SMEs may not be equally valued by entrepreneurs. Thus, most responded strongly that government taxing and pricing policies were serious constraints to their establishments. Very few (12% of the entire set of respondents) felt that government support had increased and in fact, more than 70% felt it had decreased substantially. Entrepreneurs in all provinces share a grave concern about the lack of credit and the conditions required for obtaining what credit there is. Few responded "do not know" to any questions and few took the lukewarm options. Most felt strongly about what they wanted and needed for their businesses.

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# Impact of SMEs on the Rural Development of Sindh-Pakistan

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## **Abstract**

*This research investigates the strategies for the Sustainable Rural Development in Pakistan. The current scenario is quiet dismal warrants the urgent need on the part of the governments of the world, organization, and all other stake-holders to come together to take stock of the grim situation and act collectively to protect environment in the interest of present of future generations. If we don't act swiftly at this critical and juncture the future cost of inaction would be very high perhaps beyond the means of developing countries. Data were collected from 30 organizations by using simple random technique and data were analyzed by using SPSS software. It was revealed that sustainable development of the rural sector in Pakistan produces evidences of the degradation of the rural resources such as land, water, air, forest, biodiversity, ecology, and also erosion of social values.*

**Key Words:** Sustainable, development, Rural Development

## **Introduction**

The issue of sustainable development has drawn worldwide attention in the recent years. The growth and development models, pursued by both developed and developing countries and based on principle of maximization of production, consumption and material wealth have only turned this beautiful planet earth into a place of mass destruction and deprivation. Mankind is now faced with a very serious crises of ecological imbalances and its consequential adverse effects e.g reflected to the global warming, thinning on ozone layer, vast changes in climatic pattern, melting of glaciers, losses of biodiversity, soil degradation, air and water pollution, acid rain, situations of lakes and river beds, extinct of species depletion of other known natural resources, different kind of plants and animals, genetic disorder and various kinds of diseases.

Fundamentally, environmental problems can be classified into three categories viz, recourse depletion problems, pollution problems and other social problems. Through these issues sustainable development is crucial for the sur-

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vival of mankind, yet a sense of urgency is lacking among nations both developed and developing. The current scenario is quite dismal warrant the urgent need on the part of the governments of the world, organization, and all other stake-holders to come together to take stock of the grim situation and act collectively to protect environment in the interest of present and future generations. If we don't act swiftly at this critical juncture their future cost of inaction would be very high perhaps beyond the means of developing countries.

After realizing the significance the urgency of sustainable development, local and international organizations have lately stated giving serious thoughts to these issues to tackle the and arrest further the deteriorating situation by the possible means. Economic growth in Pakistan on existing pattern has resulted in growing problem of sustainability of natural resources and environment, demaging our eco-system. Almost all natural resources, particularly belonging to Agriculture have been reported to be in the process of degradation. We present in this section such evidences of resource degradation and other allied issues.

### **Land Degradation**

In Pakistan Agriculture sector is still dominated and the highest share in Pakistan's economy counts through agricultural land and certainly the most important non-renewable resource for rural masses. Notably, for a large part of post-independent era, management of Land did not appear as an important thrust area of planners, all along, had been produce as much as possible for food security purposes and in turn led to non-viable pattern of land utilization. Due to excessive use of the fertilizers in Pakistan that was increased nearly 100 percent from 2000 to 2010.

### **Depletion of Water Resources**

Water is greatly used for irrigation, industry, hydel power and drinking purposes. In terms of utilization, irrigation accounts 80 percent of the total available water domestic and other uses accounts for 20 percent. The ground water that accounts for above one-third of the country's total water utilization is not only inadequate in many parts of the country but also depleting rapidly. With the adoption of new agricultural strategy in the 1960's, the tube well irrigation involving ground water utilization received special attention. Ground water tables have gone down significantly in many areas across the country. The problem has aggravated in hill areas due to rapid deforestation. In the areas near the sea, the salinity ingress caused by excessive extraction and then filled in by the seawater, is increasing at an alarming rate.

Both surface water and ground water in rural areas has not only become scarce but polluted also. Most of the rivers and water resources have turned into sewers because of the indiscriminate discharge of untreated industrial effluent, human waste and other harmful chemicals into the river.

### **Degradation of forest Resources**

Forest occupies an important place among the natural resources of the country. Forest meets the essential requirements of the people on a renewable basis. In Pakistan forest provides fodder to about 20 million cattle and also fuel and wood for domestic and industrial uses. Forest confer ecological benefits and being the repository of biodiversity, constitute an essential element of sustainable development, provides vital life support system.

### **Risk to Biodiversity off sleet**

The world's greatest range of attitude, rainfall and geographical conditions have given rise to an enormous density of forest, grassland, wet land, desert mountains and marine eco-system. The vast reserve of biodiversity in Pakistan gets threatened due to variety of factors such as rapidly growing population, deforestation, use of agro-chemicals, unplanned development of natural environment, anthropogenic impact as a result of ignorance, apathy of people, etc. Market forces commercialization have further deepened the crisis of biodiversity loss. The coral refer the protect the coastal areas from sea erosion are being, thoughtlessly, used for manufacturing cement in Rohri and Karachi.

### **Deprivation of Rural People**

Poverty, inequality and unemployment this triumvirate, pose a serious challenge towards sustainable development in Pakistan. Even after 63 years of independence and development planning, these three problems continued to be pervasive. The incidence of poverty in Pakistan is about 23% percent and most of the people living under poverty line. Unchecked population expansion, pressure on land, limited access of various rural programs, limited and weak effect of "Trickle down theory" eviction of small and marginal peasants, declining local handicrafts and services, failure of local governance, bureaucratic corruption and redtapism, illiteracy, unemployment are some of the more identified reasons for the poverty and inequality in countryside.

### **Strategies for Sustainable Development**

The unfavorable situation, as brought out in the preceding analysis, in the rural areas of Pakistan with reference to several indicators as ingredients in sus-

tainable rural development, requires multi-faceted and multi-pronged strategies and remediable measure for the redress of acute problem of rural sustainability. We here offer some strategies for remedial measures to solve these deepening crises. This section is therefore devoted to these remedial measures.

### **Stabilizing Population**

To stabilize population is an essential element of any strategy for the rural development on sustainable basis. Rural population in Pakistan is nearly 70% of the total population. Migration of people from rural areas to urban areas, which is on substantial scale, is not the lasting solution of population problem. Out migration is not proving much beneficial to the rural people either as large proportion of such persons (particularly in high income brackets) settle in urban areas permanently and tend to snap their ties with village people left behind reducing the scope of any network of expansion of new idea and information and cultural diffusion. In the case of landless, small and marginal farmers moving to urban centers, for petty jobs high cost of living miserable and also adding extra population burden on urban centers. We have now reached a stage where some hard measures are required to control our population is not just a demographic issue, education, incentives, health care facilities, and women empowerment would go a long way in controlling population. Required changes must be affected with force, persuasion and education.

### **Sustainable Agriculture, Forestry and Livestock**

Since living of rural masses revolve round agriculture, forests and livestock, it is essential to make all the three sustainable for sustainable development of the rural economy. In the case of food grains production, Pakistan is achieve record production in Rice in 2010 through extensive technique used for the cultivation of main cereal crops. Cropping pattern in particular regions is governed by physical and topographical factors. For the diversification to be successful food security will have to be ensured in one hand and the guaranteed minimum support for these cash and other crops on the other.

Effective steps are required towards forest conservation and tree plantation programs. Agro-forestry and social forestry need to be given a big push to meet timber needs, firewood and fodder. The extension of forest area has to come from the area which is w classified as barren and uncultivable wasteland, village common land and vacant land along the road side and railway line. Livestock is contributing 11% in the GDP of Pakistan. The competitiveness of the Pakistani market for agricultural commodities, including dairy products, has been at the

forefront of much debate in recent times in the context of recent reforms to the increasing trade liberalisation brought about as a result of and increasing globalisation of the world economy (Newman and Matthews, 2004). Consequently, the objective of this research was to examine the relative competitiveness of Pakistan's specialist milk producers. The chosen samples for comparison, between pack milk producers Engro-foods, Nestle, Haleeb, Dairy queen, Good Milk, with in the Pakistani markets. Furthermore, additional analysis was conducted on 'representative' farm types from the domestic Farm Comparisons, based on a number of major domestic milk producing countries, to determine the relative international competitiveness of 'representative' Pakistan's specialist milk producers. The data sources used and methodology involved in the computation of the various indicators of competitiveness used in the analysis are outlined in the following section. The results of the various indicators of competitiveness are then outlined and the conclusions from the research identified.

### **Appropriate Technology**

The efficient and environmental friendly technologies that can be slow down or regenerate natural resources need to be applied. There are many areas of rural sector where such technology is urgently needed. There is a huge waste from Agriculture, horticulture, dairying, mining and building material industries. The technology that can be used in that will be associated with local communities.

Technology should be user friendly so that farmers can easily operate in the field of Agriculture.

Technology also reduces dependence of Agriculture on climatic factors and thereby securing farmers against weather induced risk and uncertainty.

Technology should be sound and evaluated before it is recommended for wider use.

### **Integrating Environment and Economics**

The time is ripe when environment is required to be integrated with economics. The days when nature was considered inexhaustible and free are over and there is need to evolve economic instruments to conserve nature and eco-system. Unless it's done, we will fail to achieve suitable sustainable programs. Many environmental programs can easily be traced to the absence of markets for the most of nature's services where environmental cost are not assigned and apportioned. Reckless subsidies on water and electricity and even their free



usage to certain categories farmers in Sindh made land and other resources vulnerable to degradation in number of ways. While economically advanced nations have developed accounting mechanism to allocate cost environmental damage this type of practice is not practice in developing countries.

### **Rural Education and Research and Extension**

Education is social instrument, which functions as a vital agent of social-cultural change, and there is direct relationship between the level of education and the level of development. In rural areas of Pakistan literacy is low and matter of education is not given priority to the previous governments. The experience revealed that the even the teachers and local students are not fully trained to fulfill the syllabus of primary education. Rural people are deprived of their basic rights. Government has emphasis on the quality of education.

### **Empowering Women**

The success of any activity generally depends on the extent to which both women and men participate in that activity. Therefore, sustainable development in rural sector to be successful, participation of women is equally important. Presently, the women produce 50 percent of the SMEs business in Pakistan. Women can contribute significantly if shelter is provided from tribal feudal in Pakistan. Rural women are involved in all practically in all such as agriculture and related activities, besides performing domestic duties such as rearing of children and raising of family, cooking, washing, etc. Not only women in rural areas have started while men's domain. Rural men folk are, very cleverly shifting their work to women while former away their time, playing cards, gossiping and several other useless unproductive activities. Women are also responsible for milking and tending Pakistan's 10 million cows and 30 million buffalos. Educated mother is just like the first teacher. She can instill in her wards a sense of respect for nature and the value of biodiversity. Commenting on women education which is unfinished agenda because women are facing lot of challenges another important factor that comes to mind in the promotion of sustainable development is that middle class group of women in town and cities should take more interest in rural based women organizations, their movement, and their problem.

### **Globalization**

The impact of globalization which is under way, will have deep impact on the sustainability of rural resources. So far, opinion on the issue is divided. According to some analysis, trade liberalization under the regime, by expanding

production and accelerating growth, will inevitably damage the environment. In order to provide safeguards to rural genetic resources, the CBD may be invoked which recognizes community rights over their biodiversity and the indigenous knowledge. Regarding foreign direct investment (FDI), it should be allowed prudently in more grey areas that improve the quality of environment in rural areas. Such areas include forestation of wasteland to produce fuel wood and fodder, watershed development, agro-forestry, low cost sanitation measures, conversion of crop residue into fuel, In short, foreign investment should reflect ecological dimension, frequently overlooked in the past.

## Conclusions

The issue of sustainable development has drawn world wide attention in finding universal acceptability, though slowly. The growth models pursued by both developed and developing countries by and large failed to deliver satisfactory solution of the multifarious problems faced by humanity. The present study that is all about sustainable development of the rural sector in Pakistan produces evidences of the degradation of the rural resources such as land, water, air, forest, biodiversity, ecology, and also erosion of social values. These calls for urgent solution of problems by devising suitable strategies which are compatible with nature and that also meet the aspirations of the rural masses. So that sustainable development does not remain only rhetoric, government, NGOs, experts, technologist's extension worker, policy makers and all stakeholders make sincere efforts to solve these problems through persuasion, command and control measures. The movement of sustainable development must grow out of the people's involvement.

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# Modern Growth Theories and Trade Liberalization: Measurement of Effects of Technology Transfer on Pakistan's Economy

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## Abstract

*This study works on the issues of liberalization effects on growth, various theories of growth and bond among liberalization from theoretical and estimation perspectives. Estimation proposes critical examination of renowned economists, their estimation procedure and variable selection is highlighted. This study in the light of Lucas, Barro, Romer and Edwards work develop variables for analysis and used time series which have not used by the scholars especially with reference to Pakistan and its neighboring countries.*

*Empirical literature in 1990's depicts the importance of the trade as major policy variable. Trade openness affects efficiency and growth increase market size, leads to technological spillover, economies of scale through research and development, higher profit to investors. Major objective of study is to explore the bond among liberalization and growth, convergence in Pakistan and its neighboring countries affects of knowledge gap (used for convergence) in selected countries, role of trade distortion and intervention in determining growth process. The variables have depicted the expected signs and most of them are significant at conventional levels. Moreover,  $R^2$  in all the estimated regression is considerably high indicating that the empirical model is capable of explaining variability in growth rate of GDP per capita. Moreover, the  $F$  statistics values are also significant which shows the efficiency and correctness of model.*

**Key Words:** Modern Growth Theories Trade Liberalization, Trade Openers, Trade Distortion Trends.

## Introduction

Economic liberalization is getting important in recent literature throughout the world. Firms which have different technological capabilities in same industrial sector or which have different type of institutions in same regions may respond in a diverse manner to the competitive environment developed for the exclusion of barriers to entry during liberalization period. Liberalization may be effects asymmetrically; some firms may have advantage while others may not,

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leading to developing within industry deviation in industrial execution. Father of Economics Adam Smith (1776) who firstly pointed out that International trade has positive effects on economic growth. This idea dominated till World War II. Protectionist EG had found substances in Latin America during 60's. Failure of those experiments and relationship of quick EG with the liberalization of IT and the consequent, specialization in different countries, resultant many studies based on the neoclassical growth theories give decisive role to IT as driving force EG.

Trade liberalization has occupied an important place in literature debate for a prolonged period. Indeed, the vigor and interest characterizing the debate reflect its importance and continued elusiveness in setting the main contentious issue on the theoretical and empirical fronts. Trade openness is one of the most important determinants of the economic growth, is becoming popular with each passing day.

Historically, if we analyze the different periods, from import substitution policies to modern time's the dominance of the World Trade Organization (WTO). It is observed that different trade policies were followed in different time periods. The import substitution period 1960s and 1990s, the liberalization became the fashion of the time.

The import substitution got the spur from the infant industry argument and was promoted by the Rual Prebisch (1950).<sup>2</sup> Throughout this epoch, most economists follow the protectionist thought and devoted massive time to design models that reliance deeply on the import substitution design.

While over the time various economists have altered their viewpoint and empirically studied the consequences of other trade strategies<sup>3</sup>. The researchers used different methodological standard and historical and statistical evidences argued that there are plentiful evidences recommending that more open and outward oriented economies had performed better than the countries pursuing protectionism.

At the moment after the breakdown of the import substitution phenomena and by the development of new generation of growth theories which based upon economies of scale, human development and endogenous technological progress. These expansions have yet again caused trade liberalization into focus. It has produced new evidences of fundamentals which show the way to

believe that trade and other policies variables are very important and they significantly affect long run economic growth.<sup>6</sup>

Solow (1956) and others developed new growth models which enlightened that technological changes are exogenous and unaffected by a country integration to world trade. Trade policy reforms are very important and influence the long run economic growth of a country via technological change.

Hence, the new growth theories strengthen the idea that the trade as a major source for managing higher and faster growth rates. Moreover, it is also empirically confirmed by Barro (1991) and Gundlach (1997) that those countries which are more open tend to converge too quick towards their steady state growth path as compared to those which are following protectionist trade regime.

Gross and Helpman (1991) and Edwards (1992) have taken a different perception of emphasizing the role of trade openness in smaller countries to adopt technology developed in the advanced nations at a faster rate and thus to grow faster than others having a low degree of openness. What is particularly interesting about this model is that under plausible conditions liberalized economies will grow faster than more restricted once even in the long run.

Despite all these developments the relationship among trade openness and growth is yet not be fully resolved. The generalization of results form dynamic equilibrium growth setting presents some problems. Only endogenous growth models have attempted to solve this dogma.

Other side the empirical work on the subject is scare and it has been difficult to compose adequate and strong measurements of trade dependence while using time series data. Moreover, robustness of the results and the cross sectional data limitations are problems in this process.

Researchers have expounded bidirectional approaches to tackle the extent of trade orientation. Few have chosen indexes of trade orientation in subjective form, which is difficult in comparable across countries.<sup>9</sup>

The second group of researchers have selected decomposing the consequences of trade orientation on economic performance in two stages. The first stage, it is assumed for liberalized trade regime encouraged exports via reduc-

tion of anti export bias. In the second stage the researchers tested exports associated with a higher rate of output growth<sup>10</sup>. Both approaches has not proven satisfactory results due to contradictory results.<sup>11</sup>

More recent studies on the endogenous growth theories have measured openness as export shares or import shares like Romer (1990s), and these also have not tried to capture the extent to which commercial policy obstruct trade. These studies are seriously affected by the difficulty in measuring the trade orientation. The empirical literature in the 1990s depicts the importance of the trade as a major policy variable. It seems that some sort of consensus has emerged, as most of the researchers have started conceding the trade as an important component of the commercial policy.

According to discussed theories, trade openness can effect the level and efficiency of growth in numerous ways such as

- i. An open trade regime can increase market size, hence leads to technological spillovers effects;
- ii. there are economies of scale in the research and development sector;
- iii. a large international market provides higher profit to investors; and
- iv. there is no replication of research and development efforts across the countries.

Thus, openness increases the efficiency of investment Wacziarg, (1998). The second channel is the productivity channel. To the extent that open trade regimes lead to greater exposure to worldwide stock of productivity enhancing knowledge, than openness leads to increased growth. Ben David and Loewy (1995) have said that upsurge in the trade will, in general, lead to greater diffusion and faster growth and hence, hence faster per capita income growth.

Whatever are the channels, empirical estimates of the impact of trade on growth and welfare are quite substantial<sup>12</sup> Dollar (1992) estimates a cross country index of distortions in the real exchange rate, and concludes that outward oriented countries grow faster. The rigorous measure of exchange rate and the focus on developing countries distinguish this study. Edward (1992), “Estimates the impact of international trade on growth, employing various indexes of openness, and found a positive correlation between openness and growth”. Levine and Renelt (1992), “find that, free international trade indirectly affects growth through investment. The countries which have low trade barriers invest more and therefore grow faster”. Sachs and Warner, (1995), “also confirms the posi-



tive and significant relationship between free trade and growth”. Vamvakidis (1997), 1998) “finds a robust impact of openness on growth, and provide evidence that economies have grown faster, on average, in both the short run and the long run, after broad liberalization”.

Empirical evidence of this research also reveals that counties with open, large, and more developed neighboring economies grow faster than those with closed smaller, and less developed neighboring economies.

Anyhow, in the case of Pakistan and its neighboring countries, there exists hardly any study, which takes the case of trade liberalization and the issue that how it is influencing their growth process. Iqbal and Zahid (1998) although have discussed the sources of macro growth in Pakistan’s perspective. Anyhow, this study is not taking into account the measure for trade liberalization, orientation and distortion issues, which is the need of the time. This study is also containing the problem of smaller data sets, the problem of cross section analysis, lack of robustness in the results, variable omission and measurement problems.

Thus, there are good reasons to believe that the series of above mentioned empirical studies in the consensus period have further strengthened the idea that trade liberalization (openness) have a considerable contribution in the determination of growth.

As, the world economies are moving rapidly towards more open trade regime World Trade Organization (WTO), and many developing countries seem to have discarded import substitution policies in favor of more outward oriented polices, one would expect the benefits from free trade to have grater potential in the future.

## **1.2 Hypothesis of study**

- i. Trade Liberalization (openness) has positive effects on economic growth in Pakistan and its neighboring countries.
- ii. Technology transfer has positive effects on growth in Pakistan and its neighboring countries.
- iii. Trade distortion has positive effects on growth in Pakistan and its neighboring counties.
- iv. FDI positively moving growth of Pakistan and its neighboring countries.
- v. Human Development has positive effects on growth of Pakistan and

- its neighboring countries.
- vi. Political instability has negative effects on growth Pakistan and its neighboring countries.
  - vii. Government size has positive effects on growth of Pakistan and its neighboring countries.

## **Model Specification**

However, our model emphasis on Pakistan and its neighboring to check trade policy may affect or not on the speed at which technological improvements take place.

These are assumptions applied for the development of model:

1. Knowledge accumulation which is reported Edward (1992) through two sources like.
  - a) a purely local knowledge deplete out from indigenous technological improvements (pure innovations) and,
  - b) a knowledge distorted from rest of world inventions.

Although, first source of knowledge has a bond with indigenous innovations but we assumed that the external inventions have significant impact on the local source of technical advancement in Pakistan and its neighboring countries. In the study, it is hypothesized that technical knowledge of developed world has considerable impressions on domestic knowledge enhancement.

It is assumed that transfer of knowledge from advanced countries belongings positively on the openness of the developing economies.

## **2. Measures of Openness**

In the international trade theories two types of measures of openness have been used; incidence based measure of individual indicators and outcome based measures. Incidence based measures are the direct indicators of trade policy such as tariff rate, quantitative restrictions, export taxes, and foreign exchange restrictions. The problems with this an approach is the changes in one indicator are not easily weighted against the changes in other. Thus, if average tariffs rise, but export taxes also falls, then it is not clear whether the regime has become more neutral.

Due to the flaws in the incidence-based measures of individual indicators, outcome based measures are widely used because they implicitly cover all the sources of trade distortion and based on data which are more promptly available.

## **3. Openness Ratio**

The openness ratio in its simplest form is the ratio of imports plus exports as a fraction of GDP.

#### 4. Pitchet Index

This is obtained by regressing the trade intensity, defined as the ratio of imports plus exports to GDP, total population, total area, GDP per capita, GDP per capita square. The regression equation is mentioned as under.

$$TI = \alpha^0 + \alpha^1 POP + \alpha^2 AREA + \alpha^3 GDPPPC + \alpha^4 (GDPPC)^2 + \epsilon \quad (15)$$

The residuals from the above regression will be taken to measure the degree to which the ration deviates from what it would “normally” be.

#### 5. Measure of Distortions in Prices

To find distortionary effect only one measure used here to capture the effect in price. Since the Dollar (1992) has developed this index, it is known as the best index for measuring the distortions in the economy as compare to Leamer Index (1988). Dollar developed index is used to measure the price distortions. This index is a modified version of an early developed index of relative price levels given by Summers and Heston for international comparison of prices.

$$RPL_i = 100 * e_i P_i / P_{us} \quad (16)$$

Where  $e_i$  is nominal exchange rate between country  $i$  and United States (US) and  $P_i$  and  $P_{us}$  are their respective price levels. This index, in effect, measures the degree of real exchange rate distortions. The assumption is that if purchasing power parity holds, then the absence of trade barriers and in the absence of non traded goods,  $RPL = 100$ . Deviation from 100 represents either the effects of trade barriers or the effect of non-traded goods. In order to remove the effects of non traded goods that following regression will be estimated.

$$RPL_i = \alpha^0 + \alpha^1 GDPC_i + \alpha^2 DENS_i + \epsilon_i \quad (17)$$

Where,  $GDPC_i$  is GDP per capita and  $DENS_i$  is population density, these variables are proxies for endowments of capital, land and labor. The assumption is that relatively labor abundant countries will have relatively low prices for non- traded goods, since these tend to be labor intensive. The ratio of actual to predicated  $RPL_i$  given the degree of distortion (Dollar).

Keeping in view above discussion about the methodology, this study is a continuation to ascertain the work empirically proved by known economists D.Romer (1990) and Lucas (1988). This study is on age from other methodologies on the new endogenous growth theories because it is also capturing the impact of trade policy variables like trade distortions and trade interventions indexes which applied by Sabatin Adward and omitted by others. The methodology describes the channel by which trade impacts on the growth via the domestic increased innovation, the technological development accruing in the South Asian countries and rest of the world. Finally, it shows that by controlling other variables whether trade will lead to converging South Asian countries to the advanced economies. Moreover, it is mentioned that catch up affect, distortions impact and intervention affect on economic growth in selected South Asian countries is addition to work on these economies. So it can be counted as contribution of the appropriate methodology for explaining convergence through trade.

## **4.2 Variables and equations.**

### **4.2.1 Gross Domestic Product Percapita (GDPPC)**

The variable GDP per capita (GDPPC) accomplished from WDI. The GDP at 1996 constant prices is taken and is divided by total population to get GDP per capita.

$$\text{GDP PER CAPITA} = (\text{GDP}(\%)/\text{TOTAL POPULATION}) \quad (18)$$

This formula of growth rate is used to attain the growth rate

$$\text{Growth rate} = (\text{GDPT} - \text{GDPT-1}) / \text{GDPT-1} \quad (19)$$

Gross Domestic Investment (GDI)

Values derived from WDI at constant 1995 prices and its growth rate also calculated.

Knowledge Gap (GAP) using GDP at 1995 base year prices. This is proxy variable used for finding catch up affect. This is achieved form ratio of initial GDP to current GDP

$$\text{GAP} = (\text{Initial GDP} / \text{Current GDP}) \quad (20)$$

The Research and Development (RD) used as proxy for finding the catch up affect. This variable included no of Scientists, Engineers and Technicians per million for constructing RD.

### **4.2.2 Trade orientation and growth (TOP)**

For this we used suitable indexes of openness and trade interventions. The indexes are difficult to construct in developing countries. Special form of trade restriction tariffs used for protection. Non Trade Barriers (NTBs) are sometimes used as indexes of the acuteness of the of non-tariff controls. This study design variable which is used for policy options and presenting their net results. The ratio of exports and imports are used for openness variable (TOP). This is used as a proxy for commercial policy because the availability of time series data on exports and imports. Explicit and implicit commercial policy accounts very important factors such as quotas and exchange controls.

Dollar (1992) The Dollar index is used for measuring the trade distortion.

Foreign Direct Investment (FDI) is very important source of knowledge, technology, and capital transfer.

This variable of population density (DENS) is used in the construction Dollar index.

All the data in US (\$) Dollars and it is taken on constant 1996 base year prices. The variables which are different from the 1996 year base value, they are brought at 1996 base value. The purpose of this exercise is to get the same base for all the variables used to find the better results.

The variables constructed from WDI 2006 are, GDP, GDI, Total Population, Imports of Goods and Services, Exports of Goods and Services, Official exchange rate, Total Expenditures, Scientists, engineers, technicians in R&D (per million people), Land area (sq km), population density and FDI.

#### **4.2.3 Nominal Exchange Rate,**

Consumer price indexes (CPI) are taken from IFS two issues. General Index of Stocks is attained from 50 years of Pakistan's Statistics, published by Federal Bureau of Statistics, Government of Pakistan.

All these variables are normalized by dividing them by total population that equalizes the unit value of explanatory variables to that of dependent variable (GDP per capita). It is a step towards attaining equivalent and comparable value contained results.

#### **4.2.4 Model Equations**

The model is build on Production function where we convert it into econometric model as

The model is derived form production function such as by Cobb Douglas.

$$Y=f(K,L) \dot{A}_t \quad (21)$$

Y = output

K = capital

L = labour

$\dot{A}_t$  = Technological change

While we have taken here technology change as exogenous which we have convert as endogenous to see the technology change effect discussed by Edward (1992). Then it would become as

$$Y = f(K, L, \dot{A}_t), GDI, \tau, u \quad (22)$$

This equation shows the technology change as endogeneous and GDI,  $\tau$ , u

GDI= Gross domestic investment

$\tau$  = Index of trade intervention

u = Error term

Here we use the Edward equation and develop other equation for changing effects analysis where we included new variables and elimination of used variable one by one to check the effects of each variable.

$$GDPPCi = \alpha_0 + \alpha_1 GDI_i + \alpha_2 GAP_i \alpha_3 TOP_i + u_i \quad (23)$$

GAP = Knowledge Gap between Pakistan its neighboring countries with rest of the world

TOP= Trade orientation and growth

$$GDPPCi = \alpha_0 + 1GDI_i + \alpha_2GAP_i \alpha_3 DOLLAR_i + u_i \quad (24)$$

DOLLAR= The Dollar index is used for measuring the trade distortion

$$GDPPCi = \alpha_0 + 1 GDI_i + \alpha_2GAP_i \alpha_3 PITCHET_i + u_i \quad (25)$$

PITCHET= This index is measuring the impact of distortions in the trade flows.

$$GDPPCi = \alpha_0 + 1 GDI_i + \alpha_2 GAP_i \alpha_3 RD_i + u_i \quad (26)$$

RD<sub>i</sub>= reearch and development which measured on the basis of doctors and engineers per thousand

$$GDPPCi = \alpha_0 + 1 GDI_i + \alpha_2 GAP_i \alpha_3 TOP_i + \alpha_4 FDI_i + u_i \quad (27)$$

FDI = foreign direct investment

$$GDPPCi = \alpha_0 + 1 GDI_i + \alpha_2 GAP_i \alpha_3 TOP_i + \alpha_4 POL_i + u_i \quad (28)$$

POL = Political Instability, dummy for measuring the political instability  

$$GDPPCi = \alpha_0 + 1 GDI_i + \alpha_2 GAP_i + \alpha_3 TOP_i + \alpha_4 GENEX_i + u_i \quad (29)$$

GENEX = General Stock Exchange Index, taken as a proxy for measuring political instability

$$GDPPCi = \alpha_0 + 1 GDI_i + \alpha_2 GAP_i + \alpha_3 TOP_i + \alpha_4 PRIM_i + u_i \quad (30)$$

PRIM<sub>i</sub> = enrolment in primary school

$$GDPPCi = \alpha_0 + 1 GDI_i + \alpha_2 GAP_i + \alpha_3 TOP_i + \alpha_4 GOVEX_i + u_i \quad (31)$$

GOVEX<sub>i</sub> = Government expenditure

## Results and Discussion

Almost all the equations have produced satisfactory and significant results. The variables have depicted the expected signs and most of them are significant at conventional levels. Moreover, the R<sup>2</sup> in all the estimated regressions is considerably high indicating that the empirical model is capable of explaining variability in growth rate of GDP per capita. Moreover, the F Statistics values are also significant which shows the efficiency and correctness of the model.

Relationship between openness and intervention indexes and economic growth is discussed then important variables which have major contribution towards growth are discussed, like human capital, Foreign Direct Investment, Political Instability and government size.

### 5.2.1 The effect of Openness and Intervention indexes.

The estimated equation (32) has expected signs. The variables are statistically significant except investment (GDI) from Srilanka. Anyhow, it is also maintaining the expected positive sign. The reason to be insignificant could be that the countries that have pursued the inward looking policies or policies that have not encouraged local investment through suffocating regulation, it has caused distortionary effects on the investment and make it less effective, as compared to other South Asian countries. Sinha and Sinha (1996) have extracted the same results for Myanmar, India and Bangladesh. The results mentioned in the table 1 takes the case where trade openness (TOP) variable is used as indicator of commercial policy. Moreover, the detailed openness indexes series calculated for all the selected South Asian countries. As stated above, the results of table 1 depict statistical significant relationship between growth and all the explanatory variables, except investment variable (GDI) for Srilanka, which also possesses the expected positive sign. India has the largest coefficient for

the GDI as compared to other South Asian countries while Srilanka have the lowest. This result is consistent with the previous studies of growth conducted by Levine and Renelt (1992).

The trade openness variable (TOP) is also found statistically significant as per expectation for the all the countries in the sample. Bangladesh is taking the lead while Pakistan, India and Srilanka are following the former. It is obvious from these findings that trade is one of the most important sources for the economic growth. The openness factor promotes growth through increased availability of technologies accompanying knowledge spillovers.

Hence, the most important thing that this study has extracted is that coefficient of openness is positive and significant at conventional levels, providing support to the notion that countries with open trade, with other things given, tended to grow faster as compared to other countries with open trade, with other things given, tended to grow faster as compared to other countries less open countries.

Overall, all the regression of this equation is presenting a satisfactory look, as almost all the variables are statistically significant. The  $R^2$  is high and F Statistic is also significant, which show the appropriate specification of the model.

**Table 1**  
**Openness and Economic Growth**  
**DEPENDENT VARIABLE: GDPPC**

Countries				
Variables	Pakistan	India	Srilanka	Bangladesh
C	1.158 (1.253)	-2.813 (-1.643)	2.619 (5.567)	0.408 (0.451)
GDI	1.158*** (1.253)	2.843*** (-2.133)	0.0044 (-3055)	2.062* (3.328)
GAP	-4.542* (-4.4538)	-2.044** (2.198)	-5.234* (-6.370)	2.042* (-3.380)
TOP	0.636*** (1.9215)	1.312** (2.198)	1.223* (4.794)	2.042* (3.825)
$R^2$	0.997	0.987	0.998	0.954
DW	2.310	2.686	2.398	1.921
AR (1)	0.513 (5.445)		0.522 (7.0571)	0.843 (7.859)
MA (1)		0.599 (4.911)		-0.451 (-1.790)
F Stat	3604.25	523.7803	7537.083	135.3787
N	38	38	37	38



*Note; The numbers in the parentheses are t values.*

*\*Significant at 1 %*

*\*\* Significant at 5%*

*\*\*\* Significant at 10%*

*C = Constant Term*

*GDI = Gross Domestic Investment*

*GAP = Knowledge Gap*

*TOP= Trade Openness.*

### **5.2.2 Trade Distortion Index**

In Table 2 the results of equation 33 are reported, by including the trade distortion index. This index is developed by David Dollar (1992) which is used to measure the degree of real exchange rate distortions. The value of the index above 100 will imply the trade distortions. The empirical value of this index for South Asian countries, the average value of this index, lies above 100 that is 142, 144, 185 and 237 for India, Pakistan, Bangladesh and Sri Lanka, respectively. This result shows that Sri Lanka has the largest level of exchange rate distortions as compared to other South Asian economies. The overall average value higher level of this index for the whole region is 152, which also exhibits that overall higher level of exchange rate

The results of investment (GDI) and knowledge gap (GAP) are also not affected by the inclusion of this variable Dollar in the equation and these variables have maintained their expected signs.

Overall this result shows that Pakistan and its neighboring countries economies have high trade barriers in terms of overvalued exchange rate, which could be a deterrent to their exports as

Well as to economic growth. These results are consistent with the study conducted by Dollar (1992). But our results of the value of the average exchange rate are different to that of Dollar's. He had calculated lower exchange rate distortion magnitudes for South Asian countries, which is below than 100. Anyhow there are different time framework and sample size. One of the reasons for the Dollar values to be low is that he has used small for which time period was observed from 1976 to 1985. It shows that his data set was limited to only nine years, which is not reasonable for calculating the correct results of distortions. While our data set (1960-2005) is far larger and more reliable than Dollar's and is in a better position to explain the pattern of exchange rate distortions. So our results are taking into account the larger scenarios and are providing better guidelines.

Overall, almost all the variables are statistically significant and presented the expected signs. The  $R^2$  for all the countries is also high, which shows that the model well explains the results between trade policy variable and economic

growth. The DW values are also at their conventional levels.

In short, from these evidences, conclusion may be drawn that trade distortions are negatively affecting the growth process of the Paksiatn and its neighboring countries. It is causing to slowdown the pace of catching up process. The exchange rate distortion index is also depicting the over valuation in the exchange rates. While Srilanka have the highest level of distortions in its exchange rates as compared to other South Asians countries. so there is need to implement market based exchange rate regime, which could provide support to the smooth growth process.

**Table 2**  
**Results for Growth Equation 33**  
**Distortions and Economic Growth**  
**Dependent Variable: GDPPC**

Countries				
Variables	Pakistan	India	Srilanka	Bangladesh
C	3.055 (3.913)	-2.050 (-1.478)	5.218 (6.778)	3.245 (4.485)
GDI	1.669* (2.913)	3.223*** (2.412)	0.1809 (0.293)	1:503** (-2.068)
GAP	-9.095* (-36.291)	-2.007* (-2.647)	-10.968* (-9.355)	-9.349* (-2.844)
Dollar	-1.919** (-2.081)	-0.384* (-4.967)	-0.3003*** (-1.7814)	-1.137* (-2.844)
R <sup>2</sup>	0.996	0.992	0.997	0.949
DW	2.006	1.724	1.828	1.97
AR (1)	0515 (3.848)	0.656 (7.477)	0.865 (5.870)	0.929 (-15.22)
MA (1)				-0.641 (-3.773)
F Stat	3721.7	995.9687	2169.354	120.4022
N	38	37	26	38

Note: The values in parentheses are t values.

\*Significant at 1%

\*\* Significant at 5%

\*\*\*Significant at 10 %

C= Constant term

GDI = Gross Domestic Investment

GAP= Knowledge Gap

Dollar = Dollar price Distortion Index

### 5.2.3 Trade Intervention Index

In Table 3, the regression results of equation 34 include another trade intervention index known as Pitchet Index. This index is measuring the impact of distortions in the trade flows. The signs of all the variables in the equation remain intact even after the inclusion of this variable. The investment variable (GDI) is statically significant for all the countries, except for Srilanka. While this variable is significant for Pakistan, India, and Bangladesh, respectively. One of the possible interpretations of the said case could be that by the inclusion of intervention index might have decreased the supply of imported goods in the economy and also due to the distortion effects, it have become insignificant.

Our results support the notion that in a open economy, in which domestic production requires domestic and imported inputs, trade distortions caused by government policies like tariffs and exchange controls, lower growth significantly over a long period. As, it impedes the supply of imported inputs, thereby, decreasing the productivity of capital accumulation and hence, leading to reduction in the growth rate.

However, the results of catching up variable knowledge gap (GAP) remain ineffective by the inclusion of trade distortion index. The GAP variable for all the countries is still highly statistical significant and possessing larger magnitudes of the coefficients i.e., -3.4019, 2.230 and -1.943 for Srilanka, Pakistan, India and Bangladesh, respectively. It shows that even in the presence of the trade distortions these economies are converging to their steady state. Although, these are not converging with that pace which rate they otherwise would be.

The Pitchet Index itself is having negative sign for all the countries but is statistical insignificant for all the countries, except for Srilanka, where it is moderately significant. It is exhibited that it is affecting more to Srilanka economy as compared to other South Asian economies. The results are also consistent with the study conducted by Jong - Wha (1993).

The  $R^2$  is quite high for all countries and got the find DW values after removing the autocorrelation problem. All this shows that model is correctly specified and the explanatory variables are efficiently explaining the variation caused by them in the dependent variable. Moreover, the F Statistics have also good values, which shows the model is correctly specified, and efficiently explaining the results.

Finally, it came out that by including the trade intervention index in the model, it did not affect the significance of the other variables and their signs remain intact. The catching up hypothesis is also remained valid for all the selected countries but the interventions are making their catching up speed very

low. The sensitivity analysis's performance is also quite good which is showing the robustness of the results. The results suggest that intervention level should be brought down for all these countries to make the economies more competitive and for bringing efficiency in their all sectors.

**Table 3**  
**Results for Growth Equation 35**  
**Trade Intervention and Economic Growth**  
**Dependent Variable: GDPPC**

Countries				
Variables	Pakistan	India	Srilanka	Bangladesh
C	0.439 (0.7005)	-1.917 -(1.023)	4.881 (9.811)	-0.675 -(1.213)
GDI	1.352* (3.244)	3.114*** (1.724)	0.398 (1.063)	2.081** (4.403)
GAP	-3.019* -(4.114)	-2.230* -(2.109)	-11.442* -(10.178) -1.686 -(1.561)	-1.943*** -(3.977)
Dollar	-6.45E-11 -(0.1933)	-1.82E-11 -(0.414)	0.997	-6.45E-11 -(0.1933)
R <sup>2</sup>	0.997	0.986	1.819	0.943
DW	2.102	2.105	0.863 (9.491)	1.79
AR (1)	0.566 (6.344)	0.654 (5.380)	-0.182 -(0.851)	0.652 (7.832)
MA (1)			-0.182 -(0.851)	
F Stat	1019.609	140.4278	2747.370	18.4532
N	38	37	38	37

*Note: The values in parentheses are t values.*

\*Significant at 1%

\*\* Significant at 5%

\*\*\*Significant at 10 %

C= Constant Term

GDI = Gross Domestic Investment

GAP= Knowledge Gap                      Pitchet = Trade Intervention Index

### 5.2.4 Research and Development Expenditures

In table .4 provides the results of equation 36 by including research and development expenditures in place, of GAP variable. This is another proxy used for measuring the knowledge gap. We could only be able to attain the data of

number of research and development professional for Srilanka and India, while the data for other South Asian countries is not available. Therefore; the study is limited to these countries only.

The results of the regression for investment variable (GDI) and trade openness is statistically significant and positive for countries, India and Srilanka. The coefficients of R&D used as a proxy for the catching up affect is negative and statically significant, suggesting that as envisaged by the model, with other things given, countries with larger technological gap will tend to catch up faster to the developed countries. Hence, the notion of catching up hypothesis seems also valid in the case of South Asian countries. The results are supporting the proposition of the new endogenous growth theories, that the developing countries will grow faster than the developed countries and will catch up DCs in the long run

The results of R&D for South Asian countries indicate that India is converging at faster pace than Srilanka due to larger R&D base. India had 148 Scientists and engineers per million people in 2005, while Srilanka had only 87 Scientists and engineers in 2005. Pakistan had 92 Scientists and engineers in 2005. All these Figures depict the India's edge in R&D on other South Asian countries.

The coefficient magnitudes are- 1.005 and -0.264 for India and Srilanka, respectively. It indicates that if there is one percent increase in the number of research and development professionals, it will lead to converge India at the rate of 1% and the Bangladesh at the rate of 0.2% towards the steady state. The reason for showing high magnitudes of convergence for India could be that it has invested a lot in the research and development. It is not only gaining grounds in the world standard defense production but also marvelously performing in the IT sector. Which is ultimately enhancing the country's ability to grow faster then other countries in the region.

Both the values of the  $R^2$  and the DW are satisfactory. Overall, results by the inclusion of this variable are according the expectations, significant and consistent. It is producing the robust results, as they remain unaltered anyway by the inclusion of a new variable in the analysis. Our findings are consistent and supportive to that of findings of Edwards (1992).

Overall, it means that more the country would have the R&D professionals and Technicians, it would have the higher technological spills over absorbing

capacity, which is generated in the rest of the world.

**Table 4**  
**Results for Growth Equation 37**  
**R & D and Economic Growth**  
**Dependent Variable: GDPPC**

Countries		
Variables	India	Sri Lanka
C	-4.343 -(2.4613)	0.688 (0.899)
GDI	3.949** (2.384)	2.347* (5.086)
RD	-1.005** -(2.305)	-1.587* -(3.261)
TOP	1.049*** (1.649)	0.264*** (1.7687)
R <sup>2</sup>	0.986	0.955
DW	2.183	1.972
AR (1)	0.785 (7.462)	
F Stat	585.669	134.372
N	23	38

*Note: The values in parentheses are t values.*

*\*Significant at 1%*

*\*\* Significant at 5%*

*\*\*\*Significant at 10 %*

*C = Constant Term*

*TOP = Trade Openness*

*GDI = Gross Domestic Investment*

*RD = No of Scientists and engineers engaged in research and development activities*

## Conclusion

When study touches econometric estimation using time series covers the most important topic of trade liberalization and its impact on economic growth. It is envisaged that foreign trade can make significant contribution to a country's economic growth. Since liberalization is considered as a powerful locomotive of growth. There are conflicting views about it. Some growth models accent potentially negative aspects of trade and recommend that trade promotion be given less weight than production geared to local needs. Finally some models relegate the trade sector to more or less neutral role.

Although there exists some studies on growth in the literature but there are only few which are taking the important relationship between trade liberaliza-

tion, globalization and economic growth. As per our knowledge there hardly exist any study on the subject matter in the South Asian countries perspective. In the very study we have measured the impact of a wide range of openness measures on economic growth by employing more robust statistically significant techniques for time series analysis in the case of South Asian countries. Besides this, the study also highlighted other sources and contributory factors to economic growth. The previous studies on growth and convergence starting from Solow (1956) which are taking trade liberalization as exogenous policy variable and not directly affecting the economic growth. While the new studies based on endogenous growth theories that of Romer (1990), Grossman and Helpman (1991) have set a new direction to the convergence hypothesis by introducing trade as an endogenous variable.

On the basis of the new endogenous growth theory, attempt has been made to explore its validity in the Selected South Asian Countries. The aim is to test that whether this new endogenous growth theory is binding for the Pakistan and its neighboring countries.

An endogenous growth model is developed to study the above linkages, mainly the channels through which trade liberalization affects the economic growth. It has also been explored and evidence was provided by Arthur Lewis (1955), of the theory that a country with more open boundaries will have the greater imitation capacity and will imitate, the world technological changes faster as compared to other less imitative capacity countries. These technology follower countries will catch the technology leaders in the long run. Globalization overall and especially trade liberalization will play an important role in this run.

The empirical findings support the proposition that controlling other factors, trade liberalization leads to enhance the economic growth for all the selected countries in the sample. The convergence hypothesis is also holding, as the initial income variable (GAP) and Research and Development variable (RD) are depicting the expected negative signs that confirm the notion that endogenous growth theory stands binding in these countries. These South Asian countries exhibit the trend that they will catch the developed countries in the long run.

The inclusion of the trade distortion and intervention indexes that of Dollar and Pithcet have also depicted the expected results. It is reflected that countries that have more exchange rate distortions also, have over valued exchange

rates, and are growing with less pace as otherwise they would have been. Our results state the South Asian exchange rates are overvalued which are negatively affecting their growth rates. The trade intervention index (Pitchet) also possess the negative sings that means as there would be more government interventions in the trade policy, it will cause to decrease the incentives for legal channels and will encourage the smuggling, illegal trades and higher black market premium.

## **Suggestions**

- All these countries may pay special attention to their foreign trade. Especially the inter regional trade may be promoted to minimize the cost and reap the benefits of economies of scale.
- Special attention may be paid to the social sector and particularly the education to accelerate growth and technology absorption capacity. The number of technicians, scientists and engineers should be increased because it will lead to convergence to steady state at a faster pace.
- The non-development expenditures particularly the debt and the defense expenditures, be cut in order to give relief to these poverty stricken economies. The developmental expenditures should be enhanced and the private sector must be encouraged.
- There should be market-oriented reforms be brought in the foreign trade sector i.e., eliminating exchanging rate distortions and reducing tariff and non tariff barriers. The tariff and non-trade barriers must be cut in order to enhance efficiency, curtailing smuggling and promoting trade within and beyond South Asian region.

In short our research provides a direction for the researchers and the policy makers explore the events for their research on South Asian countries.. In this regard more open trade regimes would provide pay off in terms of growth of real per capita income if supplemented with financial, administrative and institutional controls, in the South Asian economies. These findings are important for the growth of this backward and poor region.

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