



Globalization vs Regionalism— Challenges and Opportunities for Pakistan



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ABSTRACT

Since the World-War II, globalization has been unabatedly increasing. It has created fierce competition among nations, industries and firms for gaining access to resources, investments, and markets. It has encouraged its participants to seek competitive edge for their advantage. Nevertheless, many countries could not take advantage from opportunities offered by globalization; consequently, the wealth gap between countries widened. Countries of the world then opted for Regional Integration Initiatives (RIIs), which have been sponsored through partnerships and free trade agreements. RIIs are often supported by creating common rules and systems aiming at regional and global prosperity. Countries, like Pakistan, could not benefit much from both globalization and regionalism. Because both required substantial adjustments that domestic industries could not withstand. Consequently, they opted for bilateral free trade and preferential trading arrangements. Paradoxically, they tried passively to benefit from opportunities offered by these schemes. The challenge before them is to completely overhaul their economic structures to capitalize from opportunities offered by the bilateral, regional and multilateral openings; otherwise they will continually remain in virtual isolation. Geopolitical situation demands from friendly regional countries to come forward and strengthen regionalism and bilateralism for creating a 'secured prosperity' in the region.

Keywords: Geopolitical, Globalization, Regionalism, Bilateralism, Regional Integration Initiatives, Free Trade Agreements, Secured Prosperity



Globalization process was abetted by the post-World-War multilateral trading system, which liberalized trade and played a vital role in creating prosperity and, in turn, raised national income for spending on health, education and helping poor

When regionalism picked up momentum in the 1970s, political considerations were at the forefront. Economic considerations came into play only later

Introduction

For more than seventy years, globalization has been unabatedly increasing. It has created fierce competition among nations, industries and firms for gaining access to resources, investments, and markets. It has encouraged its participants to seek competitive edge for their benefit. In this context, countries have chosen to use international agreements to improve their competitiveness.

Globalization impacts different economies differently. Researches show that more globalized a country is, higher growth and greater reductions in poverty it achieves than those countries that stay outside the globalization system. Such countries have capitalized on the international flows of goods, services, capital, workers and technology, subsequently they have vitalized their businesses and entrepreneurial activities, and accelerated structural transformation of their economies.

Nevertheless, several countries could not take benefit from opportunities presented by globalization. Consequently, the wealth gap between countries widened in the 1990s. Countries that failed are those who kept on relying on autarkic policies, which made foreign markets less profitable than domestic markets. Pakistan is among this group of countries. Pakistan, in the 1980s, was well positioned¹ to engage in the cross-border connectivity unleashed by globalization and with right conditions to graduate to the next level of development, when its openness ratio² was 39% in 1990, supported by a sound industrial base, a good technological infrastructure, and a fairly open policy regime. But afterwards largely due to domestic reasons there was a slide in openness ratio and today in 2020 it stands at 19.4%. Evidently, Pakistan is now hovering around the margins of globalization despite its fortunate circumstances. The situation is indicative of missed opportunities and desisting of the challenges of globalization.

Globalization process was abetted by the post-World-War multilateral trading system, which liberalized trade and played a vital role in creating prosperity and, in turn, raised national income for

spending on health, education and helping poor.³ However, globalization became controversial because it created global inequalities and caused job losses, and environmental challenges.

This is so because many developing countries were not independent when the General Agreement on Tariffs and Trade (GATT) was founded in 1947. They expressed dissatisfaction with rules of the GATT that were developed in the earlier rounds of Multilateral Trade Negotiations (MTNs).

The Doha round of MTNs, started in 2001, is currently suspended as the negotiated concessions were not acceptable to developed countries, who demanded from the bigger developing economies, including India and Brazil, to make more reciprocal concessions. Neither side has shown any flexibility to secure an agreement to end subsidies on agricultural export. Due to these developments, the world saw the rise of regional and bilateral trade negotiations as preferred options rather than MTNs. This has certainly overshadowed the prospect of the multilateral trading system.⁴

The proponents of regionalism argue that it is an instrument to bridge the gap in demands of developed and developing countries by bolstering the ability of participating countries to secure the benefits of globalization. They view that regional cooperation and integration complement globalization and do not





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compete with it. Regional cooperation is considered as a "second-best" policy, as it offers a middle channel between absolute self-reliance (autarky situation) and complete openness. Regional integration is promoted by creating partnership and free trade arrangements.

When regionalism picked up momentum in the 1970s, political considerations were at the forefront, economic considerations came into play only later. Asian cooperation has come mainly from sub-regional groups like South Asia Association of Regional Cooperation (SAARC), Association of Southeast Asian Nations (ASEAN), Economic Cooperation Organization (ECO). Although, the main focus of regional cooperation is merchandise trade, yet other important areas include services trade, investment, transportation, tourism and finance.

Regional integration initiatives are carried forward through common rules and systems to accelerate cross-border socio-economic activities. The principal rationale has been that regional integration created on the basis of common rules will ensure both regional and global prosperity and stability. Thus, regionalism is viewed as a 'building block' of developing a prosperous 'globalized world'.

Regionalism is growing fast. Current numbers of regional trade agreements in force are 304.⁵ Despite expansion of regional blocs, some experts fear that they are eroding the multilateral trading system. Regionalism has created opportunities for some countries but countries in the South Asia and Central Asia could not benefit due to inaction. As a result they opted for bilateralism, even that could not create a satisfactory outcome.

Transportation and communication has enabled firms to cater more people and expand their reach and influence. Long distances and separation of business headquarters from production locations do not pose a problem for global firms; such a model is the norm under globalization

Within the above perspective, this paper emphasizes that Pakistan needs to engage proactively in bilateralism, multilateralism and regionalism processes to benefit from economic and non-economic opportunities they offer.

Drivers of Globalization

Enterprises, people and nations want to know, whether globalization is a positive or negative force. Although, no definitive answer can be given to this question; yet it could be stated that globalization could be a positive force depending on a nation's policies. Conversely, globalization could be detrimental if a government could not prepare itself to reap benefits of globalization.

Apart from technological progress, globalization is motivated by the fact that global expansion of certain businesses is the source of sharp increase in external revenue. In this context, economies-of-scale could easily increase the profitability. Transportation and communication has enabled firms to cater more people and expand their reach and influence. Long distances and separation of business headquarters from production locations do not pose a problem for global firms; such a model is the norm under globalization.

Main benefit of globalization could be assessed from its role in market expansion. Pakistan's domestic market is too small to get benefit from economies-of-scale. Such benefits can only be realized if domestic firms enter into global markets. Globalization enables them to find new markets and by tapping markets, exports expand.





Critics of globalization consider that globalization is eradicating diversity and has led to emergence of a dominant culture. This is another way to say that globalization is destroying the beauty and diversity of this planet.

Globalization has particularly increased efficiency in the supply chain management of businesses. It has also incentivized countries to harmonize their policies and thus develop cost-effective systems to produce high-quality goods and services.

Globalization promotes FDI flows that are a source of economic growth and employment generation. FDI can create complementary business opportunities for local entrepreneurs if they establish links with foreign firms. In this way brilliant minds and innovative strategists pool their resources to find solutions for global problems. If FDI is attracted in export-oriented industries then it can stimulate exports from the country and can help in managing the balance of payments.

FDI creates a ripple effect as local companies are exposed to better management practices and transform themselves to meet world-class standards. At the same time, globalization forces domestic companies to adopt ways to lower production and trade costs to remain in the business especially in the international market.

Countries prefer regionalism when they are frustrated with lack of progress at the WTO system in the promulgation of new laws that are broadly accepted or in refining existing laws

Critics of globalization view it negatively. They consider that globalization is eradicating diversity and has led to emergence of a dominant culture. As a result, citizens of say third world nations emulate western culture to the detriment of their own. This is another way to say that globalization is destroying the beauty and diversity of this planet.

Globalization has also resulted in the proliferation of overseas emigration. Workers either leave their home countries permanently or emigrate on temporary work permits. The attraction of higher pay makes it difficult to resist the offer. However, there are social consequences for the left-behind family members. An infusing fear disturbs emigrants because of lack of job security.

Drivers of Regionalism

Non-discrimination is a basic rule of all WTO agreements; however, the GATT and the GATS (General Agreement on Trade in Services) allow preferential trade agreements among a subset of members. To avoid abuse of this allowance, the WTO agreements impose certain conditions that must be met for a regional agreement by WTO Members.

There are different views on the reasons for the proliferation of regional blocs in recent times. These include: (1) slow progress in achieving a global trading regime under the auspices of WTO; and (2) the domino theory.

Dissatisfaction with the Multilateral System

- Countries prefer regionalism when they are frustrated with lack of progress at the WTO system in the promulgation of new laws that are broadly accepted or in refining existing laws. The main claim is that securing deals at the multilateral level is slow and difficult because countries usually have their fixed interests which contradict others. Such interests avert progress towards agreements, while contradictory interests prevent implementation of the agreements. Some countries feel that their interests are not satisfactorily addressed by the





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Countries that are not successful in joining an established RTA try to establish their very own bloc. They often imitate the rules of established RTAs and forge similar agreements to protect their interests

instrument of the agreements. The consequence is that due to shortage of the required number in favor, there will be difficulty in implementation of agreements; but in case an agreement come into force, it will be implemented by a few countries and therefore it becomes a plurilateral rather than a multilateral agreement.

- Contrary to multilateral rules, instruments of regional and bilateral agreements are less complicated and easier to negotiate in a smaller group of countries having common interests. Accordingly, with dissatisfaction in the multilateral scope, countries with shared interests join together to endorse their own set of instruments to protect their interests through regional and bilateral agreements. It may be noted that at present, there are over 3200 International Investment Agreements (IIAs), out of which 2896 are Bilateral Investment Treaties (BITs), while only 2339 are being implemented.⁶
- However, the argument is more controversial when it comes to FTAs. Schott (1989) and Bhagwati (1993) argued that due to lack of progress in the multilateral system there has been proliferation of FTAs led by regional blocs.⁷ But others including Baldwin (1997) disagreed by arguing that the experience of regional agreements does not support this point of view. Baldwin further argued that regional blocs have proliferated simultaneously with progress at the multilateral level. Both sides of the arguments are strong and valid and are supported by evidence.

The Domino Theory

- The domino theory predicts that when successful Regional Trade Agreement (RTA) is formed then it prompts formation of RTAs in other regions of the world. Initially, an RTA is formed by a few countries but with its success, other countries in the region that at the outset opted to stay outside the bloc then try to join it, but not without paying a cost of accession. The European Union (EU), for example, started with six founding member countries (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) and over time has expanded to 27 members.⁸
- On the other hand, some countries do not wait for the bloc to be successful before seeking to join it.

This is because they fear if the bloc became successful and they remained outside of it then it will divert trade from them.⁹ Therefore, they start seeking their inclusion from the launch of bloc. This was seen in case of North American Free Trade Agreement (NAFTA). Whereby, initially Canada did not consent to establish FTA with USA, but it pressed for its inclusion in the US-Mexico FTA negotiations process. So the proposal to bend the US-Mexico FTA-negotiations came exclusively from Canada who was concerned of the likely trade diversion that it will have to pay a price by staying outside NAFTA.¹⁰

- Countries that are not successful in joining an established RTA try to establish their very own bloc. They too often imitate the rules of established RTAs and forge similar agreements to protect their interests. In any case, the ultimate outcome is the proliferation of regional blocs.¹¹

Globalization: Challenges and Opportunities

Globalization has created both challenges and opportunities for the world. It provides not only opportunities for improving growth and socio-economic well-being but imposes challenges especially





If a country is successful and growing, it is not at the cost of the other country; in fact, the successful country helps other countries by providing them with its large market for them to trade with and selling its superior quality products at lower prices

to increase the workers' welfare and reduce income inequality as MNCs shift their production operations to other countries for taking advantage of lower cost of doing business, primarily due to lower labor cost.

Opportunities from Globalization

- Freer trade is at the core of globalization, which allows countries to specialize on the basis of their comparative productivity advantage. Theoretically, it is argued that trade is a win-win situation but practically it is not a zero-sum game because evidently some countries gain from trade while others lose. Nevertheless, trade does benefit every country as it allows consumers to enjoy bigger variety and better quality of goods. Besides, if trade is conducted on competitive basis then it lowers goods prices and raises real wages of workers. If a country is successful and growing it is not at the cost of the other country; in fact, the successful country helps other countries by providing them with its large market to trade with and selling its superior quality products at lower prices.¹²
- Within the above viewpoint, globalization has created opportunities for countries to experience economic growth. Liberalization of foreign capital flows attracts FDI, which in turn induce more domestic investment, which stimulates economic growth and employment generation. Financial liberalization facilitates development of domestic financial markets through financial deepening, which lowers cost of services and improves allocation of resources.
- Globalization creates competition among firms across countries. Consumers benefit from it by getting access to quality goods at relatively lower prices. Evidently, consumers that benefit most from freer trade are normally relatively poor who can buy goods at reasonable prices after opening of trade, and thus maintain a decent living standard. In this context, globalization can be seen as a tacit method to lessen poverty.
- Since the 1980s, globalization has been creating consistent growth of the world, allowing the

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national economies to penetrate globally, and 'transnationalizing' their economic, financial, environmental, and political problems even if they like it or not.¹³ Globalization has thus created ecosystems that facilitate cross-border activities. Nevertheless, countries must develop their own policies to regulate MNCs and limit their negative fallout.

Challenges of Globalization

- Opponents argue that globalization could not deliver what was perceived from it. This is mainly because the institutions concerned with the globalization process did not address the issues of developing countries. They claim that free trade has benefited developed countries at the cost of developing countries. Opponents also claim that independence and power gained by MNCs in host countries has enabled them to influence their political policies. Thus, they consider globalization is imperialistic and force investment, on net basis, to flow into developed countries instead of flowing into developing nations, who face unsustainable growth of debt. Critics raise concerns about unrestrained environmental damage, food insecurity, wrong labor practices, women's rights issues, child labor, growing consumerism, the declining traditional cultural standards, spread of diseases, increase in illegal immigration, and rising cross-border crime. Moreover, they claim that industries, regions, people and countries in some social strata have not prospered from globalization; they could neither compete on the basis of price nor participate in global value chains due to MNCs' monopoly. Only little attention has been paid to such effects of globalization.¹⁴
- During the 1997 East Asian financial crisis, the experience revealed that openness to global capital markets left domestic financial markets at the mercy of sudden shocks, creating more volatility in exchange rates and massive flight of capital, especially in countries whose financial systems were fragile. Interestingly, based on their



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economic strength NIEs quickly adjusted to shocks, and managed crises situation far better than others.

- Main criticism came regarding un-regulated globalization and free market policies, directed by quasi-governments (the World Bank/IMF), they were not considered responsible to the people governed by them; instead, they mostly protected the interests of MNCs. In fact, globalization facilitated MNCs by globalizing them, while refusing to globalize people. A fact that can be noted from harsh immigration controls and lack of labor rights for people from developing nations.
- In sum, critics are not interested in whether globalization is good for economic prosperity; they are concerned instead about its effects on social agendas and believed that these were malign, and not benign.
- A rebuttal to critics: in the debate of globalization, critics have raised their voices against it for afflicting much harm on developing nations, such as child labor to cultural homogenization and environmental degradation. Bhagwati (2007) in his seminal work argued that "globalization when properly governed is indeed the most commanding force for social good in today's world".¹⁵ He explained why the cases presented by critics are often not as compelling as they seem and convincingly argued that globalization is part of the solution and not part of the problem.
- Critics argue that trade reduces wages or creates unemployment. Bhagwati rejects this reasoning and argues that it is not trade; it is rather technological changes that have lessened demand for some types of workers. Concomitantly, more jobs are created for certain other types of workers dealing with new technology, such changes are creating more and high paid jobs. He further argues that most of the criticism on globalization is misdirected; therefore, policymakers need to focus on removing the skill mismatch.
- No doubt, globalization has created many opportunities, but it has also adversely affected certain sectors specifically those that intended to integrate in the global economy. In this context, the developed countries are using contingent protectionist policies on critical sector of special

interest to developing countries. It may be noted that textiles and agriculture, which could provide ample opportunities to Pakistan, have not been fully liberalized by developed countries. In addition, major areas of concern are the use of intellectual property rights, and anti-dumping practices by developed countries, which appears to discriminate more to exporters from developing countries.

Regionalism: Challenges and Opportunities

Opportunities from Regionalism

- Due to a weakly controlled globalization process, countries have responded by regionalizing to uphold their cultural, economic and political stability. Thus, regionalism is a response to inability of the global system to address its malign effects in certain sectors. Regionalism has placed the global system on a bigger scale, despite this the stability and amount of new regulations created by it are incomparable. Therefore, regionalism is often presented as a 'building bloc' to globalization.
- Regionalism creates substantial economic gains and opportunities; including, improvement in market efficiency, sharing of the cost of infrastructure projects, collective decision making on policy reforms, and reaping non-economic benefits including peace and security.
- Regionalism induces regional groups to create support for trade liberalization. Baldwin (1993) argues that North America and Europe used to advocate the views of pro-integrationist private sector leaders, while the public used to be more suspicious.¹⁶
- People are fearful of unilateral trade liberalization due to: (i) the possibility of spontaneous





competition in domestic market and (ii) the loss of government's regulatory control over domestic markets. In this regard, it is more promising that regional arrangements are considered as a path towards globalization. The gainful experience of EU and MERCOSUR (the Southern Cone Common Market, comprising of Argentina, Brazil, Paraguay, and Uruguay) may dispel fear from regionalism and lend support for further liberalization at regional level.

- Regionalism reinforces bonds between states and builds trust. RTAs are useful for trade liberalization on regional basis and usually do not hurt trade from non-members. RTAs create trade and attract foreign capital. Thus, regionalism can achieve what multilateralism cannot. Small group of countries as its participants seemingly creates less conflicts and disagreement and enables to advance trade liberalization more easily. Contrary to regional blocs, it has been noted that with increase in WTO membership, individual countries have become unable to influence the substance and speed of trade liberalization, and made it more difficult to articulate coordinated policies.¹⁷

Challenges of Regionalism

- Critics show concern that regional blocs often turn inward and create discriminatory trade barriers against non-members. This hurts smaller countries that are usually left out of major trading blocs. Thus, they consider regional blocs as a "stumbling block" to globalization.
- Trading blocs do divert trade. To overcome this, Lamy (2002) suggested that "MFN trade liberalization is the best because it avoids the risks of trade diversion".¹⁸ If other effects of RTAs

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are considered such as growth, investment, and removal of NTBs; then their strength in trade creation would offset any trade diversion that may arise.

- There are other kinds of diversions associated with regionalism and their possible effects on multilateral trade liberalization: Panagariya (2000) raises concern that "how options made available through regional agreements might distract countries from multilateral trade liberalization processes".¹⁹ But this is contested by others, who submit that since the membership of WTO is steadily rising, therefore, we should not worry much about it.
- While RTAs are 'welfare-enhancing' for members, it may also be associated with greater adjustment pressure for inefficient domestic industries. The latter may seek shifting some of the adjustment burden onto non-members through raising external barriers. Non-members may also be harmed through investment diversion. This involves firms deciding to invest inside RTAs and produce locally, rather than produce in the least-cost location and ship products to the RTA.
- An additional possible 'stumbling block' is the risk that contesting RTAs may create contrasting regulatory structures. Therefore, many different and opposing legal frameworks and dispute settlement mechanisms may weaken discipline among members. With time, such risks promote trade diversion as businesses try to protect their interests in the trading bloc. The challenge for regional administration is to manage risks to regionalism. Strong regional institutions can ensure that the bloc is comprehensive and adequately manage social, environmental, governance risks.

Pakistan's Standing

- For Pakistan, the challenges of globalization and regionalism are to position its economy within the arrangements of cross-border relationships so as to seize opportunities for rapid growth. At present, the country is more a recipient of globalization than an active participant; therefore,



Pakistan is an active participant of two regional blocs, the SAARC which is presently ineffective for trade liberalization due to hegemonic practices by India; and the ECO that has so far not achieved its goals because of non-ratification of preferential arrangements by some countries and security issues in the region

it needs to shift its way of engagement from passive to active involvement. On the other hand, Pakistan is an active participant but only in two regional blocs, it is not part of a bloc offering substantial trade and investment openings. The SAARC, which is presently ineffective for trade liberalization due to hegemonic practices by India; and the ECO that has so far not achieved its goals because of non-ratification of preferential arrangements by some countries and security issues in the region. Pakistan is not part of any major trading bloc apparently due to geopolitics. All of these have motivated Pakistan to go for bilateral preferential agreements.



Globalization

- Pakistan lacks resources and skills to upgrade production technologies, which has widened its technological gap with its competitors. As a result, it continues to depend on exports of primary commodities. Besides, Pakistan's access to capital markets is lopsided: during good times it is able to borrow from international market, whereas, during crisis it faces many credit restrictions.
- To take advantage from globalization, the relevant

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factors include; introduction of structural reforms, creating consistency in policies, and ensuring transparency and good governance. In this regard, Pakistan has largely failed in the past to introduce relevant policies, strong institutions and good governance needed to capitalize on opportunities offered by globalization. Besides, lack of infrastructures and limited access to international finance has restricted it to benefit from globalization.

- Pakistan's record in trade expansion is not as visible as that of some of its competitors. Pakistan globalized its economy in phases: first phase that started in 1984 with tariff rationalization, further opened under the conditionality imposed by the IMF and the World Bank under their structural adjustment programs, which lasted till 1995, the year when WTO was established. By year 2000, openness index fell by 10 percentage points when Pakistan was making adjustments to fulfill its initial commitments with the WTO, but afterwards it started picking up as multifiber arrangements (MFA) concerning its major export sector textiles and clothing were dismantled. Once MFA was completely dismantled in 2008, Pakistan could not withstand the fierce competition from its major competitors who also got preferential access to major markets. Since 2008, Pakistan experienced a continuous decline in its openness index. That stands at 19.4% in 2020 as compared to the high time of 38.91% in 1990. The decline in the index is mostly due to flat performance of exports. It needs to underscore here that Pakistan's share in total world exports of merchandise was 0.18% in 1991, which came down to 0.14% in 2015 and further to 0.11% in 2018. Whereas, the share of imports in total world imports was 0.20% in 1991 and remained at 0.20% in 2015, but it increased to 0.26% in 2018, at a time when CPEC-related machinery and plants were imported in large volumes. All this shows that, what was achieved on account of openness of the economy during 1948-1995, was lost later as Pakistan's exports could not withstand global competition. The main reason for this outcome is that although trade was liberalized but it was not supported by improvement in international competitiveness of export products.



Since Pulwama crisis, no progress is seen in SAARC relations, people in the region have increasingly reaching to the conclusion that SAARC is dead, at least for now

Pakistan is a minor contributor in the world trade. Pakistan is not a part of any regional bloc with substantial influence on world trade. Pakistan thus needs to create a balance between regionalism and multilateralism

Regionalism

- The theory of 'first best policy' of free trade works under multilateralism but it has fallen short of its objectives. Therefore, a 'second best policy' is regionalism. Both multilateralism and regionalism have problems. Being the founding member of GATT, Pakistan always advocated of the multilateralism. But, with the slow pace of multilateral negotiations; it has also joined the RTA's bandwagon. Now it is member of SAARC, ECO and SCO (Shanghai Cooperation Organization). Pakistan has also signed six bilateral trade agreements (with China, Malaysia, Sri Lanka, Iran, Indonesia and Malaysia), as a response to its frustration with developments in SAARC. The bilateral trading arrangements in the absence of active regionalism are an appropriate response.
- Pakistan has not made any significant success since the inception of SAARC. Its trade share with this region has remained stagnant. All gauges fall much short of the trade potential for the region. This is mainly due to mistrust, unresolved political problems dominating trade and investment, lack of cooperation and interaction among members. Failures of the SAARC in creating sustained trade relations have encouraged its members to look for other arrangements. Pakistan is aiming at promoting its trade relations with ECO countries. While, most of other SAARC countries have created a sub-regional bloc called BIMSTEC.²⁰ Pakistan is excluded from this group. Despite lack of progress in trade relations, however SAARC countries are successful in developing many regional institutions and apex bodies to set a stage for development in their relations at some future date. Signing of the SAFTA shows the commitment of members to follow a path towards facilitating the cross-border movement of goods. Since Pulwama crisis, no progress is seen in SAARC relations, people in the region are increasingly reaching to the conclusion that SAARC is dead, at least for now.
- Regional integration approach adopted by ECO is based on unilateral, non-preferential trade

liberalization consistent with WTO principles. This approach is consistent with the development strategy of ECO countries. Within this approach, top priority is accorded to trade facilitation and transport services projects. Whereas trade liberalization approach is adopted, which is consistent with the WTO framework. ECO's framework has the potential to provide ideal environment, and together with simplified customs and visa procedures and improved transport and communications networks can expand trade and investment in the region. Optimism about ECO's success, however, depends on the resolution of conflicts in the region and facilitating access to the landlocked members to seaports; nevertheless, it underlines the region's potential.

- Due to sluggish trade in ECO and SAARC regions, Pakistan has redesigned its trade framework in favor of BFTAs. Khan and Mahmood (2017) found that BFTAs have created trade for Pakistan and it is much higher than the trade diversion.²¹ It is noteworthy that trade volumes have increased after signing of BFTAs.
- Outside the SAARC and ECO regions, Pakistan's interest in trade liberalization with the ASEAN has been growing. Pakistan is part of ASEAN Regional Forum tackling security issues. It is trying to become a Full Dialogue Partner of ASEAN. In this region, Pakistan has signed an FTA with Malaysia in 2007, whereas with Indonesia it has signed PTA in 2005.





Unless, Pakistan plays a proactive role in promotion of bilateralism, multilateralism and regionalism, it will not be able to unshackle itself from its current economic status in the comity of nations

(CPEC) project will play a vital role in developing the regional connectivity. Gawader port will function as a hub of global economic activities, thus placing Pakistan in an important position in the world and completely shaping its relations with other nations

- Should Pakistan follow the regional or the multilateral path? The answer is directed by its trade position in the global market. Currently, Pakistan is a minor contributor in the world trade. Pakistan is not a part of any regional bloc with substantial influence on world trade and thus needs to create a balance between regionalism and multilateralism by not only joining major trading blocs but also working with others at WTO to protect its interests, especially with those developing countries that are excluded from major established trading blocs. With concerted efforts regional political disputes should be resolved at the earliest and until their resolution they should not create obstacles for bilateral and regional trade.

The Way Forward

The global community has the obligation to tackle the challenge of accomplishing a just and balanced globalization by dealing with global inequalities and responding to the risks accompanying

Pakistan has vast potential to capitalize from global opportunities. It needs to turn potential into reality by removing regulatory and policy barriers, reducing cost-of-doing business, and innovating trade facilitation system

excessive trade liberalization. Pakistan could not capitalize from the opportunities offered by globalization. Due to lack of preparation it stepped-back from the globalization process. Likewise, Pakistan could not benefit from regionalism due to poor planning. Unless, Pakistan plays a proactive role in promotion of bilateralism, multilateralism and regionalism, it will not be able to unshackle itself from its current economic status in the comity of nations. How it can become a proactive participant in the globalization to benefit from opportunities, a few suggestions are in order:

- Pakistan can actively participate globally only by becoming a resilient economy. It needs to prepare itself to withstand the competitive pressure on its firms and institutions to improve efficiencies in all spheres including manufacturing, supply chains, policy provisions and implementation, etc. Thus, Pakistan needs to shift the terms of its global engagement by building technological capabilities substantially, both at the enterprise level and institutional level, and by encouraging foreign firms working in the country to integrate their activities with their global operations so as to promote trade, investment and transfer of technology and modern management practices.
- Pakistan has vast potential to capitalize from global opportunities. It needs to turn potential into reality by removing regulatory and policy barriers, reducing cost-of-doing business, and innovating trade facilitation system.
- Services have become vital for competitiveness of manufacturing because product differentiation, speedy delivery and responsiveness to fast changing consumer preferences have gained importance. Pakistan needs to adapt to this changing global pattern of production and marketing.
- India has made SAARC hostage to its hegemonic designs. Indian hostilities may not end anytime soon. Therefore, Pakistan should expand its bilateral FTA with Sri Lanka and negotiate more such FTAs with other South Asian countries. ECO has vast potential to become an economic reality with support from Russia, China and CARS. Therefore, Pakistan needs to put its diplomatic weight behind ECO to harness its trade and investment potential.
- Mega projects improve foreign relations and promote economic integration. Pakistan has already concluded basic agreements of the gas pipeline projects with Iran (IP), and Tajikistan, Afghanistan, Pakistan and India (TAPI). But they have not yet materialized.
- To widen its regional trade base, Pakistan needs to diversify trade to African and South American regions through active foreign relations and marketing.



- China-Pakistan Economic Corridor (CPEC) project will play a vital role in developing the regional connectivity. In this regard, the Gawader port, a major infrastructure project of CPEC, will function as a hub of global economic activities, thus placing Pakistan in an important position in the world and completely shaping its relations with other nations.
- Design new bilateral FTAs and revisit existing FTAs to create merchandise and services trade as well as investment.

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NOTES

1. This positioning included Pakistan's strategic location, large market, and language; its pragmatic disposition.
2. Openness ratio is the ratio of sum of exports and imports of goods and services to the GDP.
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5. WTO (2020). Regional blocs. Available at: www.wto.org.
6. See, UNCTAD, 'International Investment Policy Making in Transition'. Available at: <https://investmentpolicy.unctad.org/international-investment-agreements>.
7. See, e.g., Schott, J. (1989). 'More Free Trade Areas?', in: J. Schott (ed.), Free Trade Areas and US Trade Policy (Washington DC: Institute of International Economics); Bhagwati (1993), 'Regionalism and Multilateralism: An Overview', in: K. Anderson and R. Blackhurst (eds.), Regional Integration and the Global Trading System (London: Harvester-Wheatsheaf).
8. The domino theory is simple. It is a "political equilibria, which balance anti- and pro-membership forces, determine governments' stances on regional liberalization. Domestic exporters to regional blocs are a powerful pro-membership constituency" (Baldwin, Richard (1993) A Domino Theory of Regionalism. NBER Working Paper No. 4465, September).
9. Baldwin, R. (1997). The Causes of Regionalism. *The World Economy*, 20.
10. Baldwin, ibid at 870-871.
11. See, https://europa.eu/european-union/about-eu/countries_en#28members.
12. "Trade diversion in this context means re-direction of trade flow by a member of the soon to be formed group, from a non-member of the group to members of the group, due to the incentives afforded by the group memberships. For instance, tariff reduction in a FTA may render goods from member states cheaper than similar goods from non-member states" (see also, Bhagwati, J.N., T.N. Srinivasan and A. Panagariya (1998) Lectures in International Trade. New York: MIT Press).
13. Bhagwati, J.N. (2007) In Defense of Globalization. New York: Oxford University Press.
14. Bhagwati (2007), ibid.
15. Baldwin, R. (1993), Ibid.
16. Baldwin, R. and D. Jaimovich, 'Are Free Trade Agreements Contagious?', NBER Working Paper Series, Working Paper 16084 (2010), <http://www.nber.org/papers/w16084.pdf>
17. Ibid.
18. Lamy, P. (2002). Stepping Stones or Stumbling Blocks? The EU's Approach towards the Problem of Multilateralism vs. Regionalism in Trade Policy. *The World Economy*, 25(10): pp.1399-1413.
19. Panagariya, A. (2000). Preferential Trade Liberalization: The Traditional Theory and New Developments. *Journal of Economic Literature*, 38(6): pp.287-331.
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