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# Impact of Globalization on Poverty in Pakistan

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### Abstract

This paper is an endeavour to test the impact of globalization on destitution in Pakistan. ARDL beyond any doubt experimenting with strategy to co-combination affirms the life of long haul relationship a portion of the factors, Human improvement Index (neediness), globalization, FDI, CPI and populace over the length of 1980-2012. Results complete that globalization, FDI and populace are poor related with neediness and CPI is fine connected with destitution in long run and short run. On the off chance that Pakistan need to decrease destitution there desperate need capable and well ponder levy markdown rules to development globalization.

## Introduction

The time period 'globalization' is multi-dimensional. It has economic, social, cultural and political connotations. It is defined as a technique of rapid financial integration among nations driven through the liberalization of alternate, funding and capital flows, in addition to technological change. Globalization has grown to be a hotly debated problem in recent years. Although globalization is normally understood to have emerged out of the Uruguay round of GATT, it's far alternatively a vintage concept. O'Rourke and Williamson factor out that the arena financial system even through the overdue twentieth century widespread turned into well incorporated within the starting of the twentieth century [1]. The tendency closer to globalism can be visible for the duration of the length of liberalism of the 19th century, the relative balance after the primary international conflict and the golden years of the Nineteen Fifties and Nineteen Sixties. The WTO (global change employer) became formed essentially as a reincarnation of the ITO (international trade organization) which turned into born prematurely after the second one world battle. With it, the concepts of liberalism, multilateralism and non-discriminations had been carried out. This then suggests a tendency toward globalism.

Globalization is a manifold phenomenon. It has many dimensions and interpretations – economic Globalization, social globalization and political globalization. Honestly, it may be referred because the unification of the economies via liberalization of change, FDI, capital follows immigration and the spread of technological information. Poverty reduction has remained important goal in all developing and advanced nations. Consequently, it may be taken into consideration that globalization is the principle supply of poverty reduction.

The idea of globalization has been developing seeing that 1980's nearly in all growing economies. However, it has end up a hotly debated trouble within the latest years. Surely Globalization intended to boom the interdependence, interconnection, social and cultural, technological and ecological on international stage. Pakistan has to adopt the coverage of liberalization in past due 1980's whilst she changed into facing the hassle of deficit in current Account that is caused by decreasing call for her exports because of recession in industrialized economies. Exchange liberalization policy underneath the structural adjustment programed (SAP) did now not give fruitful results and turned into terrible experience for Pakistan. Pakistan liberalized an excessive amount of her economic system in the change liberalization era. Pakistan adopted more strong business policy via lowering extra tariff rate as counselled by world change enterprise (WTO) price lists quotes. In resulting the government profits reduced relatively and the social welfare of the needy or terrible humans affected due to fall in executive spending. Similarly, authorities implemented very harsh financial and monetary regulations that shrank aggregated demand and discouraged investment in private zone.

Anwar ideas embodied in improvement discourse and the suggestive remedial financial regulations postulated to reduce poverty and gain development in developing nations had been advocated by means of international financial institutions (IFIs) particularly, global monetary Fund (IMF) and international bank (WB) seeing that their inception. In 1950s and Sixties the principle consciousness of trickle-down theory was to obtain excessive increase fees. Industrialization changed into the mechanism for greater boom fee and in this era agriculture suffered at the cost of industry and phrases of alternate worsened against agriculture. At the give up of 1960s, IFIs realized that their over-emphasis on attaining excessive boom charges became tricky inside the feel that least advanced nations (LDCs) showed terrible performance on human signs. As an end result WB proposed alternative policies packaged as 'simple wishes' and 'Redistribution with growth'. In these guidelines growth turned into still crucial and taken into consideration to be a vital precondition for sustained development, but nations have been recommended to look after their bad and provide fundamental centres to them as properly. After the debt disaster in Eighties, many nations skilled extraordinarily high inflation and irritating of stability of payment positions. Around this time the IMF and WB had been the using pressure on international degree, wondering beneath the guise of Washington consensus and had facilitated and guided economic restructuring in some of international locations. Basically, LDCs had been asked to open up their economies and combine with the arena economic system via adopting Structural Adjustment applications (SAP). Post-SAP the method of economic liberalization and globalization emerged in LDCs and nonetheless continues nowadays.

For the duration of Eighties to Nineteen Nineties many developing nations sharply curtailed quantitative controls on imports and brought down tariff prices and removed restrictions on overseas direct investment (FDI). In general, globalization leads toward higher increase and productivity and consequently reduces poverty. At some stage in 1980s to Nineties many developing countries sharply curtailed quantitative controls on imports and taken down tariff quotes and removed regulations on overseas direct funding (FDI). In trendy, globalization leads closer to higher increase and productivity and therefore reduces poverty.

The goal of the study is to analyse the connection among globalization and poverty in Pakistan. The evaluation is based totally on ARDL model.

## Literature Review

Hameed, et al. [2] analysed the effect of financial Globalization on Poverty and Inequality in Pakistan through focusing on exchange liberalization factor of globalization. The have a look at consists of annual time collection observations over the length 1970-2004 for Pakistan. The records on poverty, profits Inequality, gross home product, exports and imports, GDP deflator, in keeping with capita GDP unemployed hard work pressure and hired labour pressure have been accumulated from numerous problems of economic Survey of Pakistan. Trade liberalization index is constructed via expressing sum of overall exports and imports as a ratio of GDP. Granger causality was carried out that showed globalization even as main to reduction in poverty has at the equal time exacerbated profits inequality.

Hai, et al. [3] tried to make the impact of globalization and liberalization on growth, poverty and earnings inequality in Pakistan. They examine used four variables poverty, inequality, and boom fee and opposes. Supply of statistics become CD-ROM and guide of records on Pakistan economy. Their statements were achieved for the time period 1973-2003 and used annual records. They carried out the co-integration approach and Augmented Dickey-Fuller Unit Root take a look at for the stationary and estimation of variables. They finish that globalization had positively effect on the existence of the poor hundreds, if it decreases the profits inequality and there has been an extended-run courting among a lot of these variables.

Siddiqui et al. [4] tested the effect of exchange liberalization and decline in remittances earnings of families to welfare and poverty in Pakistan. Alternate, poverty and Remittances used as the variables. Records were taken from taken from financial Survey, CBR year. eBook and world financial institution. The take a look at used secondary records for the time period 1980-2004 and used Computable well known Equilibrium model to take a look at the effect of those variables. They conclude that a decline in remittances reduced the gains from change liberalization and the negative impact of remittance decline fine impact of change liberalization in urban areas. However, the tremendous impact of change liberalization had negative effect of decline in remittances inside the case of rural areas.

Khan et al. tried to look the relationship between trade liberalization poverty and inequality in Pakistan. The variables that had been used have been change liberalization, poverty and inequality. Facts of these variables were amassed from economic Survey and nation financial institution of Pakistan. Augmented Dickey-Fuller check used for understanding stationary and Granger Causality method became carried out for the estimation of those variables. Secondary data turned into used for the time period 1975-2010. The study concludes

that experience liberalization had no huge effect on poverty however poverty had terrible impact on change. But, change had accelerated inequality in the USA.

Hameed et al. analysed the monetary Globalization and its impact on Poverty and Inequality in Pakistan by means of focusing on exchange liberalization element of globalization. They look at the relationship between economic globalization, poverty, and inequality in Pakistan thru the use of Granger causality checking out. The variables that have been used had been gross home product, per capita GDP, unemployment, poverty, and income inequality and change liberalization. Exchange liberalization (index) is built by expressing sum of overall exports and imports as a ratio of GDP. Unemployment charge is expressed as a ratio of unemployed exertions force to general exertions pressure within the economic system and records of others variables were amassed from numerous troubles of economic Survey of Pakistan. Consequences point out that alternate liberalization has performed a wonderful role in employment technology however has had a negative influence on according to capita GDP. Typical, our results seem to signify that globalization while leading to reduction in poverty and worse income inequality.

Malik, et al. [5] inspect the impact of globalization on employment in Pakistan from 1973-2009. Foreign direct investment, alternate liberalization and people remittances, 3 dimensions of globalization index were used. The statistics of all variables besides globalization index are taken from economic Survey, government of Pakistan, (numerous troubles). Globalization index is taken from the http://globalization.kof.ethz.ch. To test the stationary of variables unit root take a look at were applied. Then long term courting among the variables changed into observed by applying the Johansen's a couple of co-integration exams for brief run error correction model applied. Outcomes confirmed that foreign direct investment, people remittances and financial measurement of globalization are developing employment possibilities not most effective in brief run but also in long run in Pakistan, at the same time as trade openness and social and political size of globalization negatively influences the employment.

Alam look at the effect of globalization, poverty and environmental degradation on economic growth. The look at based totally on time collection information from 1971-2008 for Pakistan. Records on GDP per capita, business GDP, general population alternate openness and fertilizer intake acquired from global bank and Gini coefficient, poverty from economic survey of Pakistan. To check the desk bound unit root take a look at implemented and to test the relationship john co-integration carried out. They conclude that expanded globalization induced to lower the fee of environmental degradation and performed a nice role on monetary improvement [6].

## Data and Methodology

### Variables and data source

The major objective of the have a look at is to research the impact of globalization on poverty in Pakistan. Time series statistics for the period of 1980-2012 is used for the analysis. So that it will examine the consequences of globalization on poverty the prevailing observe not most effective used the standard index of globalization but also foreign direct funding, overall population and customer rate index is also used.

The KOF (Swiss monetary Institute) index of globalization is used in the evaluation. The index became delivered in 2002 and is updated and describe in detail in Dreher, Gaston and Martens. All variables

are in logarithmic shape. Data of foreign direct investment, patron charge index and general populace is taken from international bank. Information of Human development index which used to measure the poverty is taken from financial Survey of Pakistan and Globalization index is taken from http://globalization.kof.ethz.ch.

## Methodological issues

Initially, a famous approach Augmented Dickey fuller has been used to check the unit roots of the time series variables. This test has been employed inside the ranges and primary variations with intercept, trend and both. If variables aren't going to be integrated of the equal order, OLS technique based totally at the ADF test might be employed. However, if this time collection is included of the equal order, the co-integration process could be undertaken. Then long term dating a few of the variables is discovered through making use of the Johansen's a couple of co-integration tests. As soon as the variables are located to be co-included, that means that lengthy-run equilibrium holds among them, they'll nevertheless be in disequilibrium inside the short run [7]. Consequently, we've got predicted an error correction model (ECM) to determine the fast run dynamics of the system.

The Econometric model is:

$$HDI = \alpha + \beta_1 glob + \beta_2 FDI + \beta_3 CPI + \beta_4 TP + \mu$$

## Results and Discussion

Wherein HDI is human development index measures poverty and depends variable. Glob is globalization index, CPI is client charge index and TP is general population.

So as to observe the effect of globalization, CPI, FDI and total population on HDI (poverty), the secondary data has been used for the evaluation in the context of Pakistan for the term 1980-2012. A unit root take a look at has been accomplished to check the desk bound of the variables. The results of the ADF unit root test evolved by using Dickey and Fuller.

Table 1 show that HDI (poverty), client charge index (CPI), foreign direct investment (FDI), general population and globalizations index have unit root problem and all variables are insignificance at 5% level of significance. While Table 2 indicates that each one variable are significance in the beginning distinction and total population aren't significance so we can implemented ARDL version.

As all variables are incorporated on first distinction so the best

method for estimation ARDL to co-integration could be carried out and now all variables are in logarithm shape inside the First step, selected suitable lag length for Co integration test on the premise of Akaike records criterion by way of the usage of Vector car Regressive test is chosen. The appropriate decided on lag length is 1. The results from the ARDL take a look at are provided in Table 3.

Consistent with the desk F-Statistic is better than higher bond fee both at 5% and 10% level of importance. This means that co integration and long run or quick run courting exists amongst Human improvement Index (poverty), globalization index, foreign direct funding, consumer fee index and overall population over the period of 1980-2012 in case of Pakistan.

Long term relation can displayed in Table 4 indicates the long term relationship a number of the variables.

Globalization index, overseas direct investment and general populace are bad associated with HDI (poverty). One unit decrease in foreign direct funding is anticipated to elevate HDI (poverty) by way of 31.084% and one unit decrease in globalization index could purpose to boom HDI 69.482% and one unit decrease in overall population is predicted to increase in poverty 453.19%. There may be positive dating between client charge index and poverty. One unit increase in CPI will grow poverty by means of 29.216%.

Table 5 display the fast run relationship a number of the variables. The effects suggest that globalization index, general populace and foreign direct funding also negative associated with poverty even in quick run and there is additionally effective courting between patron rate index and poverty in Pakistan.

The coefficient of ECM (-1) suggests the speed of adjustment from quick run to long term equilibrium and it need to be statistically sizable with terrible signal which is the case right here. Our expected coefficient of ECM (-1) is same to 0.085250. This shows that any deviation in brief

| ARDL (1,0,0,0,0) | | |
|---|---|---|
| F-Statistic = 9.5523 | | |
| Level of significance | Lower Bound Value | Upper Bound Value |
| 5% | 2.6017 | 3.9582 |
| 10% | 2.1224 | 3.2922 |

**Table 3:** The Results of ARDL Co-integration Test.

| Dependent Variable: HDI | | | |
|---|---|---|---|
| Variables | Coefficient | t-Statistic | p-Value |
| Glob index | -0.069482 | -0.16955 | [.867] |
| FDI | -0.031084 | -0.62158 | [.539] |
| Total Population | -4.5319 | -5.2843 | [.000] |
| CPI | 0.29216 | 0.72021 | [.478] |

**Table 4:** Long Run coefficients based on ARDL.

| Dependent Variable: HDI | | | |
|---|---|---|---|
| Variables | Coefficient | t-Statistic | P-Value |
| Glob index | -0.0059234 | -0.16535 | [.870] |
| FDI | -0.0026499 | -69464 | [.493] |
| Total Population | -0.38634 | -2.908 | [.007] |
| CPI | 0.024907 | . 65412 | [.519] |
| ecm(-1) | -0.08525 | -2.5989 | [.015] |

R-Squared 0.27231
R-Bar-Squared 0.16451
F-Statistic 2.5260 Probe (F-statistic) [0.064]
Durbin-Watson 1.7076

**Table 5:** Error Correction Representation (1,0,1,0,0).

| Variables | ADF (t critical) Value at 5% significance level | T Value | Probability |
|---|---|---|---|
| CPI | -2.95711 | 0.344078 | 0.977 |
| FDI | -2.960411 | -2.571602 | 0.1095 |
| Glob index | -2.95711 | -0.487905 | 0.881 |
| HDI | -2.95711 | -0.043261 | 0. 0.9474 |
| Population growth | -2.963972 | -0.12363 | 0.9379 |

**Table 1:** Results of Augmented Dickey-Fuller Test at Level.

| Variables | ADF (t critical) Value at 5% significance level | T Value | Probability |
|---|---|---|---|
| CPI | -2.960411 | -4.913135 | 0.0004 |
| FDI | -2.998064 | -4.294144 | 0.0029 |
| Glob index | -2.960411 | -5.608601 | 0.0001 |
| HDI | -2.960411 | -3.641664 | 0.0105 |
| Population growth | -2.998064 | -1.030633 | 0.724 |

**Table 2:** Results of Augmented Dickey-Fuller Test at 1st difference.

run from the long term equilibrium in our HDI (poverty) version is corrected by using 8.525% every year (Appendix).

## Conclusion

This study evaluation the impact of globalization on poverty in Pakistan using time-collection facts and techniques. The consequences display that globalization has poor and insignificance impact on poverty not handiest in long term but also in brief run. other variables like FDI and overall population additionally has bad effect on poverty in each durations however total populace has importance impact on poverty. Whilst customer rate index has fine and insignificance impact in both intervals on poverty. The results of this look at are also steady with a large variety of studies who concluded that globalization has least impact on the lives of negative in growing international locations in quick run but have some giant impact in long-run.

## Policy implications

Maintaining in view the results of the existing take a look at, we attempted to explore some policy implications to reduce poverty.

- Powerful and nicely planned tariff discount guideline in growing country like Pakistan might increase its capability to purchase uncooked materials for industries. The accelerated deliver of inputs in each the sectors improved the employment, output and earnings which cause to discount in poverty.

- Government ought to expand technical schooling with a purpose to will increase the productiveness of the bad, and it is going to be simplest and indirect way of addressing the hassle of poverty.

- Poverty will be ended if generates possibilities for funding, entrepreneurship, task advent and develop industries.

- Although Pakistan has adopted the liberalized change guidelines, Pakistan can gain from further reductions in tariff rates with China and different Asian nations for the discount of poverty incidence and earnings inequality.

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