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Impact of Globalization on Economic Growth: Evidence from Pakistan

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ABSTRACT

The main purpose of the present study is to analyze whether or not globalization affects economic growth in Pakistan. Time series data was collected from Pakistan covering the time period from 1990-2019. A time series Autoregressive Distributed Lag model is used to establish long-run and short-run relation between economic growth and globalization. Error Correction Model is also used to check the short run and long run relationship among the economic growth and globalization. For directional relationship, the Granger Causality test is being employed. The conclusions of the study showed a negative and significant association between Economic Globalization and Growth. On the other hand, there is positive and significant association between Political Globalization and Growth. While the relationship between Social Globalization and Growth was founded positive and significant.

1. Introduction

Historically Pakistan is an area (previously the subcontinent) with reputed investment where for two hundred years British companies dominated. Pakistan started to have nationalization process especially in 1970. It has been realized after few decades that the step of privatization was taken in order to catch up the globalization process. The economy of Pakistan is not stabled enough to play a part in globalization process to get benefits to a large extent and facing many difficulties economically. Globalization is a broad concept because it covers economic globalization, political globalization, and social globalization. Its multi-dimensional structure makes its complex and challenging. Globalization is considered as a component which creates opportunities to economies and effecting positively to economic growth (ECOG). The relation between globalization and growth has been examined for a long time. ECOG is an indicator of the economy's well-being. ECOG of the country is indicated by gross domestic product. Services produced in the economy and the total market value of the final goods is GDP during a definite period measured in economic terms.

Siddique et al. (2017) claimed that foreign direct investment is the inflow of investment from one country to another country. Trade theories stated that a country invest in another country when contributor country have competitive advantage over the host country. A country invests through FDI in another country due to economies of scale argued by internalization theory that can reduce the cost of production. Developing countries take measures to attract foreign direct investment because such countries face a gap between investment and savings which must be connected by FDI.

This results in job creation, technological transfer and increase in production. Anyanwu (2006) examined that globalization provides opportunities to countries in accelerating ECOG. There are number of factors which are responsible to drive the process of globalization. Alfaro et al. (2004) defines foreign direct investment as an investment which is involved in long term relationship and reflect a lasting interest.

Globalization is a procedure of communication and incorporation between companies, people, and governments. Globalization has developed by progresses in communication technology and transportation. Through improved global relations originates the evolution of international trade, ideas, and culture. Globalization capital flows, trade restrictions and reduction in tariffs. Ying et al. (2014) noticed that many developing countries accelerate their ECOG when these countries pursue outward-oriented policies. Economic globalization is the procedure of growing interaction among countries, prominent to the appearance of a global market or a solitary world marketplace. Political globalization denotes to the evolution of the international political system, both in scope and complication. This system includes the government policies which are implemented on the country. Those policies affect the trade and imports and exports of the country.

Social globalization means tendencies between values, from consumerism to arts and humanities. It also includes share of ideas, information, and human capital. Social globalization has elaborated the constant distribution of ethics and spiritual opinions, whether properly or by force. Utmost significantly, however, it is noticeable by the rise in relationship between persons from unconnected parts of the domain of social globalization. This is frequently contradicted by a weakened similarity between people in the same county. Huchet-Bourdon et al. (2011) tested that previous experimental trends revealed that in long run relationship countries which are more outward oriented register higher ECOG. Countries which are more globalized their economy will boost up as compared to the countries which are less globally attached. Chuang (2000) argued that primary engine of growth is either trade or human capital. A close association may occur among trade and human capital accumulation. Return on human capital can be increased by opening up trade opening opportunities. Economy of Pakistan grew gradually but the growth is less as compared to the developing countries. Education sector is the key factor for the human capital but the education sector in Pakistan did not grow as it was required to grow. According to Barrow and Lee (2001) education quality of Pakistan is very low as compared to South Asian countries. Dreher (2006) explored that the globalization is the component which leads the growth of the economy of the country. If the country is globally engaged, then the ECOG of that country will be stable and will increase.

In the present study ARDL time-series model is implemented along with that granger causality tests, serial correlation, tests are employed which were ignored in the previous studies in Pakistan by Saeed N. (2002) Afzal M. (2007). Current study contributes in different ways. First, data length adds to the significance of the study that is incorporated to distinguish the impact of political globalization, social globalization, and economic globalization over the ECOG of Pakistan. Unlike, Dreher (2006) present study includes those variables which have essential information with respect to ECOG. Khan et al. (2016) scrutinized the impact of globalization on ECOG with the two dimensions of globalization political globalization and economic globalization while social globalization was ignored. Secondly the present study includes social globalization just like Dreher (2006) which was neglected in the previous studies in Pakistan.

2. Literature Review

Effendi and Soemantri (2003) observed the effect of foreign direct investment on regional ECOG. The results from the study showed that the effect of FDI on regional ECOG in Indonesia has significant and robust effect in short run but not in long run. Export is more important in accelerating ECOG rather than import. The results showed that exports are the key to increase the ECOG.

Bergh and Nilsson (2010) explored the impact of liberalization and globalization on income by using panel data covering 80 countries from the years 1975-2005 by using methodology of generalized

methods of moments. The results showed that economic globalization has positive impact on within country income equality. Economic globalization seems to increase in developed countries. While social globalization is also important but in developing countries rather that developed countries. The results from the studies showed that the political globalization does not increase income.

Hanushek (2013) tested the influence of human capital on ECOG. The interrelated pragmatic analysis employs cross-country data in the way to evaluate the results. Results showed that there is possibility of providing ECOG that will increase the revenue of the country by the motivation of human labor. More results revealed that without improving school quality, there will be difficulty for developing countries to improve the economic performance.

Samad and Akhtaruzzaman (2014) observed the impact of financial development, foreign direct investment and on ECOG. The results revealed that in Malaysia, Singapore and China growth is increased by FDI. On the other hand, financial market development causes FDI in Singapore, Malaysia, and Sri Lanka. Foreign direct investment does not granger cause ECOG in all ten countries. The results suggested that foreign direct investment effects only financial development market or ECOG in those countries.

Azam and Ahmed (2015) observed the effect of human capital and FDI on ECOG. The results showed that human capital was critical for ECOG. ECOG is accelerated by foreign direct investment. The conclusions suggested that investment setting in the host countries must be enhanced over appropriate strategies.

Iamsiraroj and Doucouliagos (2015) studied the effect of foreign direct investment on ECOG. Correlation and regression analysis were done in order to obtain the results. The results of the studies showed that FDI and ECOG are robustly and strongly interlinked with each other. It also seemed that ECOG is further connected with FDI in the developing countries.

Kragulj and Parezanin (2015) studied the impact of FDI on ECOG. Panel data of different countries covering the period from 2000-2013was for the analysis. The correlation analysis was done to evaluate the results and to check the liaison among FDI and ECOG. The result from the research showed that there is boosting correlation between FDI and ECOG. The consequences of the research express in favor of the survival of a statistically important association between FDI and ECOG.

Khan et al. (2016) explored the effect of globalization on growth in Pakistan. The statistics was composed for the time period covering years from 1973-2011 for Pakistan. The methodology used in this study was of ARDL and error correction control models (ECM). The results indicated the insignificant relation between the economic globalization and growth. While political globalization and overall globalization has substantial effect on ECOG. It is concluded from the outcomes that to maximize benefits from globalization it is essential to develop abilities and education of worker.

Olimpia and Stela (2017) scanned the relationship among ECOG and globalization. Regression analysis and correlation analysis were used as methodology to evaluate the results. The results indicated a robust helpful statistical and authorized effect of globalization on ECOG. More results showed that if Romania has to increase its ECOG, it has to globalize more. The effect of political globalization on ECOG is positive.

Alzaidy, Ahmad et al. (2017) examined the impact of FDI on ECOG in Malaysia. Data was collected from Malaysia from the time period covering 1975-2014. ARDL technique was used in the study to determine the results. Autoregressive distributed lag or Bounds testing approach were also used to conclude the results. The results showed that FDI has robust significant impact on ECOG of Malaysia for both long and short run. Similarly financial development and foreign direct investment are positively significant to each other. So, it's cleared from the result that foreign direct investment accelerates ECOG.

Keho (2017)studied the effect of trade openness on ECOG. The data was collected from the country Cote d'Ivoire for the time period covering from 1965-2014. The findings from the studies revealed that there is direct positive relationship between trade openness and growth both in short run as well as in long run form. Other results also conclude that there is positive relationship between capital formation and trade openness in accelerating ECOG.

Rani and Kumar (2018) perceived the impact of export and import on growth in BRICS countries. Panel data was collected from different countries like Brazil, India and South Africa covering the time period from 1967-2014. The results demonstrated that export and gross capital formation are strongly connected to ECOG. While the results showed that import is negative and significant with the ECOG. Other results also revealed that 1 percent exports give increase to 0.44% of ECOG.

Khobai, Kolisi et al. (2018) observed the relationship between ECOG trade openness. The data was collected from Ghana and Nigeria for the time period covering from 1980-2016. The results indicated that trade openness have significant and positive impact on ECOG. While in Nigeria trade openness has negative impact but insignificant influence on ECOG.

3. Data and Methodological Discussion

Conceptual Framework

The analysis of proposed and investigational work endorses that the associated variables have influence on the economic growth of Pakistan. The components which influence the economy are political globalization, social globalization, economic globalization and ECOG.

Variables and Data Source

To measure the globalization, we used three dimensions economic globalization, political globalization and social globalization. To measure economic globalization, we used foreign direct investment as a proxy variable. While to measure social globalization we used human capital and to measure political globalization Government policies are used. The proxy for ECOG is GDP Total 4 variables are used in this study, which is economic globalization, political globalization, social globalization, and ECOG. Economic globalization, political globalization, social globalization is considered as independent variables while ECOG is used as dependent variable. To check the relationship between globalization and growth there are several studies which castoff these variables Iamsiraroj and Doucouliagos (2015); Nwakanma and Ibe (2014). The general function which is constructed in this study is given as the following.

GDP=f (EOG, POG and SOG)

Table 1

Description and Source of Variables

Variable	Description	Units
GDP	Gross Domestic Product	Current US Dollars
EOG	Economic Globalization	(%of GDP)
POG	Political Globalization	Index
SOG	Social Globalization	Index

Econometric Methodology

In order to discover the link among globalization and ECOG, it is expected that the figures sequence must fulfill stationary supposition. Because the data which is not stationary yields high R-square even for hypothetically variables which are not related creates false outcomes and lessens the worth of

conclusions developed with the support of estimations. This research employs Phillips Parron and Augmented Dickey Fuller unit root test to check the stationary assumption. And then apply ARDL approach to check long run and apply Error correction model for short run relationship among variables.

$$GDP_t = \beta_0 + \beta 1(lnEOG_t) + \beta 2(lnPOG_t) + \beta 3(lnSOG_t)$$

Where

GDP = Gross Domestic Product
EOG = Economic Globalization
POG = Political Globalization
SOG = Social Globalization
t = Time period
$\beta_1, \beta_2, \beta_3,$ = Slop of coefficients

Data Collection Procedures

Time series data is used from the period of 1990-2019. Data is collected from World Bank Development Indicators.

4. Results and Analysis

This study comprises of 4 variables GDP, EOG, POG and SOG. Whereas outcomes present in the following section, descriptive statistics, time-series unit root, optimal lags selection, cointegration and error correction model, Granger causality and time series ARDL.

This study analyzes the impact of globalization on ECOG by taking the data from 1990 to 2019. Descriptive statistics to check the normality of the data. Hassan, Islam et al. (2016) checked the descriptive statistics to measure the normality of data among the variables. Kilic (2015) employed the descriptive statistics in and correlation matrix to measure the normality of the proposed variables. According to Jameel and Naeem (2016) if the value of Skewness is 0 and the value of Kurtosis is 3 it indicates the variables are distributed normally. If the distance is greater from the median to the largest value than the distance from the smallest value to the median then it shows the right skewed and vice versa.

Table 2

Descriptive Statistics

	GDP	EOG	POG	SOG
Mean	25.22	0.027	23.713	1.617
Median	25.01	0.029	23.41	1.629
Maximum	26.16	0.092	24.618	1.799
Minimum	24.41	-0.039	23.046	1.358
Std. Dev.	0.558	0.032	0.591	0.167
Skewness	0.377	0.069	0.464	-0.179
Kurtosis	1.746	2.665	1.476	1.377
Jarque-Bera	2.14	0.131	3.185	2.761
Probability	0.342	0.936	0.203	0.251

Table 2 indicating gross domestic product average values 25.2 with the standard deviation of 24and maximum and minimum values 97.70 and 11.10 respectively. While average value of economic globalization is 0.02 with the standard deviation of 0.03. While the maximum and minimum values of economic globalization are 0.09 and -0.03 respectively. Average value of political globalization and social globalization are 23.71 and 1.61 with a standard deviation of 0.59 and 0.16. While 24.61, 1.79 and 23.04, 1.35 are the maximum and minimum values respectively. The probability value of GDP, economic globalization, political globalization, and social globalization is greater than 0.05 which shows that residuals are normal. Null hypothesis is accepted because the data is normal. If the probability value is less than 0.05 it means that residuals are not normal.

Table 3

Augmented Dickey-Fuller and Philips Perron Test

	ADF Unit Root		**Philips Perron Unit Root**	
Variables	**I(0)**	**I(1)**	**I(0)**	**I(1)**
GDP	2.098	-3.342	2.372	-3.343
	-0.999	-0.025	-0.999	-0.025
EOG	-2.817	-3.651	-2.679	-3.76
	-0.071	-0.032	-0.092	-0.034
POG	0.07	-5.097	0.1904	-5.097
	-0.956	-0.0005	-0.965	-0.005
SOG	-1.661	-3.295	-1.294	-3.487
	-0.435	-0.0013	-0.614	-0.0014

Note: Values are of *t*-statistics followed by P values in each column

Table 3 shows the results from Augmented Dickey Fuller test and Phillip Perron test that the variables are stationary. The results showed that both ADF and PP test at level are not stationary. While the variables at first difference of both ADF and PP test are stationary. The results showed that the probability value of the variables is less than 0.05 which indicates the stationarity of data. We can rely on the results as it avoids from the spurious results and gives valid results. It is clear from the results that the variables are not stationary at I (0) and stationary at I (1).

Table 4

Bound Test

Test Statistic	**Value**	**k**
F-statistic	4.17547166	4
Critical Value		
Significance	**I(0) Bound**	**I(1) Bound**
10%	2.44	3.52
5%	2.87	4.01
2.5%	3.24	4.49
1%	3.75	5.06

Table 4 is showing that F-test value is greater than upper bound and lower bound which shows that there is long-run relationship among the variables and we say that there is cointegration among the variables. Faisal et al. (2017) said to check the long-run cointegration among the variables F-test can be used. The Walled test or F-test were used in order to check the long-run co-integration. F- Test value is related with the upper and lower bounds critical values by Pesaran, Shin et al. (2001).

Table 5

Long-Run Coefficients of ARDL (2,2,1,1) Dependent variable LnGDP

Variables	Coefficient	Std. Error	t-statistics
LnEOG	-0.075*	0.012	-5.863
LnPOG	0.134*	0.046	2.896
LnSOG	1.726*	0.231	7.448
C	12.363*	0.517	23.868

Authors own calculation using E. Views; *, **, *** is significant at 1, 5, & 10 percent

Table 5 indicating long run results of ARDL model, findings confirmed that there is negative and significant relationship between EOG and GDP as the coefficient value of EOG is -0.075971. It implies that if we increase one percent in EOG. In this response there will be a decrease of 0.07% in GDP. Our findings aligned with Azam and Ahmad (2015) that the importance of FDI has found less conclusive in promoting ECOG. Simionescu (2016) observed that the relationship between GDP and FDI can also be negative because there are some countries in which higher FDI was not accelerating ECOG and higher GDP did not attract higher FDI. Saqib et al. (2013) observed that impact of FDI on ECOG of Pakistan was negatively affected. Negative relationship between FDI and ECOG was found in Pakistan which aligned with our results. There is positive and significant relationship between POG and GDP as the probability value is less than 0.05. It implies that if there is one percent increase in POG then there will be 0.13 percent increase in GDP.

Our findings aligned with Awokuse (2008) that a bi directional causal relationship between POG and GDP was found for Argentina and Colombia. The relationship between SOG and GDP is positive and significant because the coefficient value and probability value is 1.72 and 0.0001 respectively. It implies that is we will increase one percent in SOG then there will be 1.72% increase in GDP. Our findings are same as the findings of Chuang (2000) that indeed human capital led ECOG. Jameel and Naeem (2016) also concluded that there is long run relationship between SOG and GDP. It is clear from the results that social globalization also promotes ECOG in Pakistan. Our findings are aligned with Anyanwu (2006) that social globalization is positively related to ECOG.

Table 6

ECM ARDL (2,2,1,1) Model Dependent Variable GDP

Variables	Coefficient	Std. Error	t-statistics
LnEOG	-0.026**	0.012	-2.222
LnPOG	-0.145	0.08	-1.654
LnSOG	1.918*	0.350	5.479
ECT	-1.111*	0.139	-7.957

Authors own calculation using E. Views; *, **, *** are significant at 1, 5 & 10 percent

Findings from the Table 6 of short run ARDL shows that there is negative and significant relationship between EOG and GDP as the probability value is not greater than 0.05. This states that if there is one percent decrease in EOG then there will be 0.026% decrease in GDP. The relationship between POG and GDP is negative and insignificant because the probability value is greater than 0.05. It implies that if we will decrease one percent in POG then there will be 0.14% decrease in GDP. The probability value of SOG is 0.0006 and the coefficient value is 1.91 which indicates that there is positive and significant relationship between SOG and GDP. If there will be one percent increase in SOG then there will be 1.91% increase in GDP. The coefficient value of EC is -1.111 and the probability value of EC is 0.0000 which indicates that EC is highly significant. Negative sign and the highly significance of EC term indicates the long run relationship among the variables. The speed of adjustment that is required for GDP at equilibrium position is 111 percent.

Table 7

Granger Causality Test

Null Hypothesis:	F-Statistic	Prob.
POG not Granger Cause GDP	3.21621	0.0693
GDP not Granger Cause POG	5.05143	0.0219
SOG not Granger Cause GDP	4.32028	0.0334
GDP not Granger Cause SOG	1.51608	0.2858
EOG not Granger Cause GDP	1.54101	0.2791
GDP not Granger Cause EOG	0.56359	0.7266
SOG not Granger Cause POG	7.89661	0.0059
POG not Granger Cause SOG	1.98187	0.1860
EOG not Granger Cause POG	0.43587	0.8122
POG not Granger Cause EOG	0.78637	0.5873
EOG not Granger Cause SOG	2.39068	0.1310
SOG not Granger Cause EOG	0.80891	0.5744

Note: Authors own calculation using E. Views

Table 7 is representing the results of granger causality. The table show that POG does not cause GDP as the prob. value is higher than 5%. So, null hypothesis is accepted but GDP does granger cause import and the null hypothesis is rejected because the probability value is lower than 5%. Similarly, POG does granger cause GDP as the prob. value is lower than 5% and the null hypothesis is rejected. While GDP does not cause POG because the probability value is higher than the 5%, we cannot reject the null hypothesis. EOG does not cause GDP because the probability value is higher than 5% and GDP not granger cause EOG and we will accept the null hypothesis.

SOG does granger cause POG as the probability value is lower than 5% and we will reject the null hypothesis and on the other hand POG does not cause SOG because the probability value is higher than 5%and we will accept the null hypothesis. EOG does not granger cause POG because the probability value is higher than 5% and we will accept the null hypothesis. On the other hand, POG does not granger cause EOG because the probability value is higher than 5% in this case also we will accept the null hypothesis. In the last EOG does not granger cause SOG and the null hypothesis is accepted because the probability value is higher than then 5% and SOG does not cause EOG because of the higher probability value and the null hypothesis is accepted.

5. Conclusion

The relationship between globalization and ECOG has been examined. Globalization is considered an important indicator of the economy. Globalization is sub divided into social globalization, political globalization and economic globalization as done by Dreher (2006). FDI is used as a proxy of economic globalization. Government policies are used as proxy to measure political globalization and Human capital is used as proxy to measure social globalization and for economic growth GDP is used as proxy. The objective of the study is to examine either globalization (ECOG, POG and SOG) affects ECOG in Pakistan. The present study is time-series analysis for the time period from 1990-2019. The study at hand collected data from FRED. This study purposed social globalization, political globalization, and economic globalization as independent variables and ECOG as dependent variables.

The findings of this study showed that EOG have negative relationship with ECOG in long-run. Our findings aligned with Azam and Ahmed (2015) that the importance of FDI has been found less conclusive in promoting ECOG. Simionescu (2016) observed that the relationship between FDI and GDP can also be negative because there are some countries in which higher FDI was not accelerating ECOG and higher GDP did not attract higher FDI. Saqib, Masnoon et al. (2013) observed that impact of FDI on growth of Pakistan was negatively affected. Negative relation between FDI and growth was found in Pakistan which aligned with our results. According to SBP (2018) in October 2018 FDI decrease 55% to 161.23$ million as compared with 354.61$ million in the last year. Any new long term investments are not made in any of the sector of the economy by global investors. Saqib, Masnoon et al. (2013) claimed that FDI in Pakistan is limited by economic policies and it seems that benefits of FDI are weakened because of giving earnings back to investor nation. The findings of the study showed that SOG has positive relationship with ECOG in long-run. Our findings are same as the findings of Chuang (2000) that indeed human capital led ECOG. Jameel and Naeem (2016) also concluded that there is long-run relationship between SOG and GDP. Our findings are aligned with Anyanwu (2006) that social globalization is positively to ECOG. This study concluded that POG has positive relationship with ECOG. Awokuse (2008) claimed that a positive relationship between POG and GDP was found for Argentina and Colombia.

The study suggests future research on same topic with some modification in the construction of economic globalization in an index form rather than taking only FDI as proxy variable.

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