_____

THE IMPACT OF GLOBALIZATION ON UNEMPLOYMENT

(THE CASE STUDY OF PAKISTAN 1980-2010)

Sher Ali*

Prof, Dr Khair uz Zaman**

Prof, Dr Mahmood Shah***

_____

Abstract

This research study is devoted to test the impact of globalization on unemployment rate in Pakistan. For empirical analysis

_____

* Ph.D. Scholar, Department of Economics , Gomal University, D.I.Khan PAKISTAN

** Director COMSATS Institute of Information Technology Vehari.

*** Deptt of Economics Gomal University, D.I.Khan, KPK, Pakistan.

INTRODUCTION

1. GLOBALIZATION

The term 'globalization' refers to the breakdown of country borders. The breakdown in borders is in term of flows of goods and services, information, technologies, capital and people. The breakdown has several faces like several cultural, economic, political and social [1]. This study is concerns with economic point view and the other faces have several disadvantages like the cultural disintegrate and international domination hunts many Afzal (2007). So we limit ourselves to economic globalization.

1.1 Economic Globalization

Economic globalization will be happened through the following channels

(a) Trade in goods and services,

(b) Flow of capital

(c) Mobility of people and

(d) Transfer of technology.

The people movements are mostly restricted because of social, cultural and religious values, but now a day the people movements are banned because of security reasons. And no proper measure for transfer of technology.

1.2 Measure of Economic Globalization

Economic Globalization is measured by the following two main streams

- Trade Integration   (Export plus Import to as % to GDP)
- Financial Integration (Net Capital Flow= Capital inflow - Capital outflow)

Net capital flow is also taken as a % to GDP

The above measure is used by Afzal (2007) and Roy (2012). But this study used a little difference in financial integration of workers' remittances which ignored by the above mentioned researchers. The inflow of worker's remittances is third in number of the most important source of capital inflow to Pakistan ().

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.

International Journal of Physical and Social Sciences
http://www.ijmra.us

149

[1] A huge number of literature is available on the multifaceted process of globalization, for detailed of definition see Al-Rudhan (2006) and Streeten (1999)

1.3 Historical Development

The phenomena of globalization is not new, it started in the 2nd half of the 19th century and closed with opening of the 1st World War. This period of globalization is known in the history of economics id the 1st wave of globalization Nayyar (2006), Afzal (2007), Daudin et al (2008). The world saw tremendous integration of the economies in the form of trade transaction across the country, capital flow and mobility people. Globalization has been a historical process. The main reason for that global integration was of technological progress and innovation. Innovations and progress in technology yield to lower the cost of transport and communication. The mobility of people across the boundaries was free comparatively as before. Mostly there were no passports and visa requirements for traveling abroad. But, the process of globalization was slowdown between the two World Wars period. Most of world economies considered that they could develop bitterly their economies under high barriers on international transaction in goods and services and capital and free mobility of people. After 2nd World War the super power of the time the Great Brittan lost their power and their colonial power too. The new independent countries from the colonial power adopt import substitution industrialization (ISI) and other restriction to protect their domestic industries from foreign competition (Afzal 2007). Post World War 2nd international trade flow was mostly between the two major trading-blocs but reduced their contribution after a short period of time. Japan and Asian tigers also increased their share first and then reduced. The rest of the world contribution to international trade was declined during 1950 to 1973. The Soviet- Union bloc was also protected their economies from international economic integration. But with the passage of time the structured of world has changed. The process of globalization stared once again. Most of the economic analysts were of the view that the 2nd or the current wave of globalization is started in the last three decades, but some of the analysts were of the opinion that it started from 1973 [2]. In the last three decades the 20th century, the process of economic integration has started again with greater and quicker force. The former Soviet Union bloc and most of the developing countries are getting integrated with the rest of the world. They adopted more outward oriented (liberal policy) policy in order to achieve higher economic

growth. Yet, we have more concerns about globalization now than before because of the nature and speed of transformation. The new trade liberalization policies along with diffusion of technology, capital mobility and MNCs have drastically affected the employment conditions in developing countries.

[2] For detailed of the waves of globalization see Nayyar (2006), Daudin (2008)

1.4 Globalization and the World unemployment

The process of free international transaction in goods and services, flow of capital and mobility of people affect several dimensions of economy. The world export of goods and services increased by twenty five fold from $316 million of 1970 to $6414 million in 2002 and the world FDI flow increased by fifty fold during the same period of time (Rybinski 2006). The important variables of globalization are presented in the following Table 1.

Table 1. Globalization and unemployment

Years	W.T % GDP	W.FDI outflow ($Mills)	W.FDI inflow ($Mills)	W.GDP rate (Un Millions)
1980	19.83	51590	698951	3.6 (----)
1985	18.50	62014	987598	2.9 (150)
1990	18.01	241499	2081147	3.7 (157)
1995	19.50	363241	3438082	2.2 (177)
2000	23.01	1226633	7450022	3.5 (191)
2005	25.63	888561	11563007	2.9 (192)
2010	29.68	1451365	19906662	2.3 (198)

Source: UNCTAD

W.T = World Trade, W.FDI=World FDI, W.GDP=World GDP

The world trade is increased from about 20% of world GDP of 1980 to about 30% of GDP in 2010. Similarly the both the inflow and outflow of FDI are tremendously during the same period of time. In the last column of the Table the growth rate of World GDP and Unemployment are

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.
International Journal of Physical and Social Sciences
http://www.ijmra.us

151

given. It clear from table that the growth rate of GDP is decreased during the current period of time. Similarly the world unemployment is increased in absolute value from 150 million of 1985 to 198 millions in 2010. It provides that there is a tremendous increase in unemployment in the world during the current period of globalization and there is need to investigate the impact of globalization on unemployment.

1.5 Globalization and Pakistan

As we have mentioned that most of the new independent countries (from colonial power) adopt ISI strategy and other barriers to protect their economies. Pakistan is one of the new independent countries and also adopts the approach of ISI through. Pakistan imposed quantities barriers on import and taxes on export of primary commodities like cotton and jute etc.

In the decade of 1960s, some of the previous policies were continued along with some new policies. One of the important was the green revolution in order to improve per capita income (PCI). Export Bonus Scheme (EBS) was introduced in order to increase export earnings. Huge investment was taken in agriculture sector and most of the labour force was engaged in mentioned sector. The employment rate was about 98% in rural areas and unemployment under 2% (Chaudhry and Chaudhry 1992). High growth was taken placed but it have no adequately trickledown effect (growth is not equally distributed) to the poorer segments as well as areas. The era of 1970s brought new challenges as well as advantages for Pakistan economy. The event of oil price shock in 1973 increased the import bill and thus exacerbated the balance of payments (BOP) crisis, but the huge increase in workers' remittances from the Middle East supported considerably to improving BOP crisis. The slogan of the time was Nationalization.

The decades of 1980s brought new policies for Pakistan the EBS and Nationalization were stopped. Pakistan adopted the new policy of liberalization on the behalf of IMF (International Monetary Fund) and World Bank (WB) in 1982-83. The main objective was to improve the effectiveness of the country by expanding the position of the private sector. These economic reforms comprised price deregulation of a many of products, industry's denationalization and imports liberalization (reduction in barriers). This was the period of the 6th Five-Year-Plan (1983-88) and was greatly practiced after 1987. Pakistan has implemented strong liberalization in the early of 1990s and converted the economy to a open and more liberal from a comparatively

closed one. Pakistan has taken numerous measures throughout 1990s that consists of trade liberalization, privatization and encourages and facilitating foreign investors. Unemployment rate was raised to about 3% in rural areas in the early 1980s due to migration's returns from Middle East and inefficiency in agriculture sector (Chaudhry and Chaudhry 1992). There were high unemployment rate in contrast of the previous regime of Bhutto but sustained at a level of about 3.2% in Zia regime, the economy was comparatively liberal and the attack of Russia on Afghanistan and the high attachment of America, provide the opportunity for Pakistan to sustained high economic growth and low unemployment rate (Zaman et al. 2011).

The unemployment rate was increased from 4.7% in 1992-93 to 6.8% in 1999-00. Additionally, the increase in unemployment was rigorous in urban areas than rural areas. The urban unemployment rate was increased from 5.5 in 1992-93 to about 9.1% in 1999-00 and in rural areas it increased from 4.1% in 1992-93 to 5.1% in 1999-00. The most affect section was the young especially teenagers (Kemal, 2001).

There are different consensuses (positively affect, negatively affect) about the impact of globalization on unemployment in developing countries, but still it debated. To confirmed and clarified its impact on unemployment in Pakistan. There is an intense need of to study that based on sound empirical support in case of Pakistan. We aimed by addressing the impact of globalization on unemployment rate in Pakistan.

Table 2. Globalization and Pakistan unemployment rate

Year	Unemployment rate	Trade % of GDP	FI % of GDP
1980	3.67	30.40	0.13
1985	3.8	27.20	0.25
1990	3.2	30.90	0.61
1995	5.4	29.60	0.81
2000	6.0	29.00	0.69
2005	7.7	31.60	1.48
2008	6.8	35.90	3.25

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.
International Journal of Physical and Social Sciences
http://www.ijmra.us

153

Source: Author's Estimates, HBS, 2010 (SBP), WDI (World Bank)

From the above Table.2 it is cleared that Pakistan increased their participation in international transaction, their participation in international trade was increased from 30% of GDP to about 36 % of GDP in 2008. Similarly their contributions in international financial transaction are also increased from 013% of GDP in 1980 to 3.25 in 2008. In the same period the unemployment rate are increased from 3.67 in 1980 to about 68% in 2008. The unemployment rate is about to doubled in the current period of globalization. A more comprehensive detailed is given in the following Table 3.

Table 3. Unemployment Rate trend in the Era of Globalization

Table 3. Average Trends in Unemployment rate

Years	Unemployment rate	Years	Unemployment rate
1976-1980	3.0	2000-2001	6.7
1981-1985	3.8	2001-2002	7.8
1986-1990	3.2	2002-2003	7.8
1991-1995	5.4	2003-2004	8.3
1996-2000	6.0	2004-2005	7.7
2001-2005	7.7	2005-2006	6.5
2006-2009	5.8	2006-2007	6.5
1981-1990	3.5	2007-2008	6.8
1991-2000	5.7	2008-2009	5.5
2001-2010	6.7	2008-2010	5.6

Source: Self calculation based on SBP (HBS-2010)

1.6 OBJECTIVES OF THIS STUDY

The main objective of this study is to find out the impact of globalization on unemployment in Pakistan economy during the current wave of Globalization from 1980 to 2010.

2. Review of literature

There is a huge number of literature existed on the notions of globalization. It is impossible to attempts all the literature presented. Here we considered of few studies that provide an insight about the impact of globalization on unemployment rate. On the basis of which we justify our study. Liberalization in trade is generally one of the important indicators of openness exercised in literature. This is the one which mostly appears to consider quite notably in overall results Harrison (1996). An alternative approach is to specify the links between openness and growth and examine them separately. Some of the literature linked strongly trade openness with greater growth Leveine and Renelt (1992), Kruger (1997) and Tylor (1998). Roomer (2006) was of the view that open and liberalized trade not the confirmed economic growth for many of the developing countries. Talat (2002) found that liberalization of the economy has no strong connection with long run growth and recommended that short-run effects offset the perceived advantages of liberalization. By this meant that an increase in liberalization of the economy leads to an increase in poverty and a lower economic growth. It was the Rodrik (1997) who introduce the concept of globalization (liberalization) and employment elasticity, it got tremendous attention. This view is empirically tested by many researchers with employment and unemployment.

The impact of globalization is mostly tested on the economic growth. Nasim (1998) argued that diffusion of technology make possible the high economic growth in South and East Asian countries. Mustafa et al. (2001) analyzed the impact of globalization on agriculture in Pakistan and found that globalization hearts agriculture in Pakistan. He suggested that the country should formulate proper and adequate policies to get rid of negative. Dreher (2003) examined the impact of globalization growth for panel of 123 countries for the period 1970 to 2000. This study reported the positive impact of globalization on growth. Along with Free flow of trade and capital, information flow also positively contributed economic growth. Jatuliaviciene and Kucinskiene (2006) reported positive association between free economic forces and economic development in Lithuanian economy. Afzal (2007) also reported the positive impact of globalization on economic growth in Pakistan by employing Johansen; co-integration for annual time series data. He was of the view supporting the conventional wisdom that developing countries can achieve by adopting new and advance technology from developed countries.

Alberto (1998) examined the connection between globalization and unemployment for the economy of Argentina. Even though globalization can promote productivity efficiency, investment, and economic growth, but it may not promote employment opportunities in developing economies and even negatively affect the real wages of workers. The economies of Argentine more recently experience correctly the same case. The process of liberalization and privatizations, the economy practiced a quick course of capital deepening and economic growth without any employment generation. While output expanded by about 40 % over the last six years, unemployment has increased from 8 to 18 % during the same period.

Onwuka and Eguavoen (2007) examined the impact of globalization on economic development Nigeria economy over the period of 1985-2001. The researcher concluded that the Nigerian economy is not benefited from Globalization due to un-demanded export (primary exports), failed to attract foreign direct investments (FDI) and huge indebtedness. They were of the view that developed economies are the net beneficiaries of the process of globalization as their participation in the world trade and capital have been expanded over time at the cost of developing economies.

Rizvi and Nishat (2009) elucidated the impact of FDI on employment generation for Pakistan, India and china. This employed panel data for the period of 1985 to 2008. Im Pesaran Shin (IPS) was used investigated the order of the unit root and panel data co-integration of Pedroni (1999) for investigation of long run relationship. SUR estimation technique was also tested for the mentioned countries to empirically examine the impact of FDI on employment generation. The empirical results reported that there was no impact of FDI upon the employment generation in Pakistan, India and China. They suggested that other measure should be taken for improvement in economic growth and employment generation.

Ukpere and Slabbert (2009) find out the relation between current globalization, unemployment, inequality and poverty. in this qualitative study which is based on conceptual understanding. The conclusion of the study is that there is positive relationship between globalization, unemployment, inequality and poverty. The current wave exacerbated unemployment. Unemployment accelerated poverty and inequality.

Ogunrinola and Osabuohien (2010) investigated the relationship between globalization and employment generation in Nigerian's manufacturing sector. They employed regression analysis to reach to required objective of this study. Time series data is used over the period of 1990 to 2006. The results of the study is in the line with conventional wisdom that globalization variable positively affect employment in manufacturing sector in Nigerian economy.

Malik et al. (2011) examined the impact of globalization on employment in Pakistan. They employed Johansen's co-integration procedure to investigate the said impact for the period of 1973 to 2009. The process of globalization is proxies by trade openness, FDI and workers' remittances. Another measure is also is the globalization index (KOF globalization index). The results of the first measure showed that the impact of globalization (Trade openness, FDI and workers' remittances) is positive on employment in both the short run and long run. While the results of the KOF globalization index reported negative impact of globalization on employment generation in case of Pakistan. they were of the view that the negative impact of globalization in the 2nd measures is due to some of the internal and external disparties.

3. Model, Data Sources and Methodology

The model is used in this study was also used by Malik et al. (2012) for globalization and employment generation and as by Afzal (2007) and Roy (2012) for globalization and economic growth. Following is the selected model on the basis of the mentioned literature.

$$UE = \beta 0 + \beta 1 TO + \beta 2 FI + \beta 3 DI + \beta 4\ PG + \beta 5 INF + \varepsilon \qquad (1)$$

The expected sign of all the coefficients is positive.

Where UE = Unemployment rate   ID=Domestic investment

PG = Population growth   TO =Trade openness   FI = Financial Integration

INF=Inflation rate ε = White noise error term

This study planned to use annual time series data for the period of 1981 to 2009 for Pakistan's economy. The concerned variables are already discussed. The available sources from which the data is collated are

State Bank of Pakistan (HBS-2010)   Pakistan Economic Surveys

World Development Indicator (World Bank)   UNCTAD

3.1 Unit Roots Approach

Time series are employed in this study; such data are mostly suffering from the problem of non-stationarity and frequently exhibit a trend in series. A non-stationary time series generates serious econometrics problems.   Therefore pre-testing of unit root is necessary for any time series analysis. Similar to the empirical literature, this study also refers to apply the two most common tests to investigate the order of integration are

(1) Augmented Ducky Fuler (ADF) test and   (II) Philips Perron (PP) test

3.2 Econometric Approach:

To get the desire objectives, required suitable econometric techniques. The most important aim is to test for the long run relationship of several variables or more explicitly to investigate the long run trade elasticizes. The co-integration approach provides a useful link to measure the long run relationship. For this task, literatures mostly suggest the following three techniques:

➢ Engle-Granger Approach (1987)
➢ Johansen's Co-integration Approach (1990)
➢ Autoregressive Distributive Lag or ARDL Approach (2001)

ARDL co-integration is preferred over the other co-integration procedure because of its various advantages. The advantages of the ARDL co-integration are,

➢ This test is simple as compare to the other co-integration techniques like Johansen and Juselieus multivariate estimation technique (1990). It permits to estimate the long run relationship by using simple OLS after the identification of the lag order.

➢ This test is considered the pre-testing of unit root. It does not need the testing for the order of unit root of the model's included variables unlike the Johansen and Engle granger approaches. The test is applicable irrespective of the order of integration whether the included variables are of the same order I(0) or I(0) or combination of both the orders I(1) and I(0).

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.
International Journal of Physical and Social Sciences
http://www.ijmra.us

158

> ➤ The said test is efficient in case of small sample observation. It is applicable and provides efficient results in case of 30 to 80 observation set (Duasa 2007). It is inapplicable in case of integrated order I(2).The procedure will however crash in the presence of I(2) series.

Hence this study employed the bounds testing procedure to co-integration.

The first step of the in ARDL methodology is the investigation of long run relationship between the employed variables and can be estimated with the following equation

$$\Delta UN = C_1 + \alpha_1 UN_{t-1} + \alpha_2 TOP_{t-1} + \alpha_3 FI_{t-1} + \alpha_4 PG_{t-1} + \alpha_5 DI_{t-1} + \alpha_6 INF_{t-1} +$$

$$\sum_{i=0}^{q} \eta_{i4} UN_{t-1} + \sum_{i=1}^{q} \eta_{i5} TOP_{t-1} + \sum_{i=1}^{q} \eta_{i2} FI_{t-1} + \sum_{i=1}^{q} \eta_{i3} DI_{t-1} + \sum_{i=1}^{q} \eta_{i4} PG_{t-1} + \sum_{i=1}^{q} \eta_{i5} INF_{t-1} + \varepsilon_t \quad (2)$$

Where α is the long rum coefficient and ε is the white noise error term

If the long run relationship is existed between the variables used in the model the next step is the estimation of the long run coefficients which can be get with the help of the following equation

$$UN_t = \alpha_1 + \sum_{i=0}^{q} \eta_{i4} TOP_{t-1} + \sum_{i=0}^{q} \eta_{i5} FI_{t-1} + \sum_{i=0}^{q} \eta_{i2} DI_{t-1} + \sum_{i=0}^{q} \eta_{i3} INF_{t-1} + \sum_{i=0}^{q} \eta_{i3} PG_{t-1} \cdots (3)$$

After the estimation of the long run coefficient the short run coefficient can be achieved with the help of the following equation

$$\Delta UN_t = \alpha_1 + \sum_{i=1}^{p} \eta_{i1} \Delta UN_{t-i} + \sum_{i=0}^{q} \eta_{i2} \Delta TOP_{t-i} + \sum_{i=0}^{q} \eta_{i3} \Delta FI_{t-i} + \sum_{i=0}^{q} \eta_{i4} \Delta DI_{t-i} +$$

$$\sum_{i=0}^{q} \eta_{i5} \Delta PG_{t-i} + \sum_{i=0}^{q} \eta_{i5} \Delta INF_{t-i} + \Omega_1 ECM_{t-1} \quad (4)$$

4. Empirical Analysis

4.1 Test for Unite root

Table 4: Results of ADF and PP Tests with intercept and trend

ADF Test	PP Test	Order of Integration	Order of Integration
Ist	Ist	(at 5% level of	(at 5% level of

Variables	Level	Difference	Level	Difference	significance)	significance)
NR	).1560).51)	-5.020* (0.005)	-0.125 (0.48)	-5.020* (0.006)	I(I)	I(I)
TOP	2.140 0.32)	-5.110* (0.000)	-2.208 (0.28)	-5.103* (0.000)	I(I)	I(I)
FI	1.667 0.454)	-6.085* (0.000)	-2.103 (0.474)	-6.101* (0.000)	I(I)	I(I)
PG	0.781 0.80)	-3.603** (0.011)	-0.600 (0.86)	2.78** (0.025)	I(I)	I(I)
DI	3.41** 0.035)	-3.620** (0.000)	-1.6250 (0.043)	-3.01** (0.000)	I(0)	I(0)
INF	2.483 0.210)	-6.781* (0.000)	2.529 (0.157)	-7.202* (0.000)	I(I)	I(I)

Note: * and ** represented the significance level at 1% and 5 % levels of significance respectively.
Values in Parenthesis () represented P-values

The above table shows that all the variabls are integrated of order I(1) except Domestic investment, it is confirmed that no variable is reported of order two I(2) so we can use ARDL methodology for our required objective without any hesitation. The next step is the investigation of the long run relationship between the mentioned variables.

4.2 Test for co-integration

The estimation of equation (2) for all the variables provides the results given in the following Table 5. It clears from the table that the F-calculated valve is greater than the upper bound critical value in only the first case and hence long run relationship is existed between globalization and unemployment rate in the case of Pakistan. all the other regressions of the equations shown in the table 5 confirmed that there is no other long run relationship the between the rest of the combinations because the F-calculated value is less than the lower bound critical value. All the diagnostic tests given in table 6 reported the absence of any econometric problem. There is no serial-correlation, Hetro-skedasticity, any problem in normality and functional form is also correct. The structure instability and misspecification of the model is tested by the sketch of

CUSUM and CUSUMSQ statistic. Which indicate the evidence of no mis-specification and structural instability for the selected estimated period.

Table 5 : F-Statistics for Long-run Relationship

Equations	F-Calculated	F-Statistics Critical values I(O) - ----- I(1)	Result
1. Fy (UER / TOP, FI, DI. INF, PGR)	9.10 (0.002)*	(2.62)---(3.79)	Co-integration
2. Fy (TOP /UER, FI, DIV. INF, PGR)	0.08 (0.801)	(2.62)---(3.79)	No Co-integration
3. Fy (FI/ UER, TOP, DIV. INF, PGR)	0.38 (0.7015)	(2.62)---(3.79)	No Co-integration
4. Fy (PGR/UER, TOP, FI, INF,DIV)	0.51 (0.562)	(2.62)---(3.79)	No Co-integration
5. Fy (DIV/ UER, TOP, FI, INF, PGR)	1.82 (0.250)	(2.62)---(3.79)	No Co-integration
6. Fy (INF/UER, TOP, FI, INF,DIV)	0.02 (0.890)	(2.62)---(3.79)	No Co-integration

*Represent at 1% level of significance

4.3 Long run and short rum estimates:

$$UNR_t = 18.58 - 0.43\ TOP + 0.36\ FI - 0.83PGR + 0.04\ INF - 0.13\ DI + 2.6D91$$

$T.Vs \rightarrow$ (3.62)*   (-2.29)**   (2.22)**   (-1.19)   (0.05)   (-0.13)

     (2.26)**

Coefficients in the Short Run:

$$\Delta UNR_t = 8.56 - 0.05\Delta TOP + 0.16\Delta FI - 0.38\Delta PGR + 0.02\Delta INF - 0.06\Delta DI + 2.2\Delta D91 - 0.46ECM$$

$T.Vs \rightarrow$ (-3.12)*   (-0.91)   (2.71)*   (-1.09)   (0.5)   (-0.91)   (5.36)*   (-3.12)*

* and ** represents the significance at 1% and 5% respectively.

The results of both the long and short shows that globalization effect unemployment in both the long and short run. The negative coefficient of trade openness shows that it negatively affect unemployment rate in Pakistan: increase in trade openness leads to lower the unemployment rate while the positive sign of financial integration shows that there negative impact of financial globalization on unemployment rate (increase in financial globalization increase the unemployment rate). The D91 represent huge trade liberalization in the early 1990s positively affect unemployment rate. It means that trade liberalization decrease the demand for labour. All the other variables affect unemployment rate but insignificant. The overall impact of the globalization on unemployment rate is negative in the long run because
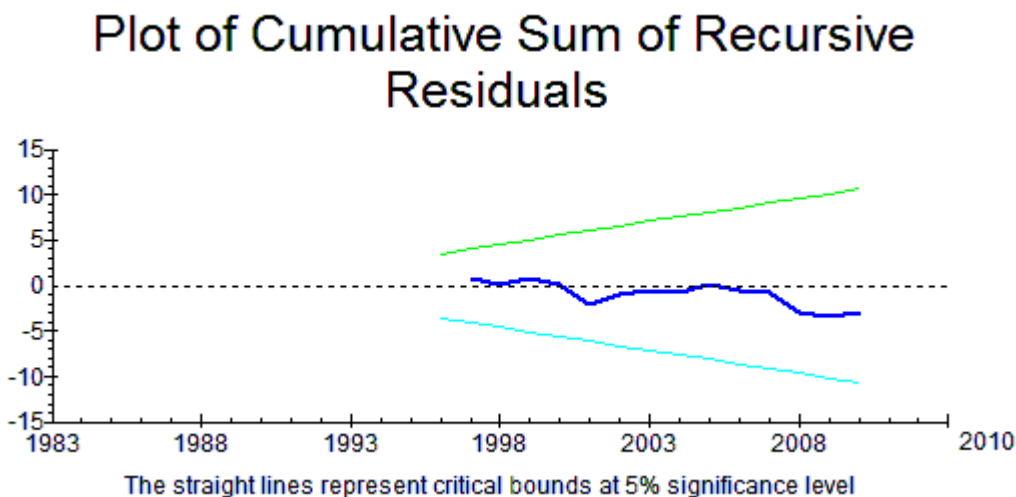
4.4 Diagnostics tests
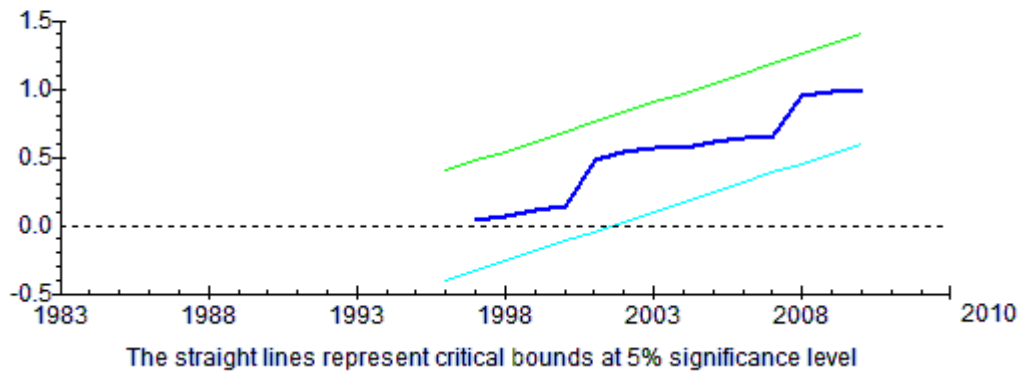
Table 6. Tests for Diagnostic Investigations

Tests	F-Statistic	Probability
1 . Serial-Correlation	1.421	0.210
2. Hetro-skedasticity	0.670	0.320
3. Normality*	0.811	0.670
4. Functional Form	1.110	0.320

*Chi- square for normality test.

Figure .1

Plot of Cumulative Sum of Recursive Residuals

The straight lines represent critical bounds at 5% significance level

Plot of Cumulative Sum of Squares of Recursive Residuals

The straight lines represent critical bounds at 5% significance level

5. Conclusion

The objective of this study to elucidates the impact of globalization unemployment in Pakistan. Globalization is measured by trade integration (export plus import % to GDP) and financial integration (Capital inflow minus capital outflow). The impact of trade and capital integration is tested with some other important variables by employing time-series data over the time of 1980 to 2010 and time series econometric procedures. The empirical shows that trade openness reduce unemployment significantly, while financial integration increase unemployment rate significantly both the forces of globalization goes in opposite of one another but the significance and coefficient of trade openness is greater than thr financial integration and hence the resultant impact should be positive. The results of the study consistent with the Malik et al (2011) that globalization decrease the unemployment rate by increasing the employment rate in Pakistan (the forces of globalization provides new employment generation opportunities). The impact of globalization are not equal for all the time for all the countries Afzal (2007), it may hearts or may benifited the developing countries. the impact of globalization on developing countries depends on the economic, social, political conditions of the country. If a developing country have poor capital both human and physical (low stock of financial capital and low or unskilled labour force) they should not globalized their economies, first they should improve the quality of their physical and human capital and then should to enter the international competition. On the basis of empirical outcomes, this study suggests that Pakistan's government should encourage and provide healthy atmosphere for the process of globalization in order to be benifited from the process of globalization. And provide immediate attention towards the flow of capital across the country

with negatively affect unemployment rate and consider it the most important tool for the purpose of decreasing unemployment rate in Pakistan. Pakistan should educate and skilled their labour force to compete at international level and increase their contribution in the world economic activity to get the maximum advantages of the process of globalization like China and other Asian tigers countries.

References

Afzal, M. (2007). "The impact of globalization on economic growth of Pakistan:An error correction modeling ", The Pakistan Development Review 46 : 4 Part II (pp. 723–734)

Baig, M. Q. (2009). "Pakistan Trade Policy, 1999-2008: An Assessment". PIDE Working Paper.

Duasa, .J. (2007) Determinants of Malaysian trade balance: An ARDL co-integration approach. *Journal of economic Co-operation, 28 3 (2007), PP 21-40.*

Engle, R. and C. Granger (1987). "Co-integration and Error-Correction: Representation, Estimation and Testing". Econometrica, Vol.55, pp.251-276.

Grossman, G. M, and Helpman, E. (1991). "Innovation and Growth in the Global Economy". Cambridge, MA: MIT Press.

Johansen, S. and K. Juselius (1990) Maximum Likelihood Estimation and Inference on Co-integration with Applications to the Demand for Money. *Oxford Bulletin of Economics and Statistics* 52, 169–210.

Khan, A. H. (1998). "The Experience of Trade Liberalization in Pakistan". The Pakistan Development Review, Vol.37 (4), pp. 661-685.

Krueger, A. (1997). Trade Policy and Development: How We Learn. American Economic Review 87(1): 1-22.

Levine, Ross and David Renelt, "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review* 82 (1992):942–63.

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.
International Journal of Physical and Social Sciences
http://www.ijmra.us

164

Malik, S., Chaudhry, I.S. and Javed, H.I (2011) Globalization and Employment: Evidence from Pakistan. *Pakistan Journal of Social Sciences (PJSS), Vol. 31, No. 2 (December 2011), pp. 215-226*

Mustafa U., W. Malik, and M. Sharif (2001), Globalisation and its Implications for Agriculture, Food Security and Poverty, *The Pakistan Development Review*, 40(4), 767-786.

Nasim, S.M. (1998), Globalisation, Technology and Asian Economic Growth, *The Pakistan Development Review*, 37(4), 635-659.

Nayyar D (1995), Globalization: The past in our present. Presidential Address to the Indian Economic Association. Reprinted in *Indian Economic Journal*, Vol.43 No.3: 1–18.

Nayyar, D. (2001), Globalization: What Does it Mean for Development? in K.S. Jomo & S. Nagaraj (eds), *Globalization versus Development*, Palgrave Publishers Ltd., Houndmills.

Ogunrinola, I.O and Osabuohien, E.S.C. (2010) Globalisation and Employment Generation in Nigeria's Manufacturing Sector (1990-2006). *European Journal of Social Sciences – Volume 12, Number 4 (2010) PP 581-593.*

Onwuka, E.C. and A. Eguavoen (2007) Globalization and Economic Development: The Nigerian Experience. *J. Soc. Sci., 14(1): PP45-51 (2007).* © Kamla-Raj 2007.

Pakistan, Government of (Various Issues). "Economic Survey of Pakistan". Ministry of Finance, Government of Pakistan.

Pesaran, M. Hasem and Bahram Pesaran (1997), *Working with Microfit 4.0: Interactive Econometric Analysis.* Oxford: Oxford University Press.

Pesaran, M. Hasem, Yongcheol Shin, and Richard J. Smith (2001), Bounds Testing Approaches to the Analysis of Level Relationships. *Journal of Applied Econometrics* 16, 289–326.

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.
International Journal of Physical and Social Sciences
http://www.ijmra.us

165

Rodrik, D. (1998), Trade Policy and Economic Performance in Sub-Saharan Africa. National Bureau of Economic Research. (NBER Working Papers 6562).

Ray, R (2012), Globalization and Economic Growth in India: A Granger Causality Approach. Journal of Law, Policy and Globalization. ISSN 2224-3240 (Paper) ISSN 2224-3259 (Online) Vol 2, 2012. www.iiste.org

Streeten, Paul. F (1999) Globalization: Threat or Opportunity, 14th Annual general Meeting and Conference, 28th- 31st January 1999, Islamabad, Pakistan Institute of development Economics.

Rizvi, S. Z., & Nishat, M. (2009). *The impact of Forign Direct Investment on Employment Opportunities. Institute of Business Management.*

Talat, A. (2002). Impact of globalization and liberalization on growth, Employment and poverty: A case study of Pakistan. *WIDER discussion paper 17.*

Thirlwall, A. P. (2000). "Trade, Trade Liberalization and Economic Growth: Theory and Evidence". The African Development Bank, Economic Research Papers, No.63.

Wilfred I. Ukpere and Andre D. Slabbert (2009), A Relationship between current globalization, unemployment, inequality and poverty. International Journal of Social Economics Vol. 36 Nos 1/2, 2009 pp. 37-46 *q* Emerald Group Publishing Limited 0306-8293 DOI 10.1108/03068290910921172