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Beyond Borders: Understanding How Globalization Affects Employment in Pakistan

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Abstract
The research examines the determinants of employment in the era of globalization in Pakistan. The study employed data from 1980 to 2019. The ADF test confirmed data stationarity, revealing variables and series as mixed-order stationary. ARDL appeared the most suitable for regression analysis due to its mix order capability. The empirical evidence shows that globalization has positive and significant impacts on the labor force participation rate. Other control variables are also positively affecting employment in Pakistan. The study suggests that Pakistan should prioritize family planning and a suitable environment for domestic and foreign investment to enhance employment opportunities.
Keywords: Globalization, Employment, Investment, Pakistan

1. Introduction

Globalization has transformed the employment landscape in developed countries, leading to a service-driven economy, increased part-time employment, and reduced traditional industrial positions. Technological advancements have accelerated job competition and reduced traditional administrative and clerical roles, affecting the service industry. Due to trade liberalization and developed countries' subsidies, globalization adversely influences jobs in developing countries and causes yearly trade losses (Lansbury et al., 2003 and Todero & Stephen, 2003).

Globalization and technological advancements are transforming labor markets worldwide, causing young workers to face new challenges in transitioning from school to work; others result in inequality and social exclusion. Also, the economic and societal effects are complex, with economic globalization reducing employment protection for regular workers and political globalization adding pressure. The human side of globalization is often overlooked, leading to job insecurity and underemployment. Globalization did not result in economic convergence or accelerated expansion., causing growth to slow, income levels to diverge, and the gap between industrialized and developing countries to widen (Morris, 2006; Nayyar, 2006; Fischer et al., 2012[5]). Rising populations boost economic growth but lead to high unemployment rates, necessitating increased public services like schools and hospitals, despite the benefits of human resources development. Employment rates increased alongside labor force growth but fell with inflation and foreign direct investment. Political globalization has an insignificant harmful influence on economic growth; however, social globalization has an unfavorable effect (Ali et al., 2013; Mahmood et al., 2014 and Ying, 2014).

Globalization impacts employment, including brain drain and young people moving abroad (Davidekova & Gregus, 2017). It has increased unemployment and decreased well-paid manufacturing and middle-income knowledge economy jobs. Technological advancements, declining labor bargaining power, and increased financialization have contributed to this issue. Globalization negatively impacts government jobs in underdeveloped countries and employment opportunities in emerging nations. Advancements in technology may challenge the traditional link between investment and employment despite the expected interdependence between investment and economic growth (Arogyaswamy & Hunter, 2019 and Meyer & Sausi, 2019). Increased competition between businesses because of globalization can lead to closures, offshoring, and job losses (European Parliament, 2019)[6].

Declining employment in manufacturing and agriculture has led to a drop in the share of jobs in intrinsically tradable sectors, especially in countries with low incomes. De facto-tradable employment may have increased as trade rules liberalized, but with limited restrictions, future trends may be similar. Trade transparency, a proxy for globalization, harms Pakistan's employment in aggregate and agricultural sectors. It also leads to unemployment, poverty, income disparities, domestic labor market, and the need for trained workers, while Foreign Direct Investment (FDI) positively impacts employment in the agriculture sector. It also causes economic uncertainty due to a poorly educated workforce and complicates labor markets in developing nations, altering commercial transactions beyond national borders. Pakistan's poverty level has increased due to reductions in import tariffs despite various poverty measures. This issue is exacerbated by lagging trade policies and low-income individuals' limited participation in external markets; therefore, policymakers must encourage participation (Jaffri et al., 2021; Chen et al., 2021 and Haq et al., 2022).

This research investigates Pakistan's perceptions of the employment implications of globalization. The research will commence with a discussion of the problem statement. Subsequently, the existing literature will be reviewed, and examining the theoretical framework and empirical evidence will be considered. Additionally, the analysis will add to the corpus of knowledge and provide recommendations to policymakers on improving employment opportunities to achieve economic stability and growth through globalization. The study is organized as section 2 consists of a brief review of the literature, section 3 deals with the methodological framework, section 4 represents the discussion of empirical results and the final section concludes the study with relevant policy implications.

2. Literature Review

An open economy framework encourages countries to form trading and non-trading relationships with other countries to facilitate the flow of ideas, people, technology, foreign flows, norms, culture, and political influence. Technically, we call it globalization and

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[5] https://mpra.ub.uni-muenchen.de/39426/1/MPRA_paper_39426.pdf
[6] https://www.europarl.europa.eu/news/en/headlines/economy/20190712STO56968/globalisation-s-impact-on-employment-and-the-eu

its influence on economies is multifold. Globalization is also affecting core macroeconomic indicators like employment, inflation, investment, education, and fiscal policy (Koyuncu & Eda, 2022; Shoukat et al., 2023; Elfakhani, 2008; Abdullah et al., 2021[a] and Abdullah et al., 2021[b]). The empirical literature shows both negative and positive impacts of globalization on employment. For instance, globalization leads to job losses and exploitation due to social and political repercussions, open trade policies, and domestic and international imbalances. Pakistan's entry into the global market has worsened employment conditions (Malik et al., 2011). Globalization affects goods prices, job patterns, and wages, redistributing employment opportunities. The United States experiences diverging growth, emerging economies compete, and Multinational Corporations (MNCs) manage the global economy, potentially conflicting private and public interests (Spence, 2011; Audi et al., 2023). On the contrary, the transmission of technology, knowledge, and expertise facilitated by foreign inflows has increased domestic firm productivity and employment opportunities, leading to a rise in employment (Mahmood & Choudhary, 2012). Globalization boosts manufacturing employment, particularly in enterprises with foreign ownership and near capital cities, but exporters do not benefit from "learning by exporting" (Haile, 2013). Investment in MENA countries is strongly linked to economic growth, but no evidence exists for long-term or short-term effects on GDP. This highlights the importance of governments fostering long-term economic prosperity through productivity increase and economic diversification. FDI significantly contributes to developing countries' development by creating employment, increasing income, enabling businesses to expand and bridging infrastructure investment gaps for sustainable economic progress. (Habib & Sarwar, 2013 and Mehrara & Musai, 2013). MNCs directly and indirectly impact employment in host countries by creating job opportunities, enhancing productivity, and fostering competition. Pakistan's long-term economic success relies on trade policy, financial development, and physical and human capital investments. The availability of skilled workers can significantly boost national economic growth by increasing output and exports of finished goods (Nayyar, 2015). FDI significantly correlates with job creation in Sub-Saharan African nations, suggesting it can alleviate poverty and boost employment rates, emphasizing the need for government prioritization. Investment in South Africa also has accelerated economic expansion, highlighting the need for continued growth. Investments are both a cause and a consequence of the country's rising standard of living. India's GDP growth and employment generation are positively correlated, with capital-intensive technology boosting growth in agriculture and manufacturing, attracting international investment and intellectual property. FDI significantly improves Pakistan's GDP growth while inflation, population, gross capital formation, and trade do not significantly influence economic growth (Mayom, 2015 and Krti & Prasad, 2016). A significant positive correlation between Russia's unemployment rate, electricity use, and population growth, with fluctuations in unemployment affecting FDI and vice versa (Sadikova et al., 2017).

Pakistan's job creation managed to be primarily facilitated by FDI and worker remittances despite the minimal impact of globalization and trade liberalization. (Kiren et al., 2018). The literacy rate, service share, trade openness, and FDI in Pakistan all positively impact the sectoral transition towards services. However, changes in consumer price index and ICT technology negatively impact this shift. Economic liberalization, including trade liberalization, enhances employment, healthcare investments, fixed capital creation, employment, and price inflation. Co-integration between growth, globalization, and employment was founded in Turkey, with globalization positively influencing employment and population increase. For every percentage point increase in globalization, employment rose by 0.853%, while a 1% rise in population led to a 0.057 percentage drop in employment. FDI in India has facilitated employment growth in the service sector, particularly in banking, insurance, and telecommunications (Mishra & Palit, 2020; Abdullah et al., 2021; Sana, 2021; Koyuncu & Eda, 2022). Globalization indirectly benefits employment through human capital, leading to increased industrial value addition and economic expansion, but population expansion negatively impacts the job market (Mushtaq et al., 2022). Immigrants replace native workers, while offshore workers produce intermediate inputs. Offshoring's productivity effect is stronger in developed economies, while immigration's substitution effect is stronger in developing countries (Wei, 2022).

3. Methodology

3.1. Theoretical Framework

Institutions like labor unions provide a theoretical foundation for understanding the influence of globalization on employment. (Freeman & Soete, 1997). The Neoclassical economics theoretical framework perspective explains FDI's impact on employment, stating that increased investment and economic growth lead to more job opportunities (Blomstrom & Kokko, 1998). Globalization is an interdisciplinary field combining various theoretical traditions, blurring traditional boundaries, and focusing on key theorists across social sciences and humanities, encompassing critical and feminist theory, cultural studies, Marxism, Weberianism, functionalism, and postmodernism (Robinson, 2007). Structural unemployment theory arises from job-finding rates dispersion across submarkets, resulting in vacancy distribution mismatches and unemployed workers. Worker mobility expenses, wage bargaining frictions, and heterogeneity in matching technology are all contributing factors (Herz & Van Rens, 2011). The Employment Management Work Theoretical Framework emphasizes the importance of employment management in labor force participation. However, it highlights low-wage workers' challenges in networking, formal networking, or obtaining technical certificates or community college degrees (Halpin & Smith, 2017).

Investment and economic expansion have a complex relationship with traditional views, suggesting that investment generates employment through growth, while others argue that growth drives investment. The literature also presents conflicting claims about its positive effects, making determining causality and direction complex (Meyer & Sanusi, 2019). Stolper-Samuelson's theory suggests that foreign direct investment and free trade benefit developing societies by exploiting unskilled labor, increasing income inequality. Wallerstein (2011) divides the world's nations into three categories: peripheral, semi-peripheral, and core. Core nations gain from the global market, whereas peripheral nations look for labor and raw commodities. Globalization, according to Marxists, is a westernization of the world system, with developed states exploiting low-income states and shifting goods and production between developed and developing states, potentially creating economic inequalities (Muhammad et al., 2022).

The Heckscher-Ohlin model states that through trade and FDI, globalization can boost employment in emerging countries. Neoliberal schools contend that globalization has the potential to cause creative destruction. However, empirical evidence indicates that although it may foster industrial sector growth in developing countries, reduce income inequality and lead to unemployment, it also stimulates Integration of financial and commercial markets, internationalization of production, swift technological assimilation, privatization, telecommunications, political and economic revitalization (Mushtaq, 2022).

3.2. Model specification

LFP= f (GI, GFCF, PG, FDI)

LFP (labor force participation rate), GI (Globalization Index), GFCF (Gross Fixed Capital Formation), PG (Population Growth Rate of percentage), and FDI (Net inflow percentage to GDP).

The econometric model is as follows.

$LFP_t = \alpha + \beta_1 GI_t + \beta_2 GFCF_t + \beta_3 PG_t + \beta_4 FDI_t + \epsilon_t$

LEP is the dependent variable and GI, GFCF, PG, and FDI are independent variables.

Effects of independent variables are explained by β_1, β_2, β_3, and β_4 on the dependent variable, t indicates time series, and ϵ is the error term that shows unexplained impact by the model. This study's regression analysis used time series data from 1980 to 2019.

Table-1: Variables and Data Source

Variable	Proxies	Definition	Source
Employment (LFP)	Labor force participation rate in percentage	The LFP rate measures the economic engagement in goods and services production by the aged 15 and older population (WDI)[7]. LFP is often used as a proxy variable for employment (Adeemet al., 2019).	World Development Indicator (WDI)
Globalization (GI)	Globalization index	The Globalization Index measures globalization's extent, considering economic, political, and social dimensions (KOF Swiss Economic Institute, 2021)[8].	KOF index of globalization
Gross Fixed Capital Formation (GFCF)	Gross Fixed Capital Formation Growth percentage of GDP	GFCF includes land improvements, plant and machinery acquisitions, and the construction of roads, railways, schools, offices, hospitals, and commercial and industrial buildings (WDI)[9].	WDI
Population (PG)	Population growth in percentage	The de facto definition of population, which encompasses all residents regardless of citizenship or legal status, determines the PG (WDI)[10].	WDI
Foreign direct investment (FDI)	Net inflows foreign direct investment percentage to GDP	FDI involves net capital inflows from foreign investors to acquire long-term management interests in an enterprise, including equity, reinvestment, and short-term capital, divided by GDP (WDI)[11].	WDI

3.3. Stationarity of Data

Variables stationarity is determined by unit root test. The results show that variables in the research are stationary at I(0) and I(1). Augmented Dicky Fuller (ADF) test used to prove stationarity. The ADF test's error term contains the serial correlation probability. The rule of decision states that if the crucial value ADF > t rejects the null hypothesis, showing the stationarity of data. The model's findings method will be determined by ADF test outcomes, with standard OLS used if variables are stationary, and Johansen's co-integration method used otherwise. When all the variables are stationary at a mixer of I(0) and I(1), the Johansen co-integration approach fails, and the autoregressive distributed lag (ARDL) approach, developed by Pesaran et al. (2001), can be employed instead.

3.4. Autoregressive Distributed Lag

The ARDL approach was used in this investigation to find the relationship between GI, GFCF, FDI, PG, and LFP. The ARDL approach is best suited for identifying the link between the variables used (Pesaran et al., 2001). In comparison with previous approaches, the ARDL approach provides more precise and relevant findings for long and short-run links between approach variables (Saleem et al., 2020). According to Nkoro and Uko (2016), the requirements for employing the ARDL approach are discussed.

The ARDL method can be applied at stationary mixed order series at I (0) and I (1), but not at I (2). ARDL error correction is effective and remains effective regardless of the data period when the F-stat indicates only one long-term relationship (Pesaran et al., 2001).

Equation of ARDL Model

[7] https://databank.worldbank.org/metadataglossary/world-development-indicators/series/SL.TLF.CACT.ZS#:~:text=Labor%20force%20participation%20rate%20is,database%20(ILOEST)%E2%80%9D%20ILOSTAT.

[8] https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html

[9] https://databank.worldbank.org/metadataglossary/world-development-indicators/series/NE.GDI.FTOT.ZS#:~:text=Gross%20fixed%20capital%20formation%20(formerly,private%20residential%20dwellings%2C%20and%20commercial

[10] https://databank.worldbank.org/metadataglossary/jobs/series/SP.POP.GROW#:~:text=Annual%20population%20growth%20rate%20for,Source

[11] https://databank.worldbank.org/metadataglossary/world-development-indicators/series/BX.KLT.DINV.WD.GD.ZS

$$\Delta LFP_t = \alpha_0 + \sum_{i=1}^{p_1} \delta_1 \Delta LFP_{t-1} + \sum_{i=0}^{p_2} \delta_2 \Delta GI_{t-1} + \sum_{i=0}^{p_3} \delta_3 \Delta GFCF_{t-1} + \sum_{i=0}^{p_4} \delta_4 \Delta PG_{t-1} + \sum_{i=0}^{p_5} \delta_5 \Delta FDI_{t-1} + \beta_1 LFP_{t-1} + B_2 GI_{t-1} + \beta_3 GFCF_{t-1} + \beta_4 PG_{t-1} + \beta_5 LFDI_{t-1} + \epsilon_{it}$$

3.5. Error Correction Equation

$$\Delta LFP_t = \alpha_0 + \sum_{i=1}^{p_1} \gamma_1 \Delta LFP_{t-1} + \sum_{i=0}^{p_2} \gamma_2 \Delta GI_{t-1} + \sum_{i=0}^{p_3} \gamma_3 \Delta GFCF_{t-1} + \sum_{i=0}^{p_4} \gamma_4 \Delta PG_{t-1} + \sum_{i=0}^{p_5} \gamma_5 \Delta FDI_{t-1} + \omega ECM_{t-1} + \epsilon_{it}$$

4. Estimations and Results

4.1. ADF Results

ADF test statistics of LFP (at level) -1.4169 and P-value is 0.5621. So LFP is non-stationary at level. But, ADF at first difference statistics of LFP is -5.8641 and P-value is 0.0001, LFP is stationary at first difference. Therefore, the variable becomes stationary after differencing (order of integration, I(1). ADF test statistics of GI is -1.2684 and P-value 0.6345 while at first difference the ADF test Statistics is -6.4807 and P-value 0.0000. Like the previous variable, the ADF test statistics at the level indicate non-stationarity. However, the ADF test statistics after differencing are significant at the 1% level, suggesting stationarity order of integration, I(1). ADF test statistics of GFCF -3.9136 at level and P-value is 0.0048. Value for PG is -2.7180 at level and P-value is 0.0801 and stationary at 10% while at first difference PG is stationary at 5%. ADF test statistics of FDI at level is -2.9734 and P-value 0.0466. The ADF test findings are significant at the 5% level and show stationarity of integration order, I(0).

Table-2: ADF test results

Variable		ADF test statistics (at level)	P-value	ADF test statistics (at first difference)	P-value	Stationary status
LFP	Constant	-1.4169	0.5621			
	Trend	-5.8641	0.0001			I(0)
	None					
GI	Constant	-1.2684	0.6345	-6.480749	0.0000	I(1)
	Trend	-0.7903	0.9845			
	None	2.6736	0.9976			
GFCF	Constant	-3.9136	0.0048			I(0)
	Trend					
	None					
PG	Constant	-2.7180	0.0801			
	Trend	-3.9137	0.0213			I(0)
	None					
FDI	Constant	-2.9734	0.0466			I(0)
	Trend					
	None					

4.2. Bound Test Results

The F statistics, measuring cointegration between variables, are used in this case, with a test statistic value of 15.53566 and K representing the number of cointegrating equations. Four cointegrating relationships are examined, and critical value bounds indicate threshold values for the F statistic at different significance levels, ensuring the test statistic falls within the range of cointegration-supporting values. The F statistic value of 15.53566, set at a 10% significance level, exceeds the I(0) bound of 3.03 but falls below the I(1) bound of 4.06. This indicates cointegration at the 10% level using the I(0) bound. At the 5% significance level, it surpasses both the I(0) and I(1) bounds of 3.47 and 4.57, indicating cointegration at both levels. At the 1% significance level, it surpasses both the I(0) and I(1) bounds of 4.4 and 5.72, indicating substantial cointegration at the 1% level.

Table-3: Bound Test Results

Test statistics	Value	K
F statistics	15.53566	4
	Critical Value Bound	
Significance	I(0) Bound	I(1)
10	3.03	4.06
5	3.47	4.57
1	4.4	5.72

4.3. Long Run Results

The results show that Pakistan`s employment rate has been significantly and positively influenced by globalization, indicating that a unit change in globalization brings to 1.1715 units change in LFP. GFCF also has a favorable significant impact on LPF, indicating that a unit change in GFCF causes a 0.2414 unit change in LFP. PG has a negative and insignificant impact, with a unit change in PG resulting in a -1.2393 unit change in LFP. FDI also has a favorable significant impact on employment, indicating a unit change in FDI results in a 2.3411 unit change in LFP.

Tables-4: Long Run Results

The dependent variable is LFP				
Variable	Coefficient	Std.Error	t-test	Prob
GI	1.1715	0.3642	3.2166	0.0035
GFCF	0.2414	0.1244	1.9401	0.0633
PG	-1.2393	0.8030	-1.5434	0.1348
FDI	2.3411	1.0579	2.2131	0.0359

4.4. Short Run Results

D(GI) has a statistically insignificant positive impact, indicating that a unit change in the first difference of GI leads to a 0.3853 unit change in LFP. D(GI (-1)) is -2.5190, indicating an adverse significant influence on LFP due to a unit change in the first lagged difference of GI bringing to a -2.5190 unit change in LFP. The coefficient D(GFCF) shows an insignificant negative impact, indicating a unit change in the first differential of GFCF, resulting in a -0.0673 unit change in LFP. The coefficient D(GFCF(-1)) shows an adverse significant impact on LFP, with a unit change in the first lagged difference of GFCF resulting in a -0.1136 unit change in LFP. D(FDI) is negative but statistically insignificant, indicating that one unit change in the first FDI differential results in a 0.1326 unit decrease in LFP. Coint Eq (-1) indicates a one-unit change in the lagged error correction term causes a -0.8833 unit change in LFP. This correlation is statistically significant.

Table-5: Short run Results

Dependent Variable is D(LFP)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GI)	0.3853	0.3295	1.1695	0.2528
D (GI (-1))	-2.5190	0.3296	-7.6438	0.0000
D(GFCF)	-0.0673	0.0428	-1.5713	0.1282
D (GFCF (-1))	-0.1136	0.0550	-2.0663	0.0489
D(FDI)	-0.1326	0.7357	-0.1802	0.8584
Coint Eq (-1)*	-0.8833	0.0933	-9.4672	0.0000

4.5. Diagnostic Test Results

Table 6 lists diagnostic test outcomes, while the normality of model residuals is examined by using the Jarque-Bera test.

Table-6: Diagnostic Tests

	Test	F stat		P values
Normality	Jarque-Bera	2.5675		0.2770
Heteroskedasticity	ARCH	0.0024		0.9274
Serial correlation	LM test	2.4688		0.1059
CUSUM			Stable	
CUSUMSQ			Stable	

The p-value is 0.2770, and the test statistic is 2.5675, The Jarque-Bera test has a higher p-value than the standard deviation of 0.5, indicating that lacks sufficient proof to rule out normality. The model's residuals are considered regularly distributed. The ARCH test determines whether there is heteroskedasticity. The test statistic with a p-value of 0.0024 is 0.9274 higher than 0.05, contradicts the null hypothesis of no heteroskedasticity, indicating that the residuals do not provide any convincing evidence of heteroskedasticity. The p-value 0.1059 and test statistic 2.4689 with the Breusch-Godfrey test verifies the absence of residual's significant serial correlation. The CUSUM and CUSUMSQ tests evaluate the stability of a regression model over time, indicating that its coefficients remain stable over the analyzed period.

5. Conclusion and Recommendation

The study reveals that globalization has significant positive impacts on Pakistan's employment, also GFCF and FDI significantly favorable influence on LFP. However, PG has an insignificantly negative influence on LFP. To boost employment, Pakistan should prioritize the existence of an open economy. An economically open environment can improve labor participation beyond the geographical boundary. Besides a globalized economy, Pakistan needs a favorable environment for domestic as well as foreign investment to enhance employment opportunities. For this purpose, political stability is the core. Further, population control measures should also be considered.

Figure-1. CUSUM Test

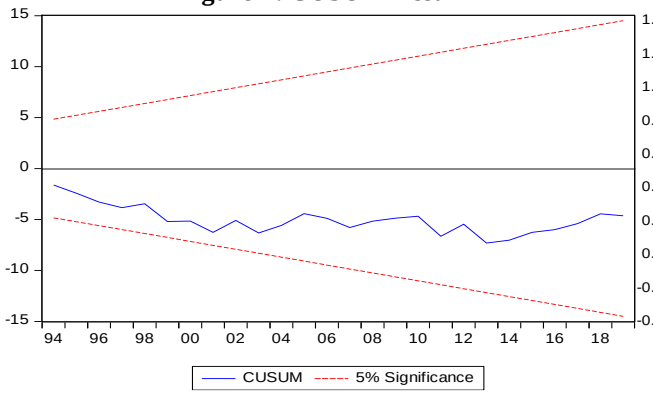
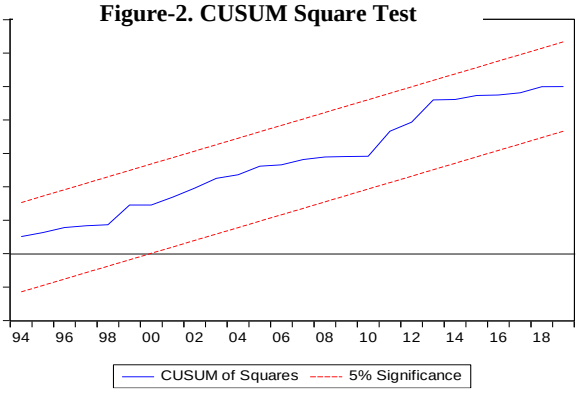


Figure-2. CUSUM Square Test



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