

Impact of Globalization and FDI On Rural Poverty of Pakistan by Using CGE Model

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Abstract

Globalization the growing integration of economies and societies around the world has been one of the most hotly debated topics in international economics over the past few years. Pakistan is one of the developing countries that adopted the economic policies similar to India and other South-east countries and tries to evaluate these policies with the passage of time. Recent wave of globalization has a positive impact on the Pakistan's economy and economic growth has been increased. The main objectives of this research are to provide detailed overview of economic reforms in the last decade by using the General Equilibrium Model. It was revealed that from last decade, globalization has positively revolutionized the economy of Pakistan. The Global trade analysis Purdue (GTAP) model is used to analyze the possible impact of Globalization on Pakistan's economy in a multi-country, multi-sector applied General Equilibrium frame work. After employing the simplified static analysis framework based on simulations reveal that Globalization and FDI have influenced positively on the economy of Pakistan. The general inflation rate is decreased and living standard is increased in urban areas. Employment opportunities are also increasing due to the investment made by the FDI and as for as cultural context is concerned, Pakistani people are more reluctant to reduce the traditional cultural barriers. On the contrary side, other consumer items like leather-made and cotton-made garments will expand after the FTA and consumer surplus will increase. This perspective enables us to identify new challenges in the global economy and to identify the multiple routes through which power and resource inequalities are reproduced within it. More positively, it helps to identify new opportunities and routes to challenging these inequalities. The application of this perspective to the impact of the rapidly-growing economy in real increase in terms of trade.

Key Words: Globalization, Economy, CGE Model, Pakistan.

Introduction

Globalization is an umbrella term that describes an ongoing process of establishing various personal, cultural, and business relationships with other countries. This process embodies an increasing view of the world as a community. People and companies are interacting with others in different countries more than ever before. This includes personal communication between people that live on the other side of the world from each other. Companies are now striving to open markets in developing countries, instead of only delivering products and services domestically. Technology is beginning to expand across nations. Information is being shared with a multitude of people throughout the world in a fraction of the time that it would take to contact someone down the hall from your office. There is a growing interdependence of one country on another. The process of globalization appears to be accelerating and growing rapidly. As time continues to pass, it appears that we are moving to a world where the lines that divide one country from another will begin to blur and eventually fade away entirely. Globalization – the growing integration of economies and societies around the world – has been one of the most hotly-debated topics in international economics over the past few years. Rapid growth and poverty reduction in China, India, and other countries that were poor 20 years ago, has been a positive aspect of globalization. But globalization has also generated significant international opposition over concerns that it has increased inequality and environmental degradation. This site provides access to some of the most recent presentations on globalization and some of the leading research on the subject. Globalization is a term that is used to describe the changing world

order in which various aspects of a nation that include the economic, social, political, cultural and environmental factors are viewed as being part of a global community and not restricted in their scope.

The term came to be used to describe the phenomenon of global flux in which trade as represented by capital and material can move freely across the world with lesser restrictions with respect to national boundaries. Globalization though it has been essentially connoted with economic issues synonymous with multi national companies (MNC) and their policies that directly or indirectly affect populations across the world has also consequently ushered in an era of change with respect to social and cultural matters inducing a competitive spirit in world culture for the better or worse according to the social fabric of various communities and their flexibility and adaptability. Knowledge, with respect to developments in science and technology is perceived to be the driving force behind globalization and continues to be the decisive factor what with the outsourcing trends of several MNCs to offshore destinations in recent times. Globalization has often been seen as being a subtle factor that tries to undermine welfare policies of governments across the world and individual choice and being elitist in nature but it has also unconsciously forced democratic nations to be more affirmative and inclusive with respect to the betterment of all sections of societies and also to address vital issues like the conservation of the environment.

In the area of employment creation, extrapolation from various sources suggests a possible direct employment effect of Globalization in developing countries of around 26 million jobs in 1997. Estimates of the indirect employment effect of FDI vary widely around a multiplier of 1.6 (i.e. 1.6 indirect jobs for every one direct job). Also, foreign-invested enterprises (FIEs) do generally pay higher wages than domestic companies, and even in low-wage, labor-intensive industries, FIE jobs are often considered better than the alternatives of unemployment or underemployment. However, investments in different industries clearly have different job-creation propensities which policymakers need to take into consideration. There is also an increasing recognition that ways of harnessing FDI to support small and medium enterprise (SME) sectors in developing countries, and associated employment creation, remain under-exploited. (*Heien, D, and Wessells, C.R. et al. 1990*) regarding employment practices, a key issue is the effect of FDI on female participation in the labor force. On the one hand, greater female employment at FIEs, in addition to helping level the playing field in terms of employment opportunities, results in a direct increase in household income and a higher proportion of income expended on meeting basic family needs. On the other hand, women are often paid less than men in comparable jobs, isolated from mainstream job advancement opportunities, and subject to greater employment instability. Another major issue is that of child labor, with subcontracting often making monitoring difficult, and many children serving as primary household earners. As a second-best solution to banning child labor and providing schooling instead, improved corporate governance on the part of governments, and improved corporate management on the part of companies are crucial. Progress in this area is a function of policy measures and their enforcement, and of greater dialogue and collaboration between the government and the (foreign and domestic) private sector. FIEs can make an important contribution in various ways to human capital formation in developing countries. They can help develop the skills of (often unskilled) workers and often generate training spillovers outside the firm. However, there is only so much that foreign investors can do by themselves and the role of host country policy is paramount, sometimes in collaboration with foreign investors. The economic and social returns to policies aimed at improving basic education levels in developing countries are by now well known, but there is also much potential in the area of promoting targeted vocational training in certain industries in conjunction with foreign investors. One good example at the higher end of the skill spectrum is the collaboration amongst Intel, the government of Costa Rica, and the country's educational institutions to promote vocational training for the electronics sector.

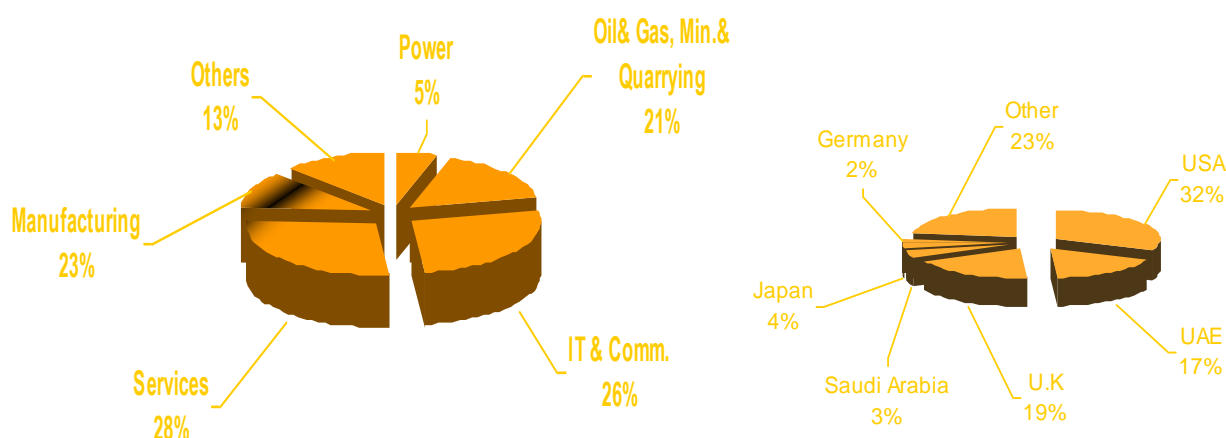
The observed effects of the Asian crisis have heightened concerns of this kind. So many millions who had been raised out of poverty during years of rapid economic growth have been thrown back into poverty. As a result, developing countries, and their bilateral and multilateral donors, are now focused on such core imperatives as sustainable human development (SHD) and equitable poverty reduction. So, in place of a blind faith that economic growth, and FDI within that context, leads to poverty reduction, it has become more important to understand how the various contributors to growth, including FDI, deliver their benefits, and how policy measures can reinforce that delivery process. Conversely, some FDI may have had negative impacts, especially in the context of sustainable development and equitable poverty reduction, and it is important to understand how policy can help reduce such detrimental impacts (Carl Aoran et al 2000).

Sector and Country-wise Analysis of FDI (2000-2006)

During FY04-06, Pakistan has cumulatively attracted \$8 billion foreign investment flows - 26.5% was sale proceeds of public assets and 49.2% from FDI, with remaining coming from foreign portfolio investment. These foreign inflows have come into banking, telecom and oil and gas sectors primarily. Prospects are that Pakistan will attract about US\$6.0 billion in FY07 – an all time high annual flow advent of deregulation, privatization, and liberalization policies initiated at the end of the 1980s. The amount of foreign investment rose from a tiny \$10.7 million in 1976/1977 to \$1296 million in 1995/1996, thus growing at the annual compound growth rate of 25.7 percent. However, it declined to \$950 million in 1996/1997.¹ With overall liberalization program (1991/1992 onwards) the inflow of foreign investment grew at the compound growth rate of 15.2 percent. Investment inflows in 1995/1996 increased by 93.3% mainly due to the inflow of investment in power sector.

Country	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	July-Jan. 2007	Total	% of Total
USA	92.7	326.4	211.5	238.4	326.0	516.7	512.9	4,293.8	28.8
U.K	90.5	30.3	219.4	64.6	181.5	244.0	488.2	2,457.7	16.5
Japan	9.1	6.4	14.1	15.1	45.2	57.0	34.3	522.4	3.5
UAE	5.2	21.5	119.7	134.6	367.5	1,424.5	295.9	2,607.6	17.5
Germany	15.5	11.2	3.7	7.0	13.1	28.6	21.6	306.7	2.1
Korea	3.7	0.4	0.2	1.0	1.4	1.6	1.0	201.3	1.3
Saudi Arabia	56.6	1.3	43.5	7.2	18.4	277.8	9.5	489.9	3.3
France	0.7	-6.9	2.6	-5.6	-3.6	3.2	-1.5	81.3	0.5
Netherlands	4.8	-5.1	3.0	14.0	36.7	121.1	62.5	318.5	2.1
Hong Kong	3.6	2.8	5.6	6.3	32.3	24.0	26.2	168.1	1.1
Italy	1.3	0.1	0.2	1.9	0.4	0.0	0.0	17.7	0.1
Canada	0.1	3.5	0.5	0.5	1.9	4.8	1.6	24.1	0.2
Other	38.6	92.8	174.0	464.4	503.2	817.7	643.8	3,434.0	23.0
Total	322.4	484.7	798.0	949.4	1,524.0	3,521.0	2,096.0	14,923.1	100.0

Foreign Direct Investment Inflow (Country wise) from 2000-01 to January 2007.



Country-wise FDI: Sources of FDI (1990-2006)

The investment has now risen to a figure of \$ 3521 million in 2005-06. This depicts a 332% increase from 2001-02 to 2006-07 in case of direct foreign investment. Although significant by absolute terms, the increase appears trivial when compared to the relatively more buoyant economies of East and Southeast Asia. While FDI flows to all developing countries reached \$233.2 billion in 2004, East and Southeast Asia received the bulk of this share, total foreign investment consists of direct and portfolio investment. The major component of the total foreign investment is FDI. Despite yearly fluctuations, the amount of FDI rose from \$484.7 million in 2001-02 to \$million in 2006-07. Since the beginning of the liberalization program, FDI has grown faster than in the pre-liberalization period (1984/1985-1990/1991). In particular, 1995/1996 registered a phenomenal growth of 146.5% mainly due to the inflow of FDI in the power sector. FDI, on average, accounted for more than 100% of total inflows over the period 2001-02 to 2006-07.

Foreign Direct Investment in Different Sectors, Sector wise Distribution of FDI in Pakistan (1990-2006).

	2002-03	2003-04	2004-05	2005-06	2006-07
Country	% age	% age	% age	% age	% age
U.S.A.	26.51	25.1	21.4	14.7	24.5
U.K.	27.49	6.8	11.9	6.9	23.3
U.A.E.	15.00	14.2	24.1	40.5	14.1
Switzerland	-	21.6	9.0	4.8	6.2
Netherlands	-	-	2.4	-	3.0
Mauritius	-	-	-	-	2.1
Saudi Arabia	5.45	-	-	7.9	-
Norway	-	15.4	-	7.2	-
Japan	1.77	1.6	3.0	-	-
Others	23.78	15.2	28.2	18	26.8
Total	100	100	100	100	100.0

Poverty in Pakistan is an increasing social problem and represents the critical challenge to be addressed by the Government of Pakistan. It is estimated that about 32% of Pakistan's population are below the food poverty line rising from a level of 26% in 1988 (GoP, 2002), and about 44% are below the poverty line on the human poverty index (UNDP, 2002).

Model: The Micro simulation method proposed in this paper relationship of both a CGE model and Household model. What distinguish from this model from the work of (*Janvry et al .1992*), (*Ajitha et at 2004-05*) and (*Bourguignon et al 2000*). Is its bi directional relationship. The model line Globalization and its impact on economy of Pakistan and poverty on both household and rural spending.

Description of the Model

Model.1: Globalization impact on Trade liberalization and economic growth. Derived from Cob Douglas utility function.

Model. 2. Globalization Rural household, employment and consumption

Model 3. Globalization Impact on G DP growth and trade. .

Computable General Equilibrium Model (CGE).

To compare the impact of Globalization on rural and urban population we started with the simple model, which however integers all the standard characteristics of the CGE model of small under developed country. The

demand system is derived from the Cobb Douglas utility function with two factors of Globalization and poverty relationship. Regarding the household model we have an income function consisting of rural projects of FDI and their general impact on the rural households on consumption.

Household Model

The rural household model is used to calculate the impact of Globalization on the employment and consumption pattern of rural household. Based on the behavioral equation based on the CGE Model. The household model operates as follows the income equations are specified in the CGE model but at disaggregate level and we introduced the demand system which specified the marginal consumption system.

$$\lambda_i, \Pr(Y_i = y_i | x_i) = \frac{e^{-\lambda_i} \lambda_i^{y_i}}{y_i!}, y_i = 0, 1, 2, \dots$$

$$z_i = \frac{[(y_i - \hat{\mu}_i)^2 - y_i]}{\sqrt{2\hat{\mu}_i}} \text{ on } w_j = \frac{g(\hat{\mu}_i)}{\sqrt{2\hat{\mu}_i}}; i$$

$$\text{Var}(y_i | x_i) = (1 + \alpha \exp(x_i' \beta)) \exp(x_i' \beta)$$

λ_i = Measures the i th globalization impact (%) in the food intake for Y_i = Calories, Protein and iron.

P_n = Measures the Economic impact of Globalization

Y_i = Aggregate output (kg) for the household.

Z_i = Vector of productive resources

Var = Real food expenditure.

Results Analysis of Household Model

We only performed one simulation to illustrate the approach's contribution. Different simulation has been tested to verify weather the conclusions reached in terms of impact of Globalization on Pakistan's economy.

Model-1. Globalization and Impact on Economy of Pakistan

Vari ables		Base Value	Model .1-AR	Rural	Mode 1 2 RH	Urban Poverty	Mode 1 U-C	Change
W1	Formal Wages	0.5	-0.76	-.05	-0.5	+0.1	0.5	0.5
W2	Informal wages	0.1	NA	NA	NA	NA	NA	NA
Mps	Marginal propensity to save	0.1	0.5	-0.2	0.3	+0.5	+ 0.6	0.6
FDI	Foreign direct investment	20900000	0.3	-0.4	-0.6	+0.54	0.58	0.5
GDP	Gross domestic Product	15265435.1	0.01	-0.2S	-0.5	+0.57	0.57	0.33
Rh	Rural household consumption	1455676776	0.25	0.24	-0.25	+0.787	0.56	0.44
Uc	Urban house hold consumption	324355455	0.55	0.88	-.25	+0.75	0.88	0.55

Model.2. Globalization Rural household, employment and consumption

Variables	Districts								
	Larkana			Shikarpur		Khairpur		Sukkur	
Jacobabad	Co-efficient	T-ratios	Co.	t.Ratio	Co.	t-ratio	Co.	t-ratio	
Coff.-t-ratio									
Extension ser. 1.33 0.33	0.25	1.45	0.33	1.32	0.55	1.54	-0.3	-1.64	
Hired Labor 0.20 0.22	0.27	1.34	0.54	1.10	-	-	0.25	1.30	
Improved Seed 1.40 0.55	-	-	0.40	1.22	0.32	1.01	-	-	
Credit Facilities -0.087 -1.9	-0.53	-1.88*	0.09	-0.17	-	-	-	-	
Farming land -0.12 -0.35	0.34	1.7*	0.31	1.80*	-0.10	-0.17	-0.28	-1.71	
Family Head 1.23	.43 -0.098 -0.66	-1.78*	0.089	-0.19	-	-		0.015	
In size 7.12	0.43 -	-1.88*	1.09	0.25	0.68	3.48		0.90	
R ²	0.31	0.21	0.33	0.23		0.19			

Note. Significant at 90% level of significant.

Women's education results indicate significant positive effects on the overall household food production in Shikarpur and Sukkur. Educated women have a capacity to process and apply the information passed to them, such as better farm methods and seed selection. Overall, the primary education of the woman had a higher impact on household food production than the other variables in the case of Sukkur. Women's education affected not only household food production but also food security. Unlike the consumption side of the model, time spent on the productive activities by a woman was positive and significantly affected household food production expect for Sukkur. The impact was slightly higher for Khairpur. Despite differences in signs time spent on production activities by a rural woman affects both her household production and consumption decisions. A joint test on all women-specific variables was statistically significant (p -value < 0.088) for all districts. The elasticity with respect to the time a man spent on productive activities was highly significant and positive for Shikarpur and Sukkur.

Women Labor Supply

The results of labor supply from a non-separable agricultural household model are reported in Table.3. The number of significant variables varied from district to district. More than 50% of the variables were found significant for Jacobabad and Khairpur and only less than 50% for Sukkur.

Model-3. Results on relationship of Globalization and Women Family Labor Supply									
<i>Variables</i>	<i>Larkana</i>			<i>Districts</i>		<i>Khairpur</i>		<i>Sukkur</i>	
	<i>Jacobabad</i>			<i>Shikarpur</i>					
	Co-efficient	T-ratios	Co.	t.Ratio	Co.	t-ratio	Co.	t-ratio	
Coff.-t-ratio									
In meat	0.03	1.20	-0.02	-1.11	-0.02	-0.48	-0.03	-	
0.38	0.04	0.10							
In cereals	0.01	0.27	-0.10	-2.48	0.00	0.20	0.25	1.30	
0.20	0.22								
In oils	0.02	1.35	0.40	1.22	0.32	1.01	-	-	
1.40	0.55								
In Fresh Vegetable	0.45	-1.88*	0.09	-0.17	0.010	0.03	-0.02	0.20	
-0.087	-1.9								
In legumes	0.34	1.7*		0.31	1.80*	-0.10	-0.17	-0.28	-
1.71	-0.12	-0.35							
Edu.1	.43	-1.78*		0.089	-0.19	-	-	0.015	
1.23	-0.098	-0.66							
Constant	0.43	-1.88*		1.09	0.25	0.68	3.48	0.90	
7.12	-	-							
R ²	0.33	0.34	0.33	0.28	0.24				

Note. Significant at 90% level or better used two tailed test & significant at 90% level of significant or better using a one tailed test.

The impact of exogenous variables on a woman labor supply varied considerably from district to district. The elasticity with respect to woman's access to extension services had a higher impact on her labor supply than any other variable on the case of Larkana. In Sukkur headship had a higher impact and size in the case of Shikarpur than any other variables included in the model. Primary education showed a higher influence than health variable in Shikarpur and Jacobabad. Furthermore non-Separability of woman labor supply and household production showed up in different variables across the districts, for instance cereals and vegetable price in Larkana and extension service in Jacobabad. The significant of joint test on women-specific variables for woman labor supply and household food production in the case of Shikarpur further confirm the non-separability. There is also evidence to justify the non-separability of household food security and woman labor, although it varied considerably across the districts. Such variables include education of woman size and vegetable price in Jacobabad district and joint test on women specific variables in Sukkur.

Man Labor Supply

The results of the men labor supply are in Table.4. The education and age variables included were those for men. Results suggest that as a man older, his labor allocated to productive activities increase in case of Sukkur and Shikarpur contrary to expectations. The age of man significantly affected his labor supply in Larkana, Jacobabad and Khairpur. In absolute terms, the impact of age was slightly higher in Sukkur. The positive sign on the age of a man was contrary to that of woman in Sukkur. The explanation for the positive sign could be as follows. The younger men were more likely to be involved in activities other than farming than the older ones. The poor health of other members of the household negatively affected the time men spent on productive activities in

Jacobabad. The explanation may be that since men were mostly responsible for setting the medical bills, they had to put in more time so as to earn more.

Table.4. Results Globalization and Men Family Labor Supply

Variables	Districts							
	Larkana		Shikarpur		Khairpur		Sukkur	
Jacobabad	Co-efficient	T-ratios	Co.	t-Ratio	Co.	t-ratio	Co.	t-ratio
Coff.-t-ratio								
In meat	-0.11	-0.07	-0.02	-1.11	-0.02	-0.48	-0.03	-
0.38	0.04	0.10						
In cereals	0.11	0.27	-0.10	-2.48	0.03	0.68	0.16	1.66
-0.04	-1.09							
In oils	0.12	1.35	0.40	1.22	0.32	1.01	0.00	
0.00	1.40	0.55						
In Fresh Vegetable	0.25	-1.88*	0.09	-0.17	0.010	0.03	-0.02	0.20
-0.087	-1.9							
In legumes	0.34	1.7*	0.31	1.80*	-0.10	-0.17	-0.28	-1.71
-0.12	-0.35							
Edu.1	0.03	-1.78*	0.089	-0.19	0.05	0.34	0.41	
0.74	-	-						
Constant	0.23	-1.88*	1.09	0.25	0.68	3.48	0.90	
7.12	0.015	1.23						
R ²	0.24		0.22		0.33		0.28	
0.45								

Note. Significant at 90% level or better-used two-tailed test & significant at 90% level of significant or better using a one tailed test.

Results suggest that household size was negative and significantly affected a husband's labor supply in Shikarpur. On the contrary household size was not statistically different from zero in Sukkur and Larkana, although positive. However the consumer worker ratio in the case of Jacobabad increased a husband's labor supply as expected. Results suggest that a woman's access to hired labor significantly increased a husband's Labor supply in the case of Khairpur. The reverse was true for Sukkur district. In Shikarpur a woman's access to improved seeds significantly increased the husband's labor supply. In Khairpur a woman's access to credit facilities significantly increased a husband's time. This was contrary to what was observed for a woman labor supply in the same district.

Policy Implications

The results provide significant implication of Globalization on the rural poverty in Pakistan. No single policy can be prescribed for reducing the rural poverty in Pakistan which is tend to be increasing even though lot more investment made by the FDI. On the contrast urban population they are getting benefit of the FDI and huge employment and investment in the different sector provides the positive results for the urban population and there is significant change in the production and consumption of urban population.

Conclusion

The purpose of this paper to analysis the impact of Globalization on economy of Pakistan by using CGE frame work. We started with the comparative exercise of Globalization and its role in reducing poverty in Pakistan. The Household Model this model limited only capture the heterogeneity element in household behavior. There are two main factors Globalization and their impact on GDP and economic growth. In the second model linear expenditure system (LES) replaces the demand of system derived from Cobb-Douglas utility function. This exercise highlighted the contribution household disaggregating in the context of CGE modeling exercise and marginal contribution of introducing the heterogeneity elements. According to the results Globalization has significant impact on the economy of Pakistan. CGE Model has been gaining importance in policy analysis of the inequalities of poverty. Globalizations policies can affect in not only improve the economic growth but also help in poverty reduction policies. The task of the policymaker is to coordinate policies affecting the two areas in such a way as to optimize the contribution of Globalization to alleviate poverty in Pakistan.

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