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Full Length Research Paper

Globalization and Macroeconomic Stability in Pakistan (1980-2010)

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This research work is committed to investigate empirically the impact Globalization on instability in Pakistan. The term instability is measured by well-known concept Misery-index (MI). MI is represented by the combination of two major macroeconomic problems unemployment and inflation. ARDL is employed to assess the required impact for the period of 1980-2014. Globalization is a multidimensional phenomenon therefore it is a challenge to identify and measure it. Economic dimensions of globalization are taken into account. Economic components of globalization are trade and capital flow. The first aspect is measured by trade and the latter aspect by the net capital outflow as % to GDP, and some additional variables are also added to the model which have important role in the determination of stability. The estimated results suggested that the impact of globalization on stability is am little ambiguous, because the impact of trade openness significant and with positive sign, means increase in trade openness leads to increase instability in Pakistan, while the impact of financial openness is negative and significant in the long run. The increase in financial openness decrease instability. The short run results shows that globalization negatively affect instability (increase in globalization leads to decrease instability). The overall impact of globalization on instability is somehow dubious. To get benefited from the rich and opportunistic process of globalization, the Government of Pakistan should pay special attention toward open and liberal policies regarding trade to correct the negative aspect of trade relating activities and must formulate more suitable financial policies to get more and more benefits. The process of globalization with adequate policies will certainly benefit economic stability in Pakistan.

Keywords: Globalization, Economic Instability, ARDL, Pakistan.

INTRODUCTION

Globalization

The understanding of globalization is different to different peoples. The literature of the last two decades is much familiar with the word globalization. Different definitions are stated by different institutes, organization and universities academics. Similarities and dissimilarities are existed among the definitions. Globalization is the integration of the world economies through cross-border flow of goods and services, capital flow and people mobility (O'Rourke et al. 2000, Maddison 2001, Nayyar 2001. It has several facets like cultural, economic, political and social [1]. In fact, social and cultural integration are considered as root cause of the loss of cultural integrate and religious values. The cultural and social amalgamation also hearts cultural domination. Therefore social and cultural integration are restricted Ali et al. (2013). The present study is concerned with economic globalization (integration of the world economies in economic factors): transaction in goods and services, capital and labour mobility. The people mobility is mostly restricted because of social, cultural and religious values, but now a day the people movements are banned because of security reasons Afzal (2007) and Ali et al (2013).

Measure of Economic Globalization

This study is concerned with economics; therefore economic aspects of globalization should be taken in account. Economic aspects of globalization are international trade and finance. The measure of economic globalization is:

- International Trade: trade globalization is measured by import plus export as a percentage of GDP.
- International Finance: financial integration is measure by the difference of capital inflow and outflow (Capital inflow – capital outflow) as a percentage of GDP.

Globalization's History

The term globalization is concerned with the development and progress technology. The study of the globalization's history tells us that the phenomenon of globalization is the outcome of development and advancement in technology. The study of the world economic history was of the view that globalization has two episodes: 19th century episode and 20th century episode. Both the episodes globalization witnessed incredible inventions and advancement in technology. Those inventions and advancements in technology brought the world closer and closer. Some treaties were also responsible for the integration of different economies of the world under suitable conditions. The liberalization or minimization on cross border restriction of goods and services, capital is known as globalization. Most of the economic spectators were of the view that the process of globalization has two episodes.

These episodes are identified by different economic experts like Baldwin and O'Rourke (2000), Maddison (2001), Nayyar (2001) Williamson (2002), Mostert (2003), Solimano and watts (2005) and Daudin, Morys and O'Rourke (2008). These episodes are:

- The 19th century episode of globalization and
- The 20th century episode of globalization.

The second half of the 19th century witnessed a huge integration of the world economies in trade, capital and people migration, especially in 1870s. The period of 1970 to 1914 (Pre-World War 1st period) was considered the first episode of globalization. The globalization's process was strengthened by the forces of new technological innovation and advancement in means of communication. Production and factor of production were more mobile in this period, even passport and visa obligations were not mostly required and very few barriers on funds flow (financial integration). The pace of integration forces were slowdown between World War-I and World War-II's period. The period witnessed various restrictions and barriers on flow of goods and Services, capital and people mobility to prevent domestic economy from foreign competition. Isolation (free from foreign competition) was considered the way to flourish their economies bitterly. After World War-II the process of integration started once again. This integration was very slow at the beginning but got acceleration in the last quarter of the 20th century. After WW-II all the developed countries decided that they would not repeat the previous committed mistakes; but it took enough time to achieve the same position of pre WW-I period. Most of the new independent developing economies from the colonial power immediately after WW-II adopted import substitution industrialization (ISI) policy. The Soviet Union (USSR) community was also protected; different barriers were put on international transaction. But the time has changed, in the last quarter of the 20th century; the phenomenon of globalization has started with greater strength. The Soviet Union bloc is getting integrated with the rest of the world. Developing countries are also turned towards more globalized policy to get economic growth. Yet, most studies were of the view that the today economy is more globalized on term of trade and capital markets than the 19th century globalization while less globalized in term of people mobility. Therefore 19th century period of globalized in term of factor of production, while 20th century period of globalization is more globalized in term of production and capital. However, the 20th century episode of globalization is of more important than the 19th century episode, due to its nature and pace. The 20th century episode of globalization is not only due to its rapid pace and characterized by the considerable development in new information technologies on market integration, efficiency and industrial organization, but international organization and institutions like World Bank, International Monetary Fund, World Trade Organization etc are involved to maintain and keep in view its different consequences [3]. Weather it affect both the developing and developed world similarly are not. It was observed that desirability of the process of globalization is different among the developing countries due to their social, political, environmental and geographical situation. Hence the impacts of globalization are different due to its their participation in the process of globalization.

Globalization and Pakistan

Pakistan was emerged on the world map on 14th of august 1947. At the time of independence it was a very week country in all respects. Thus at the beginning it was kept isolated, because it cannot compete at international market and in the first two decades import substitution industrialization policy was put forward and barriers were used to restrict import to prevent domestic nascent industry from foreign competition. Tremendous growth was achieved in the decade of 1960s. In the decade of 1970s the nationalization policy was practiced during Bhutto's regime. The liberalization of economy was started in Zia's regime in 1980s with the help of World Bank and International Monetary Fund. Trade restrictions were reduced at a huge amount and environment for international investment was prepared but implemented in 1990s. The summary of reduction in trade barriers are given in the following table.

It clear from above table that during the period of 1986 to 2004 trade restriction were reduced at a very huge amount maximum tariff rate were reduced from 250% to only 25 % and the number of slabs were reduced from 17 to only 4 and average tariff rate was reduced from 77 % to only 16%. Such reduction leads to increase in trade and might affect FDI positively. It should be noted that what happened to the forces of globalization. The forces of globalization are given in the following table.

The bird's eye view of the above table allows us to identify that what happened to components of globalization in Pakistan. Trade as a proportion of GDP rose from about 30% of GDP in 1980 to about 36% of GDP in 2010. The same is the case for FDI inflow it increased from 0.13% of GDP in 1980 to 3.25% of GDP in 2010. The case of workers' remittances is a little different for Pakistan economy, its contribution was high at 1980s and a high reduction was faced during the decade of 1990s and then started increasing in 2000s.

Globalization and Stability

Extensive literature concerning the impact of globalization on growth, inequality and development are existed in literature. Globalization is considered as communication built for economic growth, because it provides access to foreign technology, capital and market. All these opportunities ensure growth (Afzal 2007, Ali et al 2013). But growth is also tested against volatility in some of the recent studies and it was found negatively related Kose et al (2005). The association of globalization with price level and labour market is very much scare in the literature. Globalization has different dimensions and their effects are also different to employment

Table 1. Tariff Reforms in Pakistan.

Year	Maximum Tariff Rate (%)	Number of Slabs	Average Tariff Rate (%)	Average Rates (%)*
1986-87	250	17	77	--
1988-89	125	17	65	44
1990-91	95	17	65	40
1993-94	80	13	56	39
1994-95	70	13	50	32
1997-98	65	05	45	22
1998-99	50	05	25	17
1999-00	35	04	20	16
2001-02	25	04	17	11
2003-04	25	04	16	13

SOURCE*:* National Tariff Commission, CBR and WDI.
*Custom duty and import tariff as % of total revenue (WDI).

Table 1. Globalization Forces In Pakistan

Year	Trade % of GDP	Rmtt % of GDP	FDI % of GDP
1975	27.30	2.06	0.08
1980	30.40	8.23	0.13
1985	27.20	8.72	0.46
1990	30.90	5.48	0.56
1995	29.60	3.41	1.74
2000	29.00	2.44	0.56
2005	31.60	4.06	1.39
2008	35.90	4 .07	3.41
2010	36.21	5.50	1.53
2012	38.01	6.2	1.33
2014	37.5	6.9	0.69

SOURCE: Author's calculation based on State Bank (Hand Book of Statistics 2010) and World Bank.

conditions in developing countries. The concept of trade liberalization and labour demand was first introduced by Rodrik (1997). Hanson et al (1999) empirically investigated that more imported inputs reduced demand for unskilled labour and increase the demand for skilled labour. According to Acemoglu (2003), the globalization in trade by the developing countries means the increase in their imports of technological equipments (machinery, office equipment, etc). These technological equipments are complementary with skilled labuor and thus might offer the skill premium. The same view is also supported by Crankshaw (1997a) that developing country's labour is mostly unskilled and semi-skilled, and it was observed that the unskilled workers are badly affected by import liberalization. Because the import of technological commodities required relatively high skill workers and also replace labour by capital, employment demand favored skilled workers. Labour market in developing countries is also subject to structural shifts in the long run as well as technological change in the economy. These structural shifts, shift away output from the primary sectors to service sectors in developing economies (Bhorat, 2004).

This huge reduction in trade barriers leads to more open domestic market for foreign production and may affect the employment situation of the country. More import compare to export may also affect employment status and general price level of the country (stability of the country). The impacts of globalization forces are different on employment and inflation. Trade liberalization might affect employment rate negatively due to substitution of foreign goods for domestic good and the import of sophisticated technology Ali et al (2013). On the other hand the increase in export and its demand at international market might leads to the maximum utilization of production resources, affect positively (increased) output and employment of the domestic economy. The increase in national output (national income) in reverse increases the demand for foreign product.

Import = ∫ (National Income)

M= ∫ (GDP)

There are alternative views about the impacts of remittances and FDI on employment conditions of the developing countries. Mostly developing countries are over populated and huge number of people migrated to other countries. This migration reduces the burden on domestic country and gained comparatively high income (source of remittances). Huge remittances lead to increase in consumption and in private investment, increase in consumption and investment improve employment status of the country (Nisar 2007). Remittances might increase inflation by increasing domestic demand for goods and services. The impacts of globalization forces are different for different economies at different times. So the impact of globalization is not clear. It is ambiguous and the most debated topic in the literature. This research work will fill the gap to assess that what its impact on stability of Pakistan?

Objective of the Study

The above discussion clarifies the prime objective of this research. Pakistan's economy participated in the current episode of globalization, huge trade liberalization steps were taken, suitable environment for FDI is produced in 1990s, huge people mobility are viewed at different stages. It should be assessed that what happening to its instability. Thus the main objective of this paper is to investigate the impact of globalization on instability in Pakistan.

Review of Literature

The phenomenon of globalization is a well known concept to literature. The term introduced to in the 2nd half of the 20th century and got tremendous popularity in the last two decades of the 20th century. There are three different views concerning the impact of globalization on aggregate economic activity in developing countries. These views are being supported, firstly globalization has positively contributed to macroeconomic performances, secondly the forces of globalization have negatively contributed to macroeconomic performances and finally globalization forces have no contribution to macroeconomic performance of the developing countries (Simpson 2007, Afzal, 2007 and Ali et al. 2013). It is also clear from the existed literature that the process of globalization is uneven and unequal between developed and developing countries, among developing countries, even among different regions of an individual country Nayyar (1995), Cepal (2002) and Afzal (2007). These regional disparities among the developing countries have been in the current episode of globalization. Asian countries especially Asian tigers have increased their participation in the international economic activities, while Sub Saran African countries have actually condensed (Binswanger and Lutz, 2003). Developing countries are mostly dependent on developed world in term of technology. Many economists have the view that multinational corporations are the important source for reducing the gap between developed and developing countries by acquiring advanced technology. FDI have many positive contributions to macroeconomic performance of the developing countries like volume of trade by increasing the volume of export and generating employment opportunities. Along with positive contributions MNCs and FDI have negative aspects too. It has leaded to exploitation of resources and degradation of environment of the developing countries. FDI reduce balance of payment deficit first but latter it turns to increase Balance of payment, in the form of capital out flow as a profit of the MNCs (Chundnovsky & Lopez 1999).

A few empirical studies are included here to disclose that what the empirical studies told about the impact of globalization and economic performance of the developing countries.

Nasim (1998) examined the effects of globalization on growth in East and South Asian countries. He argued that the acceptance of new and advanced technologies by the East and South Asian countries ensure quick economic growth. Mustafa et al. (2001) have analyzed the impact of globalization on agriculture sector and poverty in Pakistan. They have reported the negative contribution of globalization to agriculture in Pakistan and have given some suggestions to get rid of the adverse affects of globalization to agriculture and poverty. Dreher Axel (2003) examined the impact of globalization on economic growth for 123 countries. Panel data were used for period of 1970 to 2000. The globalization-index was used having three different dimensions like economic, political and social integration. The empirical results showed that globalization enhance economic growth. Prasad et al. (2004) in their comprehensive study the impact of financial globalization on economic growth and instability in developing economies. The results found that there is no a robust causal association between financial liberalization and economic growth. Stability in macroeconomic performance emerges to be an important requirement for economic growth and hence financial globalization is useful for developing economies. Jatuliaviciene and Kucinskiene (2006) in their study for Lithuanian economy provide that the drivers of globalization influence environmental forces, providing opportunities for economic and development of local, multinational and global business enterprises and countries. Further added that over the last year the Lithuanian economy has been one of the fastest growing economy in Europe. They conclude that there is positive association between economic freedom and economic growth.

Naveed and Shabbir (2006) investigate the relationship between trade globalization a, FDI and economic growth for 23 develop countries for the period of 1971-2000.they used Fixed effect and control set of variables .they found trade globalization has positive and significant affect on GDP per Capita , while FDI has not significant affect on growth. They also test causality between the variables they found that globalization only caused GDP. Afzal (2007) analyzed the impact of globalization on economic growth for the economy of Pakistan for the period of 1960-2006 using trade globalization and financial integration as proxy for globalization. The co-integration result suggests that there is a long run relationship between globalization and economic growth. He further added Pakistan's economy can certainly benefited from globalization provided the country pursues sound adequate policies. Hussain et al. (2009) elucidated the impact of globalization on distribution of income in Pakistan. Annual time series data were employed for the period of 1972-2005. The empirical results supported the traditional wisdom that liberalization of the economies to the rest of the world has positive effects on the income distribution. Income inequality can be reduced with the foreign capital diffusion. The high degree of globalization in trade with trade deficit must also be controlled. The phenomena of the globalization can be used as a useful tool for the economy but its nature should be taken into account. Kaker et al. (2011) investigated the impact of globalization on economic growth in Pakistan. They used annual time series data for the period of 1980 to 2009. The results of co-integration and ECM model reported that globalization positively contributed economic growth of the country. Roy (2012) investigated the impact of globalization on economic growth in Indian economy. OLS, Johansen's co-integration and granger causality techniques were employed to disclose the mentioned impact. The regression results show that private investment, globalization and human resource development have significant positive impact on economic growth via GDP growth. Financial integration negatively affects economic growth but not significant. Johansen's co-integration procedure confirmed the long run relationship (co-integrated) existed between globalization, other variables and economic growth in India. The results of Error-correction model (ECM) also verified the co-integration relationship. Bi-directional causality was observed between globalization and economic growth. In the most recent study conducted by Ali et al (2013) and Ali (2013) analyzed the impact of globalization on unemployment and employment respectively for Pakistan's economy. They conclude that the impact of globalization is positive in the long run. In one of the recent study the new determinants of unemployment in Pakistan by Rafiq et al (2010); they used FDI, interest rate, population growth and Inflation rate is determinants of unemployment rate. They concluded that population growth stimulate unemployment rate while FDI and inflation rate reduce unemployment rate in Pakistan.

All the previous studies are about the impact of globalization economic growth, employment and unemployment of the economy. But the present study is about the impact of globalization on stability (MI) not tested in any study concerning Pakistan economy. The existed gap will be filled with this study for Pakistan economy.

4.1 Unit root testing. Table 1: ADF and PP

Variables	ADF test Statistics Level	Ist Difference	PP-test Statistics Level	Ist Difference	Order of Integration (at 5% level of significance)	Order of Integration (at 10% level of significance)
MI	-1.734	-4.05*	-1.312	-4.042*	I(I)	I(I)
	(0.570)	(0.004)	(0.609)	(0.004)		
TOP	-2.056	-5.105*	-2.158	-5.113*	I(I)	I(I)
	(0.310)	(0.000)	(0.215)	(0.000)		
FI	-1.991	-6.085*	-2.031	-6.081*	I(I)	I(I)
	(0.345)	(0.000)	(0.448)	(0.000)		
GDI	-3.352**	-3.640**	3.6245**	-3.018**	I(0)	I(0)
	(0.023)	(0.012)	(0.210)	(0.043)		
MS	-1.523	-4.123*	-1.490	-4.314*	I(0)	I(1)
	(0.476)	(0.000)	(0.416)	(0.000)		

*, ** represent 1% 5% level of significance

Table 2: Test for Long Run relationship

Equations	F-Calculated (P-value)	F-Statistics Critical ^ I(O) ----- I(1)	Result
1 . Fy (MI / TOP, FI, GDI. HRD)	**7.54 (0.023)***	**(3.29)----(4.37)**	**Co-integration**
2. Fy (TOP / MI, FI, GDI. MS)	2.24 (0.187)	(3.29)----(4.37)	No Co-integration
3. Fy (FI/ TOP, MI, GDI. MS)	1.1816 (0.670)	(3.29)----(4.37)	No Co-integration
4. Fy (GDI/ TOP, MI, FI. MS)	3.8963 (0.610)	(3.29)----(4.37)	Inconclusive
5. Fy (MS/ TOP, MI, GDI, FI)	1.8963 (0.425)	(3.29)----(4.37)	No Co-integration

* Represent significant at 5% level **^the values of F-Statistic are at 5% level^**

MATERIAL AND METHOD

Literature suggested different impacts of globalization on stability in developing countries. It affects both directly and indirectly different sectors of the economy, generating macroeconomic stability on one side and instability on the other side. Here this study analyzed the impact of globalization on macroeconomic stability in Pakistan. First of all is important to measure macroeconomic stability.

Literature provides various definitions of macroeconomic stability. Some of the previous studies define the word macroeconomic stability by price stability. Inflation was used as proxy for macroeconomic stability in some of the past studies conducted by Treisman (2000), King and Ma (2001), Neyapti (2004), Shah (2006) and Thornton, 2007). But most recently Martinez-Vazquez and McNab (2006) suggested that the term macroeconomic stability is most appropriately proxied by the combination of inflation and unemployment rate. The concept of measure of economic indicator macroeconomic stability (Misery Index) was first introduced by Arthur Okun (1962). This measure of macroeconomic stability Misery Index (MI) is used by Rauf (2013) for Pakistan's economy. MI is the combination of inflation and unemployment for a given period.

Misery Index = Inflation rate + Unemployment rate

$$MI = INF + UR \quad \ldots\ldots (1)$$

Where *'MI'* is the Misery Index *'INF'* is the inflation rate and *'UR'* unemployment rate of the Pakistan. This index is based on the assumption that an increase in unemployment rate and inflation rate has a negative impact on economic growth.

International transactions in goods and services, capital and labour mobility have very strong contribution in the determination of labour (Rodrik, 1997) and capital market. So we can write as

$$MI = \int(Globalization)$$

$$MI = \int(TOP + FI, Z) \quad \ldots\ldots (2)$$

Where TOP and FI represent globalization and Z represent the vector of other important control variables. Literature suggested that

Table 3. Diagnostic Tests

Tests	F-Statistic	P-Value
1. Serial Correlation	0.132	0.720
2. Hetro-scedasticity	0.459	0.507
3. Normality*	0.176	0.420

*.Chi square test for Normality

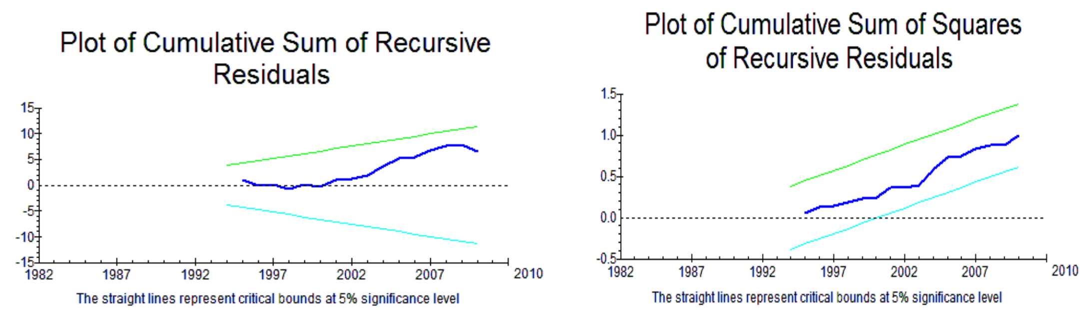

Figure 1

investment plays an important role in the determination of employment and money supply in inflation rate. Hence 'Z' consists of domestic investment and money supply variables. Final model will be of the form

$$MI = \int(TOP + FI + INV + MS) \ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

$$MI = \alpha + \beta_0 TOP + \beta_1 FI + \beta_2 INV + \beta_3 MS + \mu \ldots\ldots \quad (4)$$

Where

MI= Macroeconomic Instability TOP=...... Trade Globalization

FI= Financial Opnness INV=........... Domestic Investment

MS= Money supply and........... μ = Error term

In this research work annual data are used to assess the required impact by estimating equation (4). This study is time series in nature as used annual time series data for the period of 1980 to 2010. Data are collected from State Bank of Pakistan, World Development Indicator (World Bank) and Economic survey of Pakistan. Auto-regressive distributive lag (ARDL) model is employed to estimate the required impact. ARDL is one of the most important new time series econometric techniques, which is suitable for short span of data set and provide efficient results.

Empirical analysis

In this stage of the this research work will test the stationarity of the variables, ARDL test to co-integration is free from pre-testing of the unit root but it is to investigate whether there is any presence of unit root of order I(2). Because in the presence of unit root of order I(2) ARDL is in applicable. The test of the unit root is presented in the following table.

It is clear from the above table that except variable gross domestic investment (GDI) all the variables are of order I(1) and there is absence of any order I(2), which justify the applicability of ARDL technique. Different diagnostic tests presented in table-3 indicate that there is no serious problem associated with the model and these tests are

- Breusch-Godfrey (BG) test for serial-correlation
- ARCH residuals for Hetro-scedasticity and
- Jarque-Bera statistic for normality of residuals,

Sketch of Cumulative sum of recursive residual and Cumulative sum of square of recursive residual statistic indicate absence of misspecification and structural instability for the period estimated.

Bond Testing Procedure

The first step in ARDL procedure is the testing of long run relationship. The required long run relationship is tested for the given equations in table-2.

The upper and lower bound values indicate that there is only one long run relationship existed and in one case the result is in conclusive. This shows that only in case of globalization and stability long run association exist. The purpose of the above tests, whether there is any other long run relationship between the employed variables. If any other long run relationship are existed then the ARDL procedure are less efficient Kumar (2010). The next step is of long run and short run coefficient.

Long-run Estimates of the Growth model:

$$MI_t = 34 + 0.61 TOP_t - 0.67 FI_t + 0.69 GDI_t + 0.56 MS_t$$

$T.Vs \rightarrow$ (12)* (2.94)* (-5.5)* (1.5) (0.7)

Short-run Estimates of the Growth model:

$$\Delta MI_t = 9.9 - 0.17 \ \Delta TOP_{t-1} - 0.62 \Delta FI - 0.12 \ \Delta GDI + 0.162 \ \Delta MS - 0.51 \ ECM_{t-1}$$

$T.Vs \rightarrow$ (4.83) * (3.36)* (-4.42)* (-1.3) (0.35) (-4.48)*

*, represents the significance level at 1%.

It is clear from the estimated long run coefficients that the measures of globalization affect stability in Pakistan differently trade openness leads to increase instability while financial openness reduce instability. Pakistan trade balance is in deficit very much consistently in the study period which cause capital outflow from Pakistan. Financial openness affect instability negatively and significantly in the long run which good for Pakistan economy. The impact of trade globalization is positive and significant which means that the increase in trade globalization increase instability. In case of Pakistan import affect badly domestic labour market by more and more use of foreign products and the import of capital intensive technology which replace labour by capital. Globalization enhances economic growth and increase domestic income leads to increase import of goods and services Ali at al. (2013). Financial integration negatively affects MI, means the increase in financial integration decrease instability. The flows of capital improve the efficiency of economy by improving employment condition and stabilize general price level of the country. Both the globalization's forces affect stability differently but the joint impact of globalization might improve stability. Because the coefficient of FI is greater than TOP and more statistically significant hence the overall impact of globalization on stability is encouraging toward stability in the long run. The short run coefficient of TOP and FI both negative which indicate that globalization affect negatively instability means globalization stabilize the economy in the short run. The impact of both controlled variables GDI and MS are insignificant in both the long and short run. The value of ECM is -0.51, negative and significant shows that any disequilibrium in the model will be adjusted in second year.

CONCLUSION AND POLICY RECOMMENDATIONS

This research work is committed to investigate empirically the impact Globalization on instability in Pakistan. The term instability is measured by well-known concept Misery-index (MI). MI is represented by the combination of two major macroeconomic problems unemployment and inflation. ARDL is employed to assess the required impact for the period of 1980-2014. Globalization is a multidimensional phenomenon therefore it is a challenge to identify and measure it. Economic dimensions of globalization are taken into account. Economic components of globalization are trade and capital flow. The first aspect is measured by trade and the latter aspect by the net capital outflow as % to GDP, and some additional variables are also added to the model which have important role in the determination of stability. The estimated results suggested that the impact of globalization on stability is am little ambiguous, because the impact of trade openness significant and with positive sign, means increase in trade openness leads to increase instability in Pakistan, while the impact of financial openness is negative and significant in the long run. The increase in financial openness decrease instability. The short run results shows that globalization negatively affect instability (increase in globalization leads to decrease instability).

The overall impact of globalization on instability is somehow dubious. To get benefited from the rich and opportunistic process of globalization, the Government of Pakistan should pay special attention toward open and liberal policies regarding trade to correct the negative aspect of trade relating activities. Globalization in the form of trade integration provides opportunities for a greater access to large market; maximum utilization of the domestic resources enhances economic growth and employment opportunities. To further increase the benefits from financial openness the Government must formulate more suitable financial policies. The process of globalization with adequate policies will certainly benefit economic stability in Pakistan.

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