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The Role of Globalisation and Governance in Income Inequality: An Empirical Study for Pakistan

Shahid Munir
Department of Economics, Government Postgraduate College, Kohat, KP, Pakistan

Ihtisham ul Haq*
Department of Economics, The University of Haripur, Haripur, KP, Pakistan.
Email: ihtisham@uoh.ed.pk

Adnan Khan
Department of Economics, Government Postgraduate College, Kohat, KP, Pakistan

ABSTRACT
Income inequality is one of the most challenging issues around the globe as it affects socio-economic stability. Pakistan like many developing countries experiences persistent income inequality despite growth and globalization. Globalization through trade and investment reshaped the structure of economies, creating opportunities for economic advancement. However, it deepens inequality if the benefits remain in certain groups or sectors. Similarly, governance plays a vital role in distributing the benefits of growth and globalization equitably. Effective governance through accountability, transparency and institutional effectiveness helps mitigate inequality. However, corruption and poor governance can increase income inequality. Therefore, this study examines the effect of globalization and governance along with income per capita on income inequality in Pakistan by analyzing quarterly time series data over period 1996-2023. After order of integration is determined, the autoregressive distributed lag technique is applied for the short and long run results. The findings indicate that globalization, government effectiveness, rule of law and voice and accountability have negative effects on income inequality whereas corruption and regularity quality aggravate income inequality. Additionally, the study confirms persistent income inequality in Pakistan. The study suggests that if benefits of economic growth are equitably distributed, the inequality will tend to decrease once the real per capita income reaches USD 1,400- a threshold that Pakistan has yet to achieve. Based on these findings, the study provides recommendations for policymakers to mitigate persistent income inequality.

Keywords: Income Inequality; Globalization; Governance; Gross Domestic Product Per Capita,

Introduction

Economists and policymakers have a keen interest in assessing income inequality, recognizing it fundamental challenge that affect both developed and developing countries (Berg & Ostry, 2017). Income inequality can be defined as the unequal distribution of income across individuals, households and social groups within societies (Wong & Wong, 2022). Some degree of income inequality is inevitable in market economies, however excessive inequality causes serious economic, social and political consequences. In recent times income inequality has been pressing issue that impedes

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economic growth and development (Rodrik, 2014). When a substantial portion of the population lacks sufficient financial resources, their ability to invest in education, health, and entrepreneurial enterprises becomes limited. This not only reduces social mobility but also weakens human capital accumulation, thereby declining productivity and innovation (Buttrick & Oishi, 2017). The resulting decline in economic opportunities contributes to the cycle of poverty and exclusion, ultimately restraining overall economic progress. Furthermore, income inequality raises social dissatisfaction and chances of social and political unrest, thereby creating violences uncertainty in policy. Such instability reduces investments, reduces economic resilience and undermining long term economic growth (Jo, 2016).

The role of globalization grab attention from researchers in income inequality (Hurrell & Woods, 2018). Globalization is considered as a catalyst for socio-economic development as it leads to rapid transformations in business relations, financial movements, and the migration of labour worldwide, resulting in increased interconnectedness and tighter ties among economies (Eriksen, 2018). Nonetheless, the speed of globalization and its outcome across countries varies. However, it is important to get the better understanding of how globalization affect inequality. This why globalization also criticized for exacerbating income disparity, leading to societal decay, and increased competitive challenges (Milanovic, 2016). Similarly, governance also considered a vital factor to deal with inequality. Governance is system through which an organisation individual or state manage the resources in structured manner (Shava & Thakhathi, 2016). Governance is essential for country socioeconomic growth. The term good governance has been widely used in research, since its inception in 1989 by World Bank (Towah, 2019). Governance has often seen a catalyst in distributing the benefit of growth and development. Efficient and effective governance through transparency, accountability mitigates the income inequality. However poor governance and corruption can increase income inequality (Dincer & Gunalp, 2011). Likewise, Shafique and Haq (2006) also stressed on good governance for improving income inequality.

Like many developing countries, Pakistan faces significant income disparity despite experiencing economic growth and globalization. Economic growth in Pakistan has been largely pro-rich, with most benefits concentrated in a few sectors and among specific groups. For instance, the top 10% of the population holds 42% of the nation's wealth, while the bottom 50% owns only 17% of the total wealth (Touseef-Ur-Rehman et al., 2015). The gap between the rich and poor has remained persistent over time. Similarly, the relationship between economic growth and income inequality, indicates that the income inequality in Pakistan remains persistent over time, However, per capita income growth has exhibited significant volatility (World Bank. (2025b). This indicates that economic growth alone is insufficient to reduce income inequality. This is deeply rooted in structural inequality theory, which state that inequality results due to institutional, social and economic factors.

The research on determinants of income inequality in Pakistan is scarce and often suffering from methodological or model specification issues. For instance, Iqbal and Mehar (2015) done their research on governance issues and its impact on income inequality but analysed data for 156 countries for a single year instead for Pakistan. Then reached to conclusion that good governance will address the issue of income inequality in Pakistan. Similarly, Shahbaz (2010) only examined the linear and non-linear relationship between economic growth and income inequality in Pakistan and confirmed the Kuznets U-inverted as well as S-inverted curve. As it is evident from earlier discussion that income inequality is persistent over long period of time in Pakistan.

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Moreover, per capita income is not the sole determinant of income inequality as the distribution of benefits from economic growth depends largely on governance indicators such as rule of law, corruption control, government effectiveness, rule of law and regulatory quality. Furthermore, in today's highly interconnected global world the role of globalization on income inequality cannot be ignored. Therefore, the role of globalization and governance indicators is essential while investigating persistent income inequality. Therefore, this study makes a novel contribution to literature. Despite the extensive research on income inequality, the researcher did not trace any research study for Pakistan that figured out the combine effect of globalization, governance, and per capita income on income inequality. Furthermore, the influence of governance and globalization on income inequality is complex and multifaceted, as studies have found partial effect depending on different circumstances and region. The current research study will add to the prevailing literature on determinants of income inequality in case of a single country analysis. The study will also add important contribution to literature and policy makers on the determinants of the persistent income inequality. The study also will provide important insights to the policy maker to better understand the problem of inequality especially in Pakistan and generally for other developing countries.

Theoretical Framework: The Review of Literature

The relationship between economic growth and income inequality is complex and multifaceted. Theoretically, while examining the relationship between economic growth and income inequality, proposed by a curve known as U-inverted Kuznets curve (Kuznets, 1955; Nielsen & Alderson, 1997). The curve shows that income inequality rises initially, reaching a maximum, and thereafter declines as the economy continues to advance (Figure 1). During the first phases of development, some segment of society may have greater advantages from economic growth, resulting in the expansion of income disparities. Nevertheless, as the economy advances and opportunities become more attainable for a wider portion of the population, like, improvement in education, infrastructure development and social mobility, the disparity in income tends to diminish (Mollick, 2012). Several studies have confirmed the existence of Kuznets hypothesis like Kravis (1960), Stiglitz (1974), Ahluwalia (1976) and Cromwell (1977). However, Li et al. (1998) and Deininger and Squire (1998) question the existence of Kuznets hypothesis, by arguing that Kuznets hypothesis may be valid in developed countries, however in developing countries the relationship between economic growth and income inequality was not statistically significant. Likewise, Bowman (1997) found that initial economic growth did not affect the income inequality in Greece, Japan, South Korea and Taiwan. Conversely, Chari (2024) argued that the economic growth driven by globalization, technological innovation or capital can disproportionality benefit the higher income group, widening the income inequality. The ultimate effect of economic growth on income inequality depends on the factors such as redistribution policies, education and skill development (Aghion et al., 2015). Thus, the impact of income per capita on income inequality remains a center of debate in economic research with different outcomes across different circumstances and countries (Banerjee & Duflo, 2019). However, on theoretical ground Kuznets hypothesis has been challenged by several scholars. According to Weber (1978) the social stratification (economic position, social prestige) and political power results in income inequality. Individual or groups with economic position and social status in society have more opportunities for wealth while others suffer. Similarly, the institutional and bureaucratic frameworks formulate such policy framework for certain groups while limiting the access to wealth and opportunities to

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others (Panday, 1983). Myrdal (1957) in his cumulative causation theory states that economic advantages create a cycle where certain groups are regions accumulates advantages while marginalised peoples perceived persistent disadvantages. Myrdal emphasized the role of historical and institutional factors such as access to capital, education and political influences in perpetuating the income inequality whereas Fujita (2007) concluded that without policy intervention the economic development would perpetuate the income inequality. In a study for China, Qiu and Sun (2024) confirmed the persistent trend in inequality in rural and urban China and emphasized on policy intervention for reducing income inequality. Besides, Sanso-Navarro and Vera-Cabello (2020) highlighted factors such as tax rate, working environment and occupation often led to persistent income inequality.

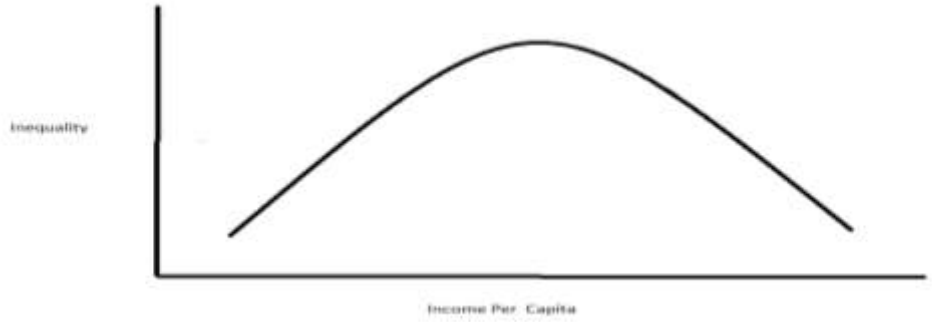

Figure 1. Kuznets Curve

Globalization is often considered as a catalyst for worldwide socio-economic development (Hurrell & Woods, 2018; Jalil, 2012). Globalization plays significant role in reducing income inequality through certain mechanisms, like increase in foreign direct investment, trade openness, create job opportunities, which helps reduce the income inequality (Bergh & Nilsson, 2010). Stolper and Samuelson (1941) reveals that globalization increases the demand for unskilled labour in developing countries through foreign trade which results in reduction of the wage disparities between unskilled and skilled labour. Globalization through technological diffusion and managerial expertise promote the local industries and equitable distribution of income. Likewise, the multinational corporation collaborate with local industries to transfer the modern technologies, provide training and education for labour and ultimately creating opportunities for labour (Gozgor & Ranjan, 2017). Despite the benefits, globalisation has also adverse effect on income inequality (Collier & Dollar, 2002; Ghosh, 2020; Hamburger, 2020). Countries with weak financial institutions often seen the rise in income inequality with initial economic growth and globalization (Forbes, 2000). Huang et al. (2020) argued that globalization through foreign direct investment increases the wages differences between skilled and unskilled labour, as globalization often increases demand for skilled labour. Dorn et al, (2018) examined that globalization raises the inequality in transition economies. Likewise, Bergh and Nilsson (2010) found positive association of globalization with income inequality. Globalization thus has both positive and negative effects on income inequality depending upon the distribution of benefits arises from globalization. The distribution of benefits often depends upon the effectiveness, governance and quality of institutions.

Scholars posit governance structures significantly influence income distribution. Governance can promote or discourage income inequality depending on the quality of good governance. Huang and Ho (2018) divided the quality of governance into democratic and technical quality. The democratic quality through political stability and

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voice and accountability and the technical through regularity quality, rule of law, control of corruption, and government effectiveness diminish income inequality. The effective governance framework promotes inclusive growth, enhance service delivery, which benefits the lower income growth (Gupta et al., 2002). Effective governance also reduces corruption which reduces the concentration of wealth in few hands and inefficient resource utilization. Effective governance promotes economic stability and poverty reduction by providing the environment for fair distribution wealth (Dincer & Gunalp, 2011; Broekhuis, 2008). Acemoglu and Robinson (2006) underscore the pivotal role of political institutions, asserting that inclusive systems with broad citizen participation tend to mitigate income inequality, while extractive institutions exacerbate it. Another factor that affects income inequality significantly is the quality of public administration. Effective governance coupled with transparency and accountability contribute to reduce income inequality (Basely & Persson, 2011). However, governance has different outcomes in advanced countries. On the other hand, weak and corrupt institutions worsen income inequality (Oueslati & Labidi 2015).

Through the extensive literature review, the study used three essential factors of income inequality globalization, governance, and economic growth that significantly affect income inequality. Economic growth is directly connected to income inequality. Because the growth rate rises per capita income, which can reduce the income gap if the benefits are equitably distributed. Similarly, globalization increases trade between countries, investment, and transfers of technologies, which also increases the per capita income of people. However, if the benefits of globalization do not remain in the hands of a few groups and segments of society, Furthermore, governance is a tool that, when effectively executed, could lead to a fair distribution of income. The literature shows that inequality is positively related to economic growth (Partridge, 1997). However, Perotti (1996) documented that economic growth negatively upsets income inequality. Globalization also has a partial effect on income inequality depending on certain circumstances and regions. Governance is also positively linked with income inequality. The relation between economic growth, globalization, governance with income inequality is depicted in figure 2. Therefore, the study examined the effects of globalization, governance, and economic growth on income inequality.

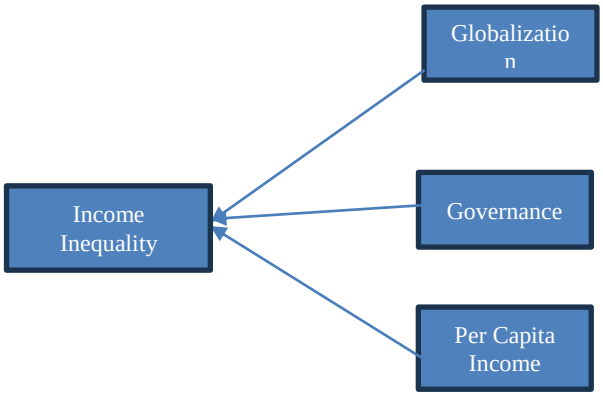

Figure 2. Conceptual Framework of the study

Research Methodology

The study contains quarterly time series data covering the period from 1996 to 2023. Data has been taken from various sources such as, World Bank, KOF Swiss Economic Institute and World Governance Indicators (World Bank, 2025b: KOF Swiss Economic Institute, 2025; World Bank, 2025a). Gini Index has been used to measure dependent

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variable income inequality (INQ). Likewise, Shahbaz (2010) GDP per capita has been used to measure economic growth. Globalization (GI) has been measured by KOF globalization index like, Gasimli et al. (2022). Government effectiveness (GE) is measured government effectiveness index. Control of corruption has been measured by control of corruption index. Similarly rule of law, voice and accountability and regulatory quality is measured by their respective indexes adopted from world governance indicators (World Bank, 2025a).

Table 1. Variables Description

Variables	Measurement
INQ	Gini Index has been used to measured Income inequality
GI	KOF Globalization index has been used to measured Globalization
GE	Government Effectiveness Index has been used to measure the government effectiveness.
CC	Corruption is measured by the Corruption Index
RL	Rule of law Index is used to measure the Rule of Law
RQ	Regularity quality has been measured by regularity quality index
VA	Voice and accountability have been measured by voice and accountability index
GDPPC	GDP Per-capita income is measured in 2015 constant prices

Kuznets suggested the relation between income and inequality, known as U-shaped Kuznets curve (Kuznets, 1955; Nielsen & Alderson, 1997). The U inverted figure shows the relation between income inequality and income. The curve shows that income inequality rises initially, reaching a maximum point, and thereafter declines as the economy continues to advance. During the first phases of development, some segment of society may have greater advantages from growth, resulting in the expansion of income disparities. Nevertheless, as the economy advances and opportunities become more attainable for a wider portion of the population, the disparity in income tends to diminish (Mollick, 2012). However, according to structural inequality theory income inequality remain persistent over time (Max Weber,1978; Myrdal, 1957), highlighting the importance institutional, political and economic structure therefore to tests the linear and nonlinear relationship the following linear and nonlinear equations are formed.

$$INQ = \beta_0 + \beta_1 GDPPC + ui \quad \text{..... (I)}$$

$$INQ = \beta_0 + \beta_1 GDPPC + \beta_2 GDPPC^2 + ui \quad \text{..... (II)}$$

Equation (1) measure the linear association between economic growth and inequality, while Equation (II) shows the nonlinear relationship. B_0 is the intercept and β_i are the parameters while ui is the error term in both models. In equation (II) $\beta_1 > 0$, $\beta_2 < 0$, and $\beta_1 > \beta_2$. if this valid the U inverted Kuznets curve is established. However, if the β_2 is equal to zero then there is persistent income inequality. Furthermore, the maximum threshold for per capita income is determined by $(-\frac{\beta_1}{2\beta_2})$. Additionally, from the literature review globalisation and governance are found to be key determinants of inequality. Therefore, adding these in the model the equation II becomes.

$$INQ = \beta_0 + \beta_1 GI + \beta_2 GE + \beta_3 CC + \beta_4 RL + \beta_5 RQ + \beta_6 VA + \beta_7 GDPPC + ui \quad \text{..... (III)}$$

$$INQ = \beta_0 + \beta_1 GI + \beta_2 GE + \beta_3 CC + \beta_4 RL + \beta_5 RQ + \beta_6 VA + \beta_7 GDPPC + \beta_8 GDPPC^2 + ui \quad \text{..... (IV)}$$

Times series data contain various econometric problems, such as stationary problems,

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normality, heteroscedasticity, autocorrelation, and multicollinearity problems. To diagnose these problems, various diagnostic tests such as Augmented Dickey Fuller (ADF), Jarque Barra (JB), Breusch Pagan Godfrey (BPG), Breusch-Godfrey Serial correlation LM test (BG) Ramsey Reset and the Variance Inflation Factor (VIF) (Dickey & Fuller, 1979; Breusch-Pagan, 1979). The study uses auto regressive distributive lag model (ARDL), as the results of stationarity tests shows mixed order or integration. Pesaran et al. (2001) documented that ARDL model has certain advantages as it not only estimate short run relationship among variables but also the long run cointegration among variables. However, before estimating the long run coefficient there should be long run cointegration and the determination of appropriate lag length. The long run cointegration is determined by bound test and lag order is determined by Akaike Information Criteria (AIC).

$$\Delta INQ_t = \alpha_0 + \sum_{i=1}^{m} \alpha_i \Delta INQ_{t-i} + \sum_{i=0}^{m} \alpha_1 \Delta GI_{t-i} + \sum_{i=0}^{m} \alpha_2 \Delta GE_{t-i} + \sum_{i=0}^{m} \alpha_3 \Delta CC_{t-i} + \sum_{i=0}^{m} \alpha_4 \Delta RL_{t-i} + \sum_{i=0}^{m} \alpha_5 \Delta RQ_{t-i} + \sum_{i=0}^{m} \alpha_6 \Delta VA_{t-i} + \sum_{i=0}^{m} \alpha_7 \Delta GDPPC_{t-i} + \beta_1 GI_{t-1} + \beta_2 GE_{t-1} + \beta_3 CC_{t-1} + \beta_4 RL_{t-1} + \beta_5 RQ_{t-1} + \beta_6 VA_{t-1} + \beta_7 GDPPC_{t-1} + \beta_8 ECT + \varepsilon_t \ldots\ldots (V)$$

$$\Delta INQ_t = \alpha_0 + \sum_{i=1}^{m} \alpha_i \Delta INQ_{t-i} + \sum_{i=0}^{m} \alpha_1 \Delta GI_{t-i} + \sum_{i=0}^{m} \alpha_2 \Delta GE_{t-i} + \sum_{i=0}^{m} \alpha_3 \Delta CC_{t-i} + \sum_{i=0}^{m} \alpha_4 \Delta RL_{t-i} + \sum_{i=0}^{m} \alpha_5 \Delta RQ_{t-i} + \sum_{i=0}^{m} \alpha_6 \Delta VA_{t-i} + \sum_{i=0}^{m} \alpha_7 \Delta GDPPC_{t-i} + \sum_{i=0}^{m} \alpha_8 GDPPC^2{}_{t-i} + \beta_1 GI_{t-1} + \beta_2 GE_{t-1} + \beta_3 CC_{t-1} + \beta_4 RL_{t-1} + \beta_5 RQ_{t-1} + \beta_6 VA_{t-1} + \beta_7 GDPPC_{t-1} + \beta_8 GDPPC^2{}_{t-1} - \beta_9 ECT + \varepsilon_t \ldots\ldots (VI)$$

Results and Discussion

The results of ADF test are presented in Table 2 which indicate that variable has mixed order of integration. Additionally, cointegration, diagnostic tests and Lag length criteria results are given in Table 3. Bound tests validate the long run association between variables as the F calculated value is higher than upper bound value for both models. The JB test, also validate the normality assumption for both models. The autocorrelation problem checked by the BG test, which shows the absence of autocorrelation problems as a p-value greater than 5% level of significance for both models. Similarly, the heteroscedasticity problem is diagnosed using BPG, which shows the absence of a heteroscedasticity problem in the data for both models. Lastly the lag order is shown in the table 3 by automatic AIC for both models. The optimal ARDL model also passed the stability test for both models as CUSUM and CUSUM of Squares are well inside the critical boundaries as depicted in Figure 3, 4, 5 and 6 respectively.

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Table 2. Result of ADF test

Variables	at level	P-value	first difference	P- value	Decision
INQ	-4.49	0.001***	…..	……	I(0)
GI	-2.36	0.16	-3.05	0.04**	I(1)
GE	-1.77	0.38	-4.37	0.002***	I(1)
CC	-3.21	0.03**	……	……	I(0)
RL	-0.27	0.91	-4.29	0.003***	I(0)
RQ	-2.53	0.12	-4.80	0.001***	I(1)
VA	-3.77	0.005*	…..	…..	I(0)
GDPPC	0.61	0.99	-3.07	0.04**	I(1)
GDPPC2	-0.032	0.95	-2.99	0.04**	I(1)

Note: ** and *** show significant at 5 and 1% respectively

Table 3. Results of Bound and Diagnostic tests

Model (III) Bound test				
Test Statistic	Value	Sig:	Lower limit	Upper limit
F-statistic	6.53***	10%	2.03	3.13
		5%	2.32	3.5
		1%	2.6	3.84
Model (VI) Bound Test				
F-statistic	6.20***	10%	1.85	2.85
		5%	2.11	3.15
		1%	2.62	3.77
Model (V) Diagnostic tests				
Problems	Test	Statistics	P-Value	
Normality	JB	0.58	0.75	
Autocorrelation	BG	1.79	0.17	
Heteroscedasticity	BPG	0.89	0.62	
Specification Bais	Ramsey Reset	1.91	0.16	
Model (VI) Diagnostics Tests				
Problems	Test	Statistics	P-Value	
Normality	JB	0.57	0.75	
Autocorrelation	BG	0.32	0.73	
Heteroscedasticity	BPG	1.07	0.4	
Specification Bais	Ramsey Reset	0.85	0.4	
Model (V) Model Selection criteria				

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AIC*	BIC	HQ	Adj. R-sq	Specification
-1.31	-0.61	-1.03	0.98	ARDL (3, 2, 0, 1, 3, 2, 4, 2)
Model (VI) Selection Criteria				
-1.33	-0.72	-1.08	0.98	ARDL (3, 2, 1, 0, 2, 2, 1, 0, 2)

Note: *** shows significant at 1%.

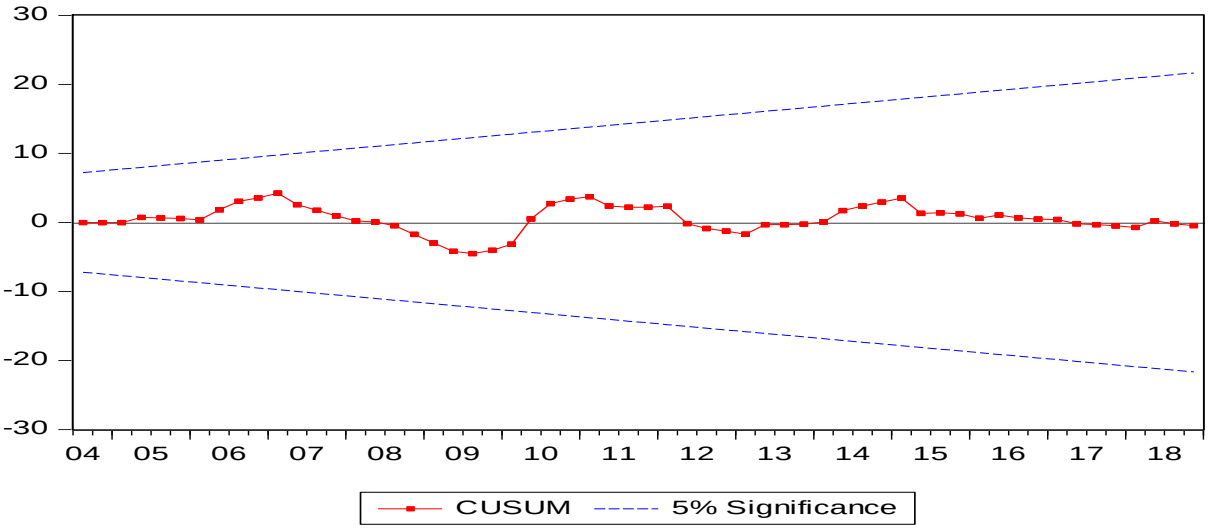

Figure 3. CUSUM Stability Depiction of Model (V)

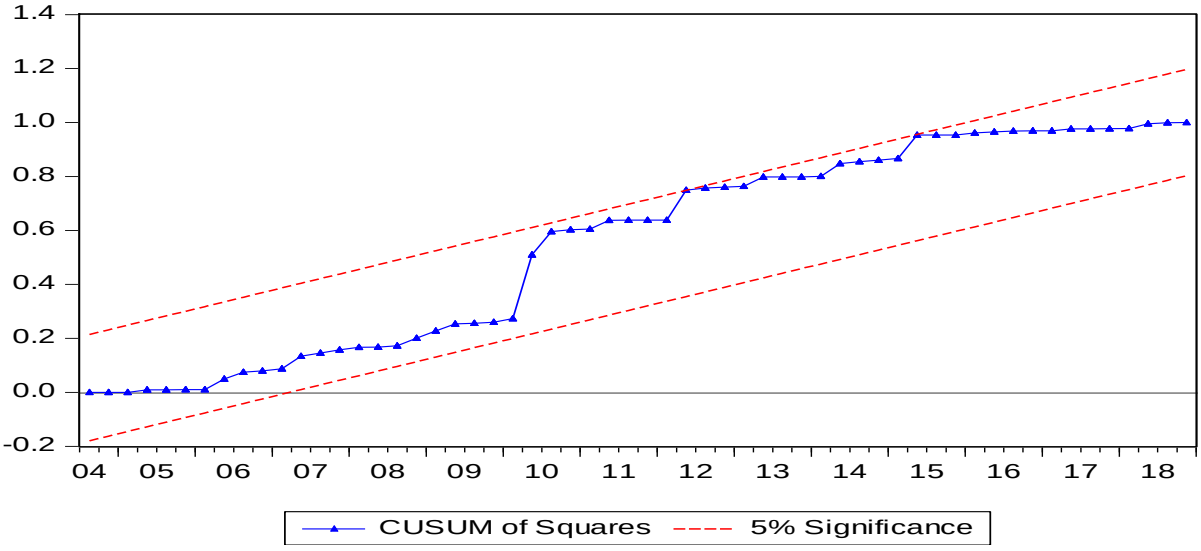

Figure 4. CUSUM of Squares Stability Depiction of Model (V)

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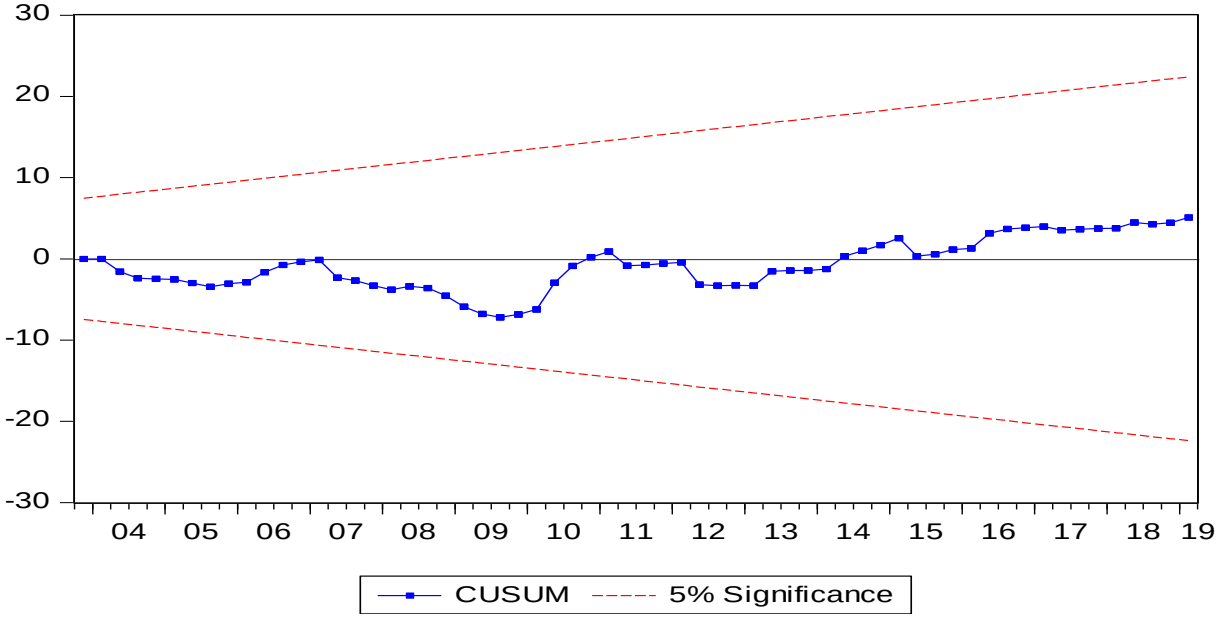

Figure 5. CUSUM Stability Depiction of Model (VI)

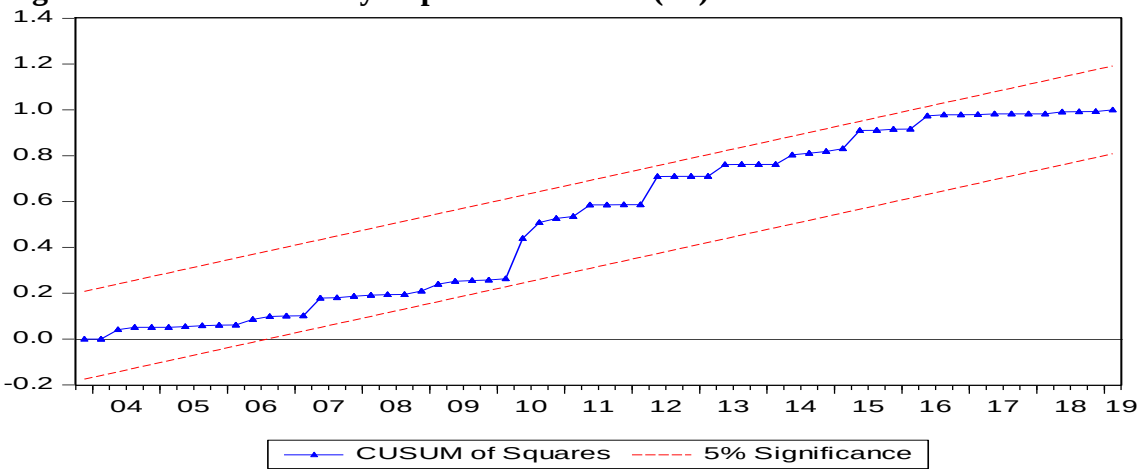

Figure 6. CUSUM of Squares Stability Depiction of Model (VI)

The results of model (V) and model (VI) are depicted in Table 4. The result shows that globalization significantly reduce income inequality in Pakistan, reflected in Table 4 (2nd column). The result matches with the study of Hui and Bhaumik (2023), who also found that globalization is negatively related to income inequality in advance countries, while they found globalization positively related to income inequality in transition countries. Governance has partial outcome on income inequality as some indicators show positive relations while some negative, i.e. government effectiveness, rule of law and voice and accountability are negatively related with income inequality, while control of corruption and regularity has positive effect on income inequality. Huang and Ho (2018) found that Governance has a positive rule in reducing inequality in transition economies but did not find it significant in advanced countries. On the other hand, Iqbal and Mehar (2015) concluded from his study that a negative connection exists between governance and income inequality. The partial outcome of governance on income inequality is due to poor governance and inconsistency of democracy in the country. Pakistan is confronted with poor political administration and unstable political regime. (Chaudhry et al., 2019; Hussain & Hussain, 1993).

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Income inequality has been positively affected by growth in per capita, indicating rising the gap between rich and poor. These results are reflected in Table 4 (2nd column). The square term represents nonlinear relationship between GDPPC and INQ, which is shown in column 4 of Table 4. The coefficient of GDPPC and the square of GDPPC is carrying the expected signs positive and negative respectively and are significant as well but the magnitude of the coefficient of square term ($GDPPC^2$) is minute almost near to zero thus indicating presence of persistent income inequality (Figure 1 part b). This mean that inequality rises with increase in income per capita, however; the downward trend is not witnessed promising although it reached the level where the curve has to follow downward trend. This finding is suggesting the presence of structural inequality theory (Max Weber,1978; Myrdal, 1957) in Pakistan. The study suggests that if the benefits of economic growth and per capita income are equitably distributed, the inequality will tend to decrease after real income per capita of USD 1400. Table 5 shows the short run dynamics of both models. The Results of model (v) indicate that globalization, government effectiveness, rule of law and had negative effects on income inequality in both models, while control of corruption, regularity quality and voice and accountability have positive effect on income inequality. However, the per capita income has negative effect on model (V), per capita and per capita square has positive effect on model (VI). Furthermore, the error correction term (ECT) significant with negative sign (-0.27) and (-0.24) which indicates that both models will recover from any shock within four years.

Table 4. Long run results of ARDL

Model (V)			**Model (VI)**	
Var.	**Co-eff.**	**P- values**	**Co-eff.**	**P-values**
GI	-0.32***	0.00	-0.48***	0.00
GE	-2.34**	0.03	0.77	0.61
CC	3.33***	0.00	0.53	0.51
RL	-3.26**	0.04	-3.78**	0.03
RQ	8.11***	0.00	2.81**	0.01
VA	-2.41**	0.01	-0.69	0.42
GDPPC	0.0058***	0.00	0.07**	0.01
$GDPPC^2$	-----	----	-0.000025**	0.02
Const	42.33	0.00	0.61	0.97

Note: ** and *** show significant at 5 and 1% respectively

Table 5. Short Run Dynamics

Model (V)			**Model (VI)**	
Var.	Co-eff.	Prob.	Co-eff.	Prob.
ΔINQ_{t-1}	1.32***	0.00	1.33***	0.00
ΔINQ_{t-2}	-0.42**	0.01	-0.46***	0.00
ΔINQ_{t-3}	-0.17**	0.04	-0.11	0.10
ΔGI	-0.77***	0.00	-0.97***	0.00
ΔGI_{t-1}	0.99	0.01	1.60***	0.00
ΔGI_{t-2}	-0.31	0.12	-0.75***	0.00
ΔGE	-0.64*	0.06	-1.68	0.06
ΔCC	1.15	0.32	1.82	0.03
ΔCC_{t-1}	-2.42	0.26	0.15	0.46

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ΔCC_{t-2}	0.49	0.80	-5.71***	0.00
ΔCC_{t-3}	1.69	0.10	9.59***	0.00
ΔRL	-4.87	0.00	-4.80***	0.00
ΔRL_{t-1}	7.43**	0.01	4.93***	0.00
ΔRL_{t-2}	-3.45**	0.03	-7.04***	0.00
ΔRQ	4.99***	0.00	2.80***	0.00
ΔRQ_{t-1}	-4.65**	0.04	-2.20***	0.00
ΔRQ_{t-2}	1.95	0.33	2.04***	0.00
$\Delta GDPPC$	-0.01***	0.00	0.02**	0.02
$\Delta GDPPC_{t-1}$	0.02***	0.00	0.00***	0.00
$\Delta GDPPC^2$	----	---	0.00**	0.02
$\Delta GDPPC^2_{t-1}$	----	----	0.00	0.12
$\Delta GDPPC^2_{t-2}$	-----	----	0.85	0.81
Const	11.52***	0.00	1.33***	0.00
ECT	-0.27***	0.00	-0.24***	0.00
R-squared	0.90		0.90	
Adjusted R-squared	0.88		0.88	
Akaike Info Criterion	-1.51		-1.55	
Schwarz criterion	-1.03		-1.19	
Hannan-Quinn criter.	-1.32		-1.40	
Durbin-Watson stat	2.19		2.07	

Note: *, ** and *** show significant at 10, 5 and 1% respectively

Conclusion and Policy Implications

Income inequality is a matter of great significance due to its profound implications for various aspects of society. It impedes economic growth and stability. When a substantial portion of the population lacks sufficient financial resources, their ability to invest in education, health, and entrepreneurial ventures becomes limited. Consequently, there is a decline in human capital development and innovation, which hinders overall economic progress. Furthermore, income inequality often leads to social unrest and instability as marginalized individuals who are excluded from economic opportunities grow disillusioned and frustrated. Therefore, the study is carried out to analyse the impact of globalization and governance on income inequality in Pakistan. Before estimating the parameters of the model, the study used different diagnostic tests. The diagnosed tests suggested no econometric problem. Furthermore, the long-run association has been tested and confirmed through ARDL bounds test. The ARDL results indicated that globalization, government effectiveness rule of law and voice and accountability has positive rule in reducing income inequality, while control of corruption regularity quality and GDPPC has positive rule on income inequality in Pakistan. Furthermore, the study confirms the persistent income inequality in case of Pakistan. In the era of globalization and economic development, financial integration, and technical advancements, Pakistan fails to distribute the benefits of globalization and development to the lower segment of population. This could be done through formulating the fair-trade policies that promote the local industries and works. Furthermore, if benefits of globalization transferred to the lower segment of society by promoting the policy framework in such a way that it can increase the demand for low skill labor. Pakistan also lakes the continuity of economic and political policies failing to promote the fair distribution of income across different segment. The weak institution, political administration and unstable political regime leading to persistent income inequality. The institutions be strengthen by formulating

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policies that promote the establishment of independent institution to ensure the accountability in government spending. The transferring of the powers to local government and strengthening the judicial system to protect the workers' rights will reduce income inequality in Pakistan.

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