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THE IMPACT OF GLOBALISATION ON ECONOMIC GROWTH IN ASIA-PACIFIC

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Abstract

Globalisation is a controversial issue that is still considered a complicated process. It has impacted nearly every aspect of modern life and it bringsopportunities andalso risk for a nation.This ultimately raises the argument that globalisation creates a multiplier effect, whether its phenomenon brings a positive or negative impact. Previous studies haveexamined that there isa positive effect of globalisation on growth through effective allocation of domestic resources, technology deployment, productivity improvement factors and capital increase. On the other hand, others argue that globalisation has a harmful effect on growth in countries with weak institutions and political instability. This study was carried out to analyze the effect of economic globalisation, social globalisation, and political globalisation on economic growth of Asia-Pacific countries in 2000-2014. Analyses were performed using panel data regression to know the influence that occurs between the independent variables and the dependent. From the results of the panel data regression, it is known that variables of economic globalisation and political globalisation have a significantly positive influence on economic growth. Meanwhile, the variable of social globalisation showed a negative and significant influence. This study contributes to the increasing number of literatures that examine the relationship between globalisation and economic growth. The results carry significant implications for the government in the Asia-Pacific region.

***Keywords*:** Economic Growth, Economic Globalisation, Social Globalisation, Political Globalisation.

1. Introduction

Globalisation is a phenomenon we are currently experiencing. The notion of globalisation in general is a contemporary development that has an influence in the emergence of various possibilities about the changing world that will take place. Giddens (1990) states that globalisation is the interdependence of one nation with another, between one human being and another through commerce, travel, tourism, culture, information, and broad interaction so that the boundaries of the state become narrower.

Although it is not a new thing anymore, Globalisation is still considered a complicated process because our world has experienced its influence on different aspects of life such as economic, social, environmental, and political. IMF, in Wolf (1997) describes globalisation as the growing economic interdependence of countries worldwide through the increasing volume and variety of cross-border transactions in goods and services and of international capital flows, and also through the more rapid and widespread diffusion of technology.

Economic globalisation includes the flow of goods and services across borders, international capital flows, tariff reductions and trade barriers, immigration, and the dissemination of

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technology, and knowledge beyond the borders. This is the source of much debate and conflict like other great power sources. This then resulted in renewed interest in international economic literature. Therefore, there is a perpetual argument about multiplier effects, whether globalisation is a positive or negative phenomenon for the development of human life.

More recently, researchers have claimed that the effects of globalisation's growth depend on the economic structure of countries during the globalisation process. The impact of globalisation on the country's economic growth can also be altered by a series of complementary policies such as the improvement of human capital and the financial system. The influence of complementary policies is very important because it helps countries to succeed in the process of globalisation. Therefore, the state needs to respond critically through appropriate diplomacy and economic policy instruments, so that the country's economy can be strong and can increase bargaining position in the midst of increasingly tight global competition.

The relationship between globalisation and growth is a hot and highly debated topic of growth and development literature. However, this issue is still not resolved. Theoretical growth studies report contradictory and inconclusive discussions about the relationship between globalisation and growth. Several studies have found positive effects of globalisation on growth through effective domestic resource allocation, technology deployment, factor productivity improvement and capital increase. In contrast, others argue that globalisation has a harmful effect on growth in countries with weak institutions and political instability and in countries, specializing in ineffective activities in the globalisation process.

The debate about globalisation and how it affects the world economy continues to provoke more and more controversy (Jensen & Sandström, 2011). Friedman (2004) supports globalisation citing the increasing lifestyle of the global population. While Klein (2007), argued against the strength of the vast amount of information collected through research conducted in many countries in the world whose economies have witnessed limited benefits after fully embracing the concept of globalisation at the World Bank's command as a prerequisite for financial aid. Klein (2007) notes that the privatisation and liberalisation of markets in certain countries, in order to qualify for loans, has led to increased poverty and increased inequality. Some critics claim that there is no longer a clear definition of globalisation, however, the term still evokes strong emotions on supporters and adversaries (Jensen, & Sandström, 2011; Rosenberg, 2004; Machida, 2012).

As the part of the world in or near the Western Pacific Ocean, the Asia-Pacific region is now a major world traderAsia Pacific and becomes a prospected region with strong growth. The Asia and Pacific region which consists of emerging and advanced countries continues to deliver strong growth, in the face of widespread concerns about growing protectionism, a rapidly aging society, and slow productivity growth, according to the IMF's latest regional assessment. Global growth is projected to accelerate to 3.7 in 2018, up 0.1 percentage point in 2017 and 2018 from the April WEO (World Economic Outlook), with improved prospects for both advanced and emerging economies. Advanced country may not suprised with prospected globalisation,but how about the emerging countries which is still considered not ready to face globalisation? In fact, many developing countries have attempted to accelerate their economic growth by pursuing outward-oriented policies aimed at integration into the world economy. Most investigations related to economic growth have approached this subject from the perspectives of physical capital, human capital, natural resources, and technological knowledge. However, this study focused on globalisation and its impact on economic growth. The purpose of this study was to re-investigate whether economic, social, and political globalisation had an impact on economic growth in Asia Pacific region between 2000-2014. Thus, this study contributes to the growing number of literature that examines the relationship between globalisation and economic growth.

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2. Literature Review

With conflicting theoretical views, many studies empirically examine the impact of globalisation on economic growth in developed and developing countries. The first, in 2006, Dreher introduced a new comprehensive globalisation index, KOF, to test the impact of globalisation on the growth of unbalanced dynamic panels in 123 countries between 1970 and 2000. Overall results suggest that globalisation is driving economic growth. Economic and social dimensions have a positive impact on growth while the political dimension has no effect on growth.

In the next year, Afzal (2007) analyzed the globalisation's effects on economic growth with an error-correction model by using the Pakistan's data from years 1960 to 2006. He used trade receptivity and financial integration variants, representing globalisation. He concluded that the powerful connection between economic growth and trade gap and financial integration then he also found out that this connection leads to a development on economic growth in long terms.
Some panel data studies use an average of five years of GDP per capita growth as a dependent variable and show that globalisation is positively correlated with economic growth, but hardly occurs in OECD countries (Bergh and Karlsson, 2010; Villaverde and Maza, 2011; Osterloh, 2012; Ali and Imai, 2013). Bergh and Karlsson (2010) investigate the relationship between government size and growth. The data set includes 29 OECD countries during the 1970-1995 and 1970-2005 periods. The authors estimate standard data panel effects models that are common. The KOF globalisation index is included as an explanatory variable and is not statistically significant.

Studies by Villaverde and Maza (2011) showed that globalisation as measured by all four KOF indices boosts economic growth. The results show that overall, the index of economic and social globalisation is positively correlated with economic growth. The GMM results show that overall economic, social and political globalisation is positively correlated with economic growth.

Then in 2013, Ali and Imai used data for 41 African countries during the period 1970-2009 and investigated how economic globalisation and economic crisis affect economic growth. The baseline model includes variables of economic globalisation and economic crisis. The authors estimate general panel data models including fixed period and fixed area effects and dynamic panel data models using GMM system estimators by Arellano and Bover (1995) and Blundell and Bond (1998) that treat globalisation as endogenous. The results show that economic globalisation is positively correlated with economic growth.

Ying et al. (2014) analyzed the connection between social and political globalisation and economic growth in ASEAN countries between the years 1970 and 2008 by using Fully Modified Ordinary Least Squares (FMOLS) technique. They indicated that economic globalisation has a significant positive effect on economic growth. However, the results also show that social globalisation has a negative effect on economic growth, while political globalisation has an insignificant negative effect.

In the following year, Kilic (2015) investigatedthe effects of economic, social and political globalisation on the growth levels of developing countries and causality relationship between the variables by using fixed effects least squares method and Granger causality test developed by Dumitrescu-Hurlin (2012) for 74 developing countries between 1981-2011 period. The results of the analysis imply that economic growth levels of selected developing countries were positively affected by the economic and political globalisation whereas social globalisation affected economic growth negatively. Moreover, test results of causality puts forward two way causality relationship between political and social globalisation on the economic growth and one way causality relationship between social globalisation and economic growth.

 DOI : 10.25275/apjabssv4i2bus9

3. Data and Methodology

In this study, the author usessecondary data obtained from KOF Index which will be used as proxy independent variable. The KOF Globalisation Index was introduced in 2002 (Dreher, 2006) and then updated and described in more detail by Dreher et al. (2008). The index includes the dimensions of economic, social, and political globalisation. According to Clark (2000), Norris (2000) and Keohane and Nye (2000), globalisation can be conceptualized as a process of creating connections through the exchange of information, ideas, capital and goods. This relationship integrates national economies, cultures, technologies and governments, which ultimately obscures the economic boundaries between countries and produces a complex interdependence system of interdependence. The KOF index includes three dimensions, as follows:

(1) Economic Globalisation Index: This index includes two sub-indexes which are actual flows and restrictions. Actual flows are calculated with GDP percentages of trade, foreign trade investments and stocks, portfolio investments, income payment to foreign nationals. Restrictions are calculated with hidden import barriers; mean tariff rate, current revenue percentages of taxes on international trade and capital account restrictions. Both actual flows' and restrictions' immensity in economic globalisation index is %50.

(2) Social Globalisation Index: This index includes three sub-indexes which are personal contact, information flows and cultural proximity. Personal contact is calculated with telephone traffic, GDP percentages of transfers, international tourism, the foreign population according to the total population and international letters per capita. Information flows is calculated with internet usage per 1000 people, television per 1000 people and GDP percentages of trades in newspapers. Cultural proximity is calculated with number of McDonald's restaurants per capita, number of Ikea per capita and GDP percentages of trades in books. By order of, the percentages of personal contact, information flows and cultural proximity are %33, %35 and %32.

(3) Political Globalisation Index: This index is calculated with four sub-indexes which are number of embassies in country, membership in international organizations, participation in United Nations (UN) Security Council mission and international treaties.

The data taken from the KOF Index, consisting of annual indexes related to economic, political and social globalisation in Asia Pacific countries (Indonesia, Australia, BruneiDarussalam, Canada, Singapore, United States, China, Japan, Korea, Malaysia, New Zealend, Philipphines, Thailand, Mexico, Papua New Guinea, Chille, Peru, Russia, Vietnam, Mongolia)for particular variables over the period 2000 to 2014. Meanwhile, as the dependent variable, the economic growth rate is GDP Real (US $ billion) obtained from World Bank.

The equation model that will be used in this study are:

$$GDP_{i,t} = \alpha_i + \beta_1 ECO_{i,t} + \beta_3 SOCi_{,t} + \beta_2 POL_{i,t} + \varepsilon_{i,t}$$

Where :

$GDP_{i,t}$: Economic growth of country i in year t
$ECO_{i,t}$: Economic globalisation of country i in year t
$SOC_{i,t}$: Social globalisationi country in year t
$POL_{i,t}$: Political globalisation of country i in year t

The estimation method used in this research is panel data. Panel data is the combined data from the two types of data, the time series and cross section. There are two general approaches to the application of panel data. The technique that can be used to estimate the regression model with panel data is the Fixed Effects Model (FEM) and Random Effects Model (REM). Both are distinguished based on the assumption of whether or not the correlation between the error

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components with independent variables (regressors). Fixed Effect Model (FEM) arises when the individual effects and the explanatory variables correlate with Xit or have the patterns that are not random. This assumption makes the error component of the individual and time effects can be part of the intercept. REM appears when the individual effects and the regressors have no correlation. This assumption makes the error component of the individual effects and time to be put into the error (Judge, 1985).To determine either Fixed Effect Model or Random Effect Model, the most commonly used specification test is Hausman specification test, which tests the null hypothesis that the coefficients estimated by the efficient random effects estimator are the same as the ones estimated by the consistent fixed effects estimator. If they are insignificant, then it is safe to use random effects. If we get a significant P-value, however, we should use fixed effects (Akbar et al., 2011).

4. Result

In carrying out regression analysis, this study uses STATA 13 software application. Table 1below shows the result of regression analysis. After doing Hausman test, the result showed that Fixed Effects Model is better than Random Effects Model.

Table 1:The Result of Panel Data Processing Approach to Fixed Effect Model (FEM)

Independent Variable	**Dependent Variabel**			
	Economic Growth			
	Coefficient	**Std. Error**	**t-Value**	**Probability**
Constant	3.453788	1.332219	2.59	0.010
Economic Globalisation	.0384668	.0179552	2.14	0.033
Social Globalisation	-.0689151	.0117709	-5.85	0.000
Political Globalisation	.0297956	.0120192	2.48	0.014
N	300			
Prob> F	0.0000			
R-sq	0.1246			

Note: *indicates significance at the 1% level
Source: author's own calculation (based on data from World Bank &KOF), 2018

The results obtained from the fixed effects indicate the coefficient of economic globalisation index is significant and positive as expected. That is, there is an increase 0.03 percent in the value of GDP for every increase of one percent in the value of economic globalisation index. Similarly, political globalisation is positively and significantly associated with GDP. There is an increase approximately 0.02 percent in the value of GDP for every increase of one percent in the value of political globalisation index. However, the results illustrate that social globalisation is significantly and negatively associated with GDP. There is a decrease 0.06 percent in the value of GDP for every increase of one percent in the value of social globalisation. Also, F statistic is statistically significant at far beyond the 1 percent level, attesting to the overall strength of the model.

This is a clear indication that economic globalisation mostly promotes growth. Economic globalisation provides advantages similar to those one would expect from major technological advances.Asia Pacific was once the fastest-growing tech market in the world. Table 2 shows the percent change from prior year of Asia Pacific business and government purchases of technology goods and services.

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Table 2:Asia Pacific business and government purchases of tech goods and services

% change from prior year	2013	2014	2015	2016*	2017*	2018*
Business Technology	-2.6%	2.6%	-0.1%	12.9%	13.5%	6.8%
Information Technology	-3.3%	1.2%	-3.4%	3.8%	4.2%	5.5%

Source: Forrester (2017)
*Forrester forecest

Conclusions

This study uses panel data to test the effects of economic, social and political globalisation on the growth levels of Asia Pacific countries. According to the results of the analysis,the economic and political globalisation has significant positive effect on economic growth, while social globalisation affected economic growth negatively. In this respect, the results of this study partially confirms the previous studiesfrom Ying et al. (2014) and Kilic (2015) that asserted general globalisation had positive effects on economic growth. The results also indicated that economic and political globalisation were more effective in the growth process compared to social globalisation. Therefore, government shouldbe more active in promoting the international trade, encourage the foreign direct investment, and increasethe participation of political decisions in international forum.However, it is important to government overcome the negative impact of social globalisation on economic growth.

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