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Unleashing the Potential of Globalization to Bring Sustainable Prosperity in the Selected Asian and African Countries: Panel Least-Squares Analysis

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Abstract:
Given the globalization wave started in the early 1990s, many countries around the world, including countries in Asia and Africa, became more open to Foreign Direct Investment (FDI) flows. This main objective of this research is to empirically investigate the theoretical relationship of FDI and trade (export and import) on economic growth which can deliver direct impact to reducing the poverty rate and narrowing unemployment gap as well as generate income per capita across the countries, primarily in Asian and African countries. The availability of data for all explanatory variables determines a unified sample period that goes from 2003 to 2018 (15 years). Additionally, our sample covers seven countries such as Egypt, Jordan, Indonesia, Malaysia, Nigeria, Pakistan, and Turkey, which chosen based on data availability and good representative sampling of the countries by its population and size of the economy. Thus, the study estimated FDI and trade model using panel least-squares analysis.The study provides evidence of the large and significant impact of FDI on trade, economic growth, and poverty in the major of Asian and African countries when it has taken as one pooled group. Furthermore, as expected, trade affected income per capita and poverty reduction in this group's countries favourably. FDI and trade as variables of globalization can bring positive impact to prosperity and wealth for the countries. A further explain that the selected countries urgently need to strengthen the investment policy and create a business-friendly environment to support trade openness, massive investment, and non-barrier trade agreement.

Keywords:*Economy Growth, FDI, Income per capita, Asian and African Countries, Poverty Rate, and Unemployment Rate*

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I INTRODUCTION

Just several decades ago where it starting in the early 2000s, the upward trend of globalization seemed to bring a different perspective in the most common profile of economic expansion. Trade would grow twice as fast as GDP while foreign investment, financial transaction, and information technology flow scaled new peaks. In the awakening, after suffering from the financial crisis, which hit tremendously trade and capital flows, there is a single question whether globalization has stalled or even gone into reverse.

The integration of national economies among developing and developed country into one global system has been the most critical aspects of the last decade. This process of integration, called “Globalization,” has materialized in remarkable growth in trade between countries (Friedman, 1999; Potrafke, 2015).

The chart below shows how much more exported goods compare to GDP. From figure 1, up to 1870, the sum of worldwide exports accounted for less than 10 percent of global output. Nowadays, the value of exported goods around the world is close to 25 percent. The figure shows that over the last hundred years of

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economic growth, there has been more than proportional growth in global trade.

Fig. 1. The Value of Exported Goods as Share of GDP (Source: Fouquin and Hugot, 2016)

From now on, globalization plays an essential role in the world and society today. Globalization is something that we see occurring all around us. Globalization means the interconnection of national economies without obstacles across the world on issues such as trade, investment, labor, banking, and the movement of people, goods, and services. Globalization is not a precise term. It can mean that nations have become interconnected and borderless. Although still far from a new existing condition, the term “globalization” gained popularity in the early 1990s. However, a long time ago after the industrial revolution created the idea of a newly interconnected world giving rise to globalization in the popular consciousness and still exist until now.

During the era of the 1990s, the integration of the international economy was deepening at an accelerating and rapid rate, while economist and civil society responded to the discussion of the time by pointing out that globalization brings rapid and borderless characteristic, as did other scholars such as Grahame Thompson and Paul Hirst (1996). Globalization also defined as the integration of the markets for goods, labor, and financial capital displayed a U-shaped pattern from 1870 until today (Bordo, Taylor and Williamson, 2004). It was undoubtedly relevant that in the late nineteenth century and early twentieth century, globalization played a significant role and then dropped negatively between World War I and World War II. Thus, it recovered in the post-World War II period with the advent of GATT and later WTO and the end of Bretton Woods capital controls and has been growing at least until the Great Financial Crisis of 2007-2008 (Bordo, 2017).

Globalization certainly consents an increase in the level of global output. Later on, globalization is the growing manifestation of world trade and regional integration as a proportion of output which the ration of world exports to GDP, has grown significantly, from some 7 percent in 1940 to about 10 percent in 1980 to over 27 percent in 2016) (Williamson, 2017). It can reflect in the explosion of foreign direct investment (FDI): FDI in developing countries has increased from USD 2.2 billion in 1970 to USD 154 billion in 1997 and continuously growing until USD 583 billion in 2016. It has also resulted in the national capital markets becoming increasingly integrated, to the point where some USD 1.3 trillion per day crosses the foreign exchange markets of the world, of which less than 2 percent is directly attributable to

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trade transactions.

Globalization should be expected to influence the distribution of income as well as its level. So far as the distribution of income between countries is concerned, standard theory would lead one to expect that all countries will benefit. Economists have long preached that trade is mutually beneficial, and most of the people believe that the direct experience of widespread growth alongside rapidly growing trade in the industrial revolution serves to substantiate that. Most FDI goes where a multinational company has intellectual capital, sufficient land and innovative technology that can mostly contribute something to the local economy, and is therefore likely to be mutually beneficial (Johnson, 2006). Growth process tending to make globalization become more impactful and provide exposing massive resource utilization.

A steady number of FDI might bring new opportunities to some of developing countries as globalization could lead to expansion of world trade and free movement of capital which increases the prosperity and wealth of developing countries of the world. Many countries achieved rapid economic growth and progress from the free flow of trade and commerce. For instance, Indonesia, Turkey, Malaysia, and other developing countries benefited a lot from the globalization process. It has stressed that the Asian economic miracle fuelled by foreign investment and the substantial effect of globalization. Taking one of the success story presented by the government of Malaysia, while they can seize the opportunities of economic expansion by generated investment and business-friendly environment and welcomed technology transfers to their country. As a result, they experienced rapid economic growth, vast job creation and massive infrastructure development (Henderson, 2010).

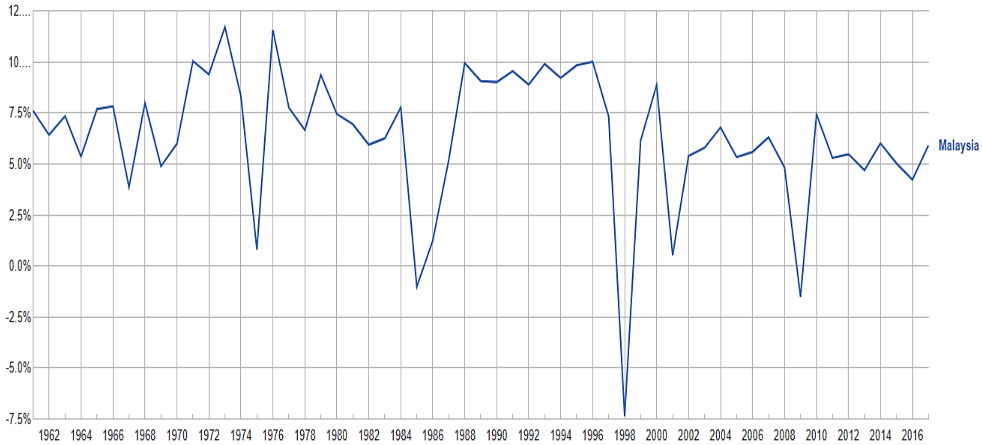

Fig. 2. Series of Economic Growth of Malaysia 1962-2017 (Source: World Bank, 2018)

Indeed, Malaysia has successfully diversified its economy from one that was initially agriculture and commodity-based, to one that now plays host to robust manufacturing and services sectors that have propelled it to become a leading exporter of electrical appliances, electronic parts, and components (Xu and Wang, 2000). Malaysia tries to reinvigorate the private sector and increase domestic production, improve the quality of the workforce, and ensure the sustainability of growth while protecting resources. As consequences, the Malaysian economy is growing around 4.5 – 5 percent for the last seven years. The positive trend underpinned by sound macroeconomic fundamentals, investment, and expansion in exports. Malaysia’s economy has been on an upward trajectory, averaging growth of 5.4 percent since 2010, and is expected to achieve its

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transition shape an upper middle-income economy to a high-income economy by 2024 (World Bank, 2019).

Furthermore, through transforming FDI into decent work, only less than 1 percent of Malaysian households living in extreme poverty. Then, real average household incomes of the bottom 40 jumped significantly at 11.9 percent per year, compared to 7.9 percent for the total population of Malaysia, which impacts for narrowing income disparities.

Giving the situational background about how importance globalization for wealth, equality and poverty reduction, this paper aimed to provide empirical analysis for the effect of FDI and trade on sustainable prosperity derived by economic growth, income per capita, poverty rate and unemployment rate. Thus, this paper tried to examine how FDI interacts with unemployment, poverty, and wealth in Asian and African Countries by some variables listed. We believe that the result will imply a substantial impact on FDI and trade, which positively interacted one to another. The result could imply the benefits from such direct investments to the host country, in case they can enhancing the quality of human capital by providing proper education and training to young people in the country.

II THEORETICAL AND EMPIRICAL REVIEW ON GLOBALIZATION, FDI AND SUSTAINABLE PROSPERITY

Finding the interconnection between globalization and development, we use the dimension of globalization shown by Index of Globalization which developed by KOF Swiss Economic Institute (Dreher, 2006; Dreher et al., 2008; KOF, 2016). This widely used index measures the economic, social, and political dimension of globalization. The measure can divide into two sub-indices indicating the (de facto) extent of economic growth and the (de jure) extent of legal restrictions to these investment and free-flows.

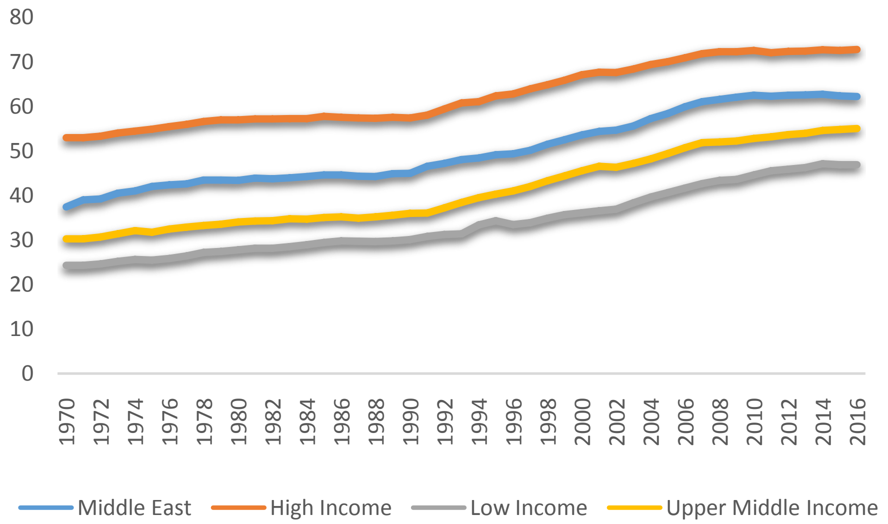

Fig. 3. Globalization Index for Selected Region, 1970-2016 (Source: Gygli et al., 2019**)**

Figure 3 depicts trends of globalization as overall in the Middle East and North Africa region, High Income, Low Income, and Upper-Middle-Income countries, which indicates as the significant proportion and division of income group. High-income countries may enjoy and get benefit from the globalization process as their part of trade expansion, innovation, and rapid investment. However, the Middle East and North Africa region also share almost the same with upper-middle-income countries.

There are also several stylized facts emerge about globalization that happening nowadays (Marginean, 2015). First, today's high-income

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countries have been more globalized than today's poorer and upper-middle-income countries across all dimensions at all time over the past half-century. While inferences concerning causal linkages cannot draw from this, we can at least take into account a different association between income levels and economic integration. Second, countries of all income classifications have and various region, on average calculated, experienced processes of the strong economic impact of globalization. Countries that are categorized as high-income countries today have started the integration process earlier than middle-income countries and low-income countries. Hereinafter, for some cases, high-income countries have a substantial effect and getting intensive in both sub-dimensions already in the 1970s; for the average middle-income countries the significant lifting of economic limitations to cross-border flows began in the early 1990s then flowed themselves increased shortly after while the average of low, middle-income countries followed suit in the mid-1990s until early of 2000s.

Third, when people are focusing on the most exciting event in the recent years, it becomes visible that high-income countries achieve the highest level of globalization in the late 2000s and today is experiencing stagnation or even a decline, this trend appears to be mainly driven by aggressive war between developed and developing countries. At a slightly lower level, the same event is also actual for the Middle East and North Africa and East Asia and the Pacific. This observation is consistent with what IMF (2016) referred, which has shown that trade liberalization has decelerated in many countries, especially developing countries in the last decade. A third observation based on Figure 4 is that the de jure and de facto dimensions of economic integration are correlated.

The table below summarized the empirical studies that have investigated the impact of FDI as a proxy of Globalization on income equality and growth, also the impact of FDI for covering the gap of inequality and reducing poverty.

Table 1
Empirical Evidence on the Link among Globalization, FDI and Income Inequality

Authors	Sample	Empirical Approach	Results
Valentin F. Lang & Marina Mendes Tavares (2018)	147 countries during 1970-2014	KOF Index and OLS Fixed Effects Regressions	Economic globalization – defined as a multidimensional process encompassing the increasing economic importance and legal liberalization of economic flows across borders – leads to substantial income gains. These gains are, however, distributed unequally both across and within countries. Across countries, the finding is positive yet diminishing marginal returns to globalization. Within countries, income inequality increases as a consequence of globalization. Furthermore, domestic policies can mitigate the adverse distributional effects of globalization.
HyejoonIm& John McLaren (2015)	127 developing countries for 1977-2012	Panel Data	Without instruments, FDI appears to not affect income inequality and a small positive effect on poverty, but with the instruments, FDI helps decrease both inequality and the poverty rate.

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SvilenaMihaylova (2015)	10 countries of Central and Eastern Europe (CEE) in the period 1990-2012	Panel Data	Furthermore, the negative relationship between FDI and inequality and poverty is found only among lower-income developing countries. FDI has the potential to affect income inequality, but the manifestation of this effect depends on the absorptive capacity of the host economy. At lower levels of human capital and economic development, FDI tends to increase income inequality but if the spread of education and GDP per capita increase, this distributional effect of FDI diminishes. After higher levels of human capital and economic development are reached, FDI can even contribute to a reduction of income inequality. As for the other determinants of income inequality, inflation and the expansion of the service sector have contributed to the increase of income inequality in CEE economies.

FDI and Income Inequality

FDI as the proxy of globalization can bring positive exposure to both average incomes and income inequality in many countries. On the one hand, advocates of globalization argue that globalization is a positive phenomenon which promotes greater prosperity and increases living standards of people.

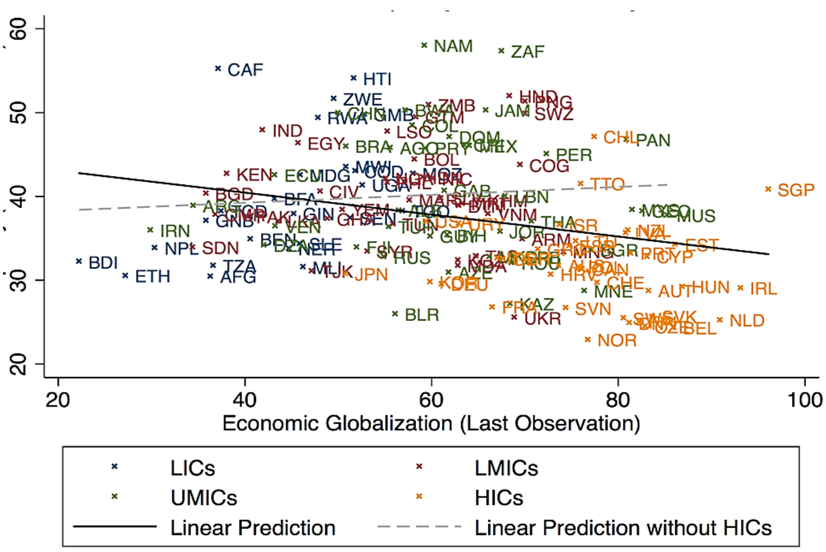

Fig. 4. Changes in Economic Globalization and Net Inequality (Source: Lang & Tavares., 2018)

We are trying to visualize the relationship between current levels of globalization and redistribution, as measured by the difference between market and net inequality. The figure above shows that today's more globalized countries are more unequal in terms of market income before taxes and transfers. This is a crucial finding of the political economy literature and is often interpreted as an indication for governments' attempts to compensate those who

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are hurt by economic openness (Adsera and Boix 2002; Rodrik 1998; Walter 2010).

However, as is also clear, once high-income countries are excluded, this association is substantially weaker (indicated by the dashed line in the figure). This research suggests that low and middle-income countries would need to substantially expand their domestic redistributive policies if they aimed to mitigate the globalization-induced increases in inequality in the same way as most high-income countries (Lang and Tavares, 2018). Given that our results suggest that average output growth will be particularly substantial in low and upper-middle-income countries which economic globalization is likely can increase the number of resources available for such policies in these countries [1-19].

Globalization's effect on the inequality of market incomes is more significant than on inequality of net incomes, suggesting that taxes and transfers do succeed in mitigating globalization and induced inequality increases, but only in the partial side. Thus, taxes and transfers appear to be a useful tool for countering the inequality-increasing effects of globalization, such redistributive policies, at least in their current shape, do not compensate the entire rise in inequality resulting from the effect of economic globalization.

Data Analysis Tools

In general, several theories suggest that the impact of globalization on prosperity should be further explored and investigated. In regards to sustainable prosperity, we might use a proxy of the poverty rate and natural rate of employment, which derives from income per capita for explaining the variable. Most of our early findings of globalization and FDI context lead why we contribute to the empirical analysis by testing whether globalization (FDI, trade, and capital flows) can bring significant impact for increasing income per capita, lowering poverty rate and the decreasing unemployment rate in Asian and African Countries.

This study attempts to examine the impact of FDI, trade (export and import), and capital flows on economic growth which delivers direct impact to poverty rate and the unemployment rate as well as generate income per capita across countries, mainly Asian and African Countries. We are using econometric methodology to estimate an empirical model that includes the following variables: 1) trade (imports + exports of goods and services as a share of GDP); 2) FDI (gross foreign direct investment as a share of GDP); 3) capital flows (gross fixed capital flows formation as a share of GDP); 4) economy growth (the growth of gross national income of real GDP); 5) income per capita (GNI nominal divided by total population), 6) poverty rate (ratio of the number of people (in a given age group) whose income falls below the poverty line; taken as half the median household income of the total population) and lastly, 7) unemployment rate (percentage of unemployed workers in the total labor force).

The availability of data for all explanatory variables determines a unified sample period that goes from 2003 to 2018 (15 years). Additionally, our sample covers 7 Asian and African Countries (Egypt, Jordan. Indonesia, Malaysia, Nigeria, Pakistan, and Turkey) which chosen based on data availability and good representative sampling of Asian and African Countries by its population and size of the economy. The analysis that will use in this study is panel data analysis. The panel data estimation is employed to examine the impact variables of FDI, trade, and capital flows on economic growth, income per capita and poverty rate as an indicator of sustainable prosperity for Asian and African Countries by zooming in on the role of investment using Eviews 10.0 Student Version software package. Due to the nature of panel data analysis controls for both observed and unobserved heterogeneity, also it increases the degree of freedom and reduces the collinearity problems, and hence improves the efficiency of

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econometrics estimates (Hsiao, C., 2003), and it decided to use three main models as follows: Pooled OLS Model, Fixed Effects Model and Random Effects Model. Furthermore, we also implement the Generalized Method of Moments (GMM) dynamic panel estimator proposed by Arellano and Bond (1991) and developed by Arellano and Bover (1995) and Blundell and Bond (1998) which Matallah, Bounoua and Benouziane (2015), conducted similar study because it is able to overcome and circumvent the problems of endogeneity and heterogeneity that may arise in panel data models, by including relevant instrumental variables. In other words, this technique can handle endogenous variables that display a high degree of persistence, especially in growth models [20-34].

III ANALYSIS OF EMPIRICAL RESULTS

The panel data estimation is employed to examine the impact of FDI on some variables explained in the seven Asian and African Countries. In the first attempt, we use FDI as dependent variable and indicate significant relationship between trade and growth for all observations. With the R-square is 0.768 means the model tested has degree/level of confidence for interpreting the result by 76.8 percent respectively.

Table 2
Data Panel Estimation Result (FDI)

Dependent Variable: FDI
Method: Panel Least Squares
Sample: 2003 2018
Periodsincluded: 16
Cross-sections included: 7
Total panel (balanced) observations: 112

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TRADE	0.038569	0.06748	5.715903	0.0000
GROWTH	0.226196	0.129513	1.746513	0.0000
GROSSCAPITAL	0.109677	0.052836	2.075822	0.0004
GNIPERCAPITA	-0.00029	8.94E-05	-3.25298	0.0015
POVERTY	-0.0112	0.027639	-0.40518	0.0862
UNEMPLOYMENT	0.252365	0.057157	4.41531	0.0000
C	-3.74704	1.701093	-2.20272	0.0298

R-squared	0.768817	Meandependent var	3.099063
Adjusted R-squared	0.748463	S.D. dependent var	3.392086
S.E. of regression	0.541885	Akaike info criterion	4.764150
Sumsquaredresidual	678.4237	Schwarz criterion	4.934057
Log likelihood	-259.792	Hannan-Quinn criter	4.833087
F-statistic	15.44531	Durbin-Watson stat.	0.572775
Prob(F-statistic)	0.000000		

As is shown (Table 2) in the result above, these explanatory variables appear to be statistically significant in the OLS Data Panel Model. Hence, we can assume that FDI (free-flow of investment) to the seven major Asian and African Countries (Egypt, Jordan, Indonesia, Malaysia, Nigeria, Pakistan, and Turkey) seem to have a positive impact for trade, economic growth, and gross capital. However, it hurts GNI per capita and unemployment. We can predict that the quality of human resources in the majority of Asian and African Countries still left behind and cannot catch the progress of qualified workforce in the region. For example, the 2014 Global Innovation Index (GII) ranks Indonesia 87th out of 143 countries in terms of innovation capability (Jakarta Post, 2014). Going forward, most of the Asian and African Countries should prioritize to invest in human resource development by providing excellent education, especially higher education and skills training. The two are the success keys to building a critical mess of well-educated and well-trained workforce for filling the gap of skilled labor and accelerating economic transformation.

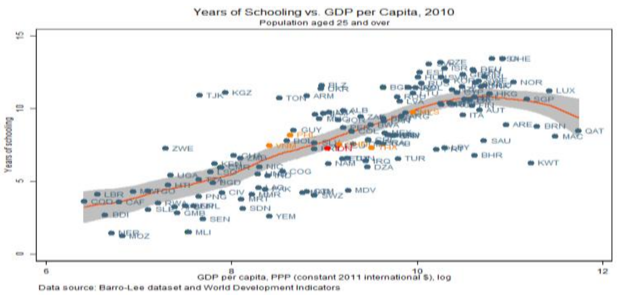

Fig. 6. Years of Schooling vs. GDP per Capita, 2010 (Source: World Development Indicators, 2015)

As figure 6 shown above, we can take a good example and assumption that higher years of schooling is associated with higher GDP per Capita. Turkey, for example, still below the average of all countries in the world regarding about year of schooling. Meanwhile, Indonesia (red dot) is managed in the moderate level of GDP per capita and still below the average but better than Turkey, Egypt, Jordan, Nigeria, and Pakistan for the issue of years of schooling. Indeed, there is a room for the improvement of human capital and generate a vivid contribution to the development of investment in the country[35-38].

The Panel Least Squares model also imply a consistent result when we change the dependent variable to trade. In figure 7 shown below, we initially visualize the positive relationship between the current proxies of globalization represents as trade and give an initial indication for bringing direct impact for reducing the poverty rate, and the unemployment rate in the country observed. The result shows that today's more openness, countries are more equal in terms of market income before taxes and transfers. This stand in an interesting aspect, which showed trade bring decisive relationship for government's effort for combating poverty and providing decent job to the people in the country. As the consequences, more globalized economies redistribute more to the society.

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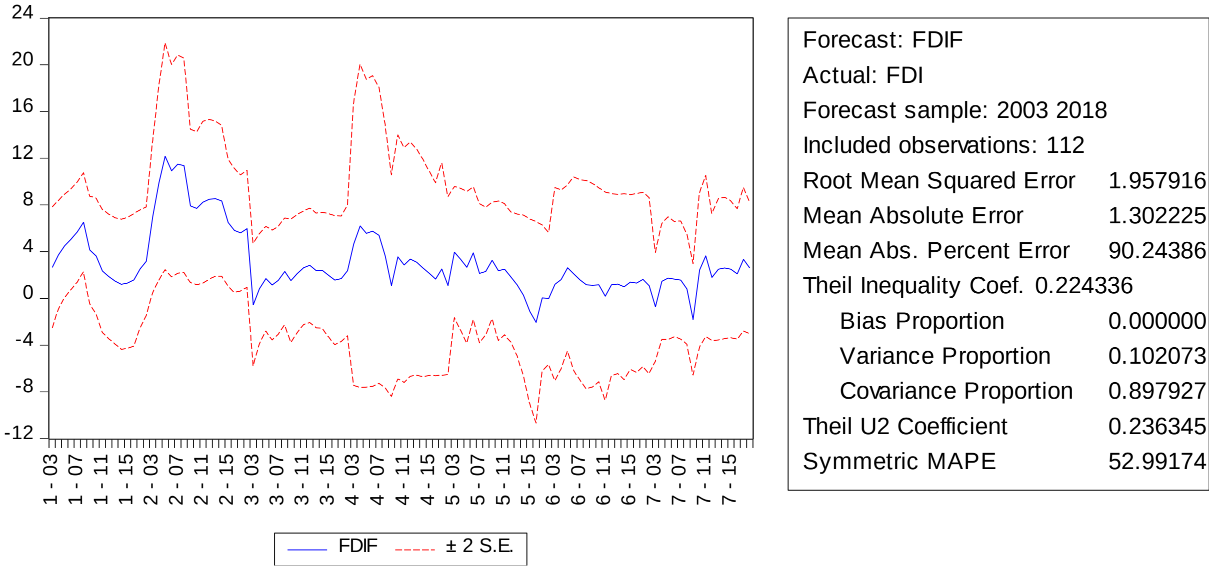

Fig. 7. The Forecast of FDI in Asian and African Countries; Estimation Result

However, some theories say that explaining the impact of trade on poverty is very difficult and complicated since it can be seen as the result of interaction between different socio-economic and institutional factors. Thus, different theoretical models identified different linkages between the two variables, and on the other hand, empirical evidence about these linkages was found to be inconsistent and non-comparable across countries. In order to thoroughly understand the link between trade and poverty, we have to consider other variables (growth and employment), which constitute the channels between trade openness and poverty reduction. In other words, it should need further study to understand interconnected relations within the domain of the recently developed concept of inclusive economic growth (Awad-Warrad, et al., 2017).

IV CONCLUSION

This study examines the impact of FDI and trade on economic growth, GNI per capita, poverty rate and unemployment rate with highlight the tag of globalization in 7 Asian and African Countries (Egypt, Jordan, Indonesia, Malaysia, Nigeria, Pakistan, and Turkey) over the period 2003-2018. Thus, the study provides evidence with two cases as a proxy of globalization and put as a dependent variable, namely 1) FDI and 2) Trade. The first findings when we put FDI indicate that free-flow investment that comes into the Muslim country bring positive impact to trade, economic growth, and gross capital. Moreover, it has a positive impact on the rise of the unemployment rate in the country. It may be assumed that the quality of human capital is still low and cannot catch the progress of massive investment, which mostly requires the high-skilled workforce in the strategic field.

Mostly, FDI that comes to a particular country is an extractive and a high-intensive company that very heavy in the technological process and supply chain model. This result can become a consideration with previous studies, which argue that the benefits of FDI, in terms of the spillover effects they can generate, intensely dependent on the absorptive capacity of host countries. From now on, FDI channels can lead indirect influence on income inequality (through the induced changes in the productivity of local firms and the resulting changes in the level of wages in these firms) by looking at the results of panel data analysis conducted in this paper.

The next findings are going to step outside when we put trade as another proxy that can represent the process and output of globalization itself. We initially visualize the positive relationship between the current proxies of globalization represents as trade and give an initial indication for bringing direct and positive impact for reducing the poverty rate and the unemployment rate in the Muslim observed. The output implication for the second case is trade openness is playing the expected favorable effect on unemployment and poverty in the Asian and African Countries. It can be argued that trade liberalization policies should continue and trade-barrier should be eliminated in order to pursue more trade partner and increase trade volume in the country. However, to be even more effective, trade liberalization should be coupled with investment facilitation and production diversification policies.

Further, Asian and African Countries urgently need to strengthen the investment policy and create a business-friendly environment to support trade openness and non-barrier export rule. Globalization indirectly can give the benefit of prosperity for the Asian and African Countries with some requisites. Further, in order to create better policy implications on FDI and trade in the case of Asian and African Countries, future research should focus on exploring the various form of investment and how the government's policy can support this initiative for creating sustainable prosperity in the Asian and African Countries.

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