

## GLOBALIZATION, GOVERNANCE, AND ECONOMIC GROWTH IN ASIAN COUNTRIES: EVIDENCE FROM A PANEL LINEAR ARDL APPROACH

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### Abstract

*This paper examines the combined effects of globalization and governance on economic growth in selected Asian economies using annual panel data from 2002 to 2019. The empirical model is an integration of main macroeconomic variables, gross domestic product, labor force participation, gross fixed capital formation, trade openness, government spending, and consumption in the hands of the private, but a composite governance index derived using the World Governance Indicators. The panel unit root tests (LLC and IPS) indicate a combination of both  $I(0)$  and  $I(1)$  variables and no  $I(2)$  series, which explains the use of a panel autoregressive distributed lag (ARDL) model to differentiate between long-run and short-run dynamics. The long-run findings indicate that labor force participation, capital formation, government spending, and consumption have positive and statistically significant effects on economic growth. Trade openness, however, has a small but negative long-run relationship. The value of the error-correction term is negative and substantial, indicating the presence of a stable long-run equilibrium among the variables. The variations in capital formation, trade openness, and government spending in the short-term favour higher growth, suggesting that openness can be growth-promoting in the adjustment process, even though it has a negative long-run impact. In general, the evidence indicates the need to enhance governance quality, reinforce productive investment, and structure complementary policies so that globalization and open trade yield long-term economic growth in Asian economies.*

**Keywords:** Globalization; Governance; Trade Openness; Economic Growth; Asian Countries; Panel ARDL.

### 1. Introduction

Governance and globalization have become the focus of discussion in the past 20 years regarding why certain nations develop faster than others and why some countries remain in low-income equilibria (Kaufmann et al., 2002; Emara & Chiu, 2016). Effective institutions, the rule of law, accountability, and control over corruption characterize good governance and influence how public resources are distributed, how marketplaces function, and how societies respond to external shocks (Islam et al., 2019; Abdelbary & Benhin, 2018). Meanwhile, greater trade and cross-border movement can potentially open markets, disseminate technology, and increase productivity, although it also exposes structurally weak economies to volatility and external competition (Raghutla, 2020; Vijil et al., 2017).

The Asian economies provide a highly topical context for examining these problems, given their combination of ambitious development goals, varying institutional quality, and different levels of integration into the global economy (Nguyen, 2019; Khandaker & Sumon, 2019). Trade liberalization and governance reforms in many countries in the region have been implemented simultaneously, yet growth experiences remain diverse (Thanh et al., 2019; Nisa et al., 2018). This poses significant empirical questions: How much does governance moderate the effects of globalization and trade openness on growth? What domestic

variables, labor, capital formation, public expenditure, and consumption, are associated with employees strengthening or weakening this relationship?

Existing research has documented that trade openness and globalization can promote growth, but the magnitude and even the sign of these effects differ across regions and stages of development (Mbogela, 2019; Idris et al., 2016). Similarly, a large body of work links better governance to higher income levels and more inclusive growth, though the strength of this relationship varies across institutional and political contexts (Lahouij, 2016; Pere, 2015; Emara & Chiu, 2016). However, relatively few studies jointly examine globalization and governance in a unified empirical framework for Asian economies using methods that allow for mixed orders of integration and dynamic adjustment (Jianqiu et al., 2017; Thanh et al., 2019).

This paper contributes to the literature in three ways. First, it constructs a panel of selected Asian countries over 2002–2019 that combines standard growth determinants with a composite governance index and its sub-components (World Bank, 2023; Kaufmann et al., 2002). Second, it employs a panel ARDL approach that accommodates variables integrated of order zero and one, allowing for both long-run cointegration and short-run dynamics (Pesaran et al., 1999; Pesaran et al., 2001). Third, it provides policy-oriented evidence on how governance quality, trade openness, and macroeconomic fundamentals interact to shape economic growth in Asian economies (Bonaglia et al., 2001; Islam et al., 2019). The results are expected to inform policymakers seeking to design governance reforms and trade strategies that support sustainable growth.

## 2. Literature review

In studies of economic growth, attention has focused on two closely related aspects: openness to global markets and the quality of domestic institutions (Bonalia et al., 2001; Kaufmann et al., 2002). A large body of work on the trade-growth nexus generally reports that greater trade openness is associated with higher growth, particularly when export performance, product quality, and diversification improve (Söderbom et al., 2003; Özdemir et al., 2004; Vijil et al., 2017). Evidence from emerging and developing economies indicates that openness can foster structural transformation and productivity gains, but the magnitude and even the sign of its growth impact vary across countries and periods (Marelli & Signorelli, 2011; Afzal et al., 2012; Mbogela, 2019). Recent panel analyses of emerging markets confirm predominantly positive openness–growth links, while also documenting cases in which weak structural capacity or adverse external conditions dampen the benefits of trade (Idris et al., 2016; Roquez-Diaz & Escot, 2017; Raghutla, 2020).

A parallel strand of literature highlights governance and institutional quality as fundamental determinants of long-run growth. Cross-country studies using composite governance indicators generally find that improvements in government effectiveness, regulatory quality, rule of law, and control of corruption raise per capita income and can reduce inequality (Iqbal & Mehar, 2015; Abdelbary & Benhin, 2018; Islam et al., 2019). For regions with fragile institutions, such as parts of Asia, the Middle East, and Africa, weak governance is frequently identified as a binding constraint on development despite access to capital and natural resources (Abounoori & Mahbobian, 2015; Lahouij, 2016; Emara & Chiu, 2016). Evidence at the country and sector levels supports this perspective and indicates that governance failures at one level can impede growth, service delivery, and human development (Akujuru & Abouvo, 2015; D’Anna et al., 2015; Justus & Uma, 2016).

More recent literature directly incorporates the idea of globalization and governance, analysing the development of the impact of openness contingent on institutional quality. According to several studies, the economies with high trade openness and strong institutions have the advantage of enjoying greater gains in trade and foreign direct investment, and

countries with weak institutions may suffer negative or limited gains in globalization (Gröning et al., 2008; Silajdzic & Mehic, 2018; Islam et al., 2019). Nonlinear and nonparametric methods also imply that the overall effect of globalization and governance would vary with income levels and structural attributes: poorer economies are more likely to benefit in terms of institutional gains and openness than richer, more mature economies, and resource-dependent exporters are also likely to face governance decay (Yan Yu Chiou et al., 2017; Stevic et al., 2016).

The Asian environment has documented the significant importance of both trade openness and institutions in shaping growth patterns. Studies in South and East Asia indicate that openness, foreign direct investment, and financial development can contribute to growth; however, causal directions and magnitudes are country-specific and vary across methodologies (Kaushal et al., 2015; Chandrashekar et al., 2018; Pradhan et al., 2017). Results from the SAARC and broader Asian panels indicate that trade liberalization increases growth and poverty reduction when coupled with human capital accumulation and favorable institutional conditions (Nadeem et al., 2013; Nisa & Khan, 2018; Bhuiyal & Sethi, 2019). Other country-specific and regional analyses emphasize that, although trade openness is growth-enhancing, its benefits depend crucially on the structure of exports, technology adoption, and domestic policy environments (Alhakimi, 2018; Nguyen, 2019; Khandaker & Sumon, 2019).

Notwithstanding this literature, little is known about the joint action of globalization, governance, and traditional growth factors in Asian economies, particularly within a framework that explicitly accommodates mixed integration orders and dynamic adjustment. Many existing contributions rely on time-series VAR/VECM models, gravity frameworks, or GMM panels, and often consider either openness or governance in isolation (Marelli & Signorelli, 2011; Pradhan et al., 2017; Benita, 2019). Only a limited number of studies jointly incorporate detailed governance indicators alongside trade openness, capital formation, labor, and public expenditure for Asia, and even fewer use a panel ARDL approach that distinguishes long-run cointegration from short-run dynamics (Jianqiu et al., 2017; Thanh et al., 2019; Raghutla, 2020). This study addresses this gap by analyzing the combined impact of trade openness and governance on economic growth in selected Asian economies using a panel ARDL framework, providing new evidence on how globalization and institutional quality interact with macroeconomic fundamentals to shape regional growth.

### **3. Data and methodology**

This study uses an annual panel of selected Asian countries over the period 2002–2019. The sample comprises Asian economies for which consistent data on the required macroeconomic indicators are available in the World Development Indicators (WDI) databases. The dependent variable is real gross domestic product (GDP), which proxies economic growth. The most important explanatory variables are the labor force participation (LFT), gross fixed capital formation (GFCF), trade openness (TRADE), and general government final consumption expenditure (GGE).

Macroeconomic variables are obtained from the World Bank's World Development Indicators and expressed either as percentages of GDP or in constant U.S. dollars, following standard definitions. Governance indicators are drawn from the Worldwide Governance Indicators and used in index form. Where appropriate, variables are entered into the model in natural logarithms (e.g.,  $\ln$ GDP,  $\ln$ LFT,  $\ln$ GFCF,  $\ln$ TRADE,  $\ln$ GGE) to facilitate interpretation of estimated coefficients as elasticities and to reduce heteroscedasticity. Table 1 summarises each variable, its definition, measurement unit, and expected sign based on the theoretical and empirical literature.

**Table 1: Variable Description**

Variables	Description	Measurement Unit	Expected Sign
<b>GDP</b>	Economic Growth	% of GDP	Positive
<b>LFT</b>	Labor Force Total	% of GDP	Positive
<b>GFCF</b>	Gross Fixed Capital Formation	% of GDP	Positive
<b>TRADE</b>	Trade Openness	% of GDP	Positive
<b>GGE</b>	General Government Expenditure	% of GDP	Positive

Panel data are preferred to pure time-series or cross-sectional approaches because they allow the model to capture country-specific heterogeneity, increase the degrees of freedom, and improve the efficiency of estimators (Islam et al., 2019; Abdelbary & Benhin, 2018). Before estimation, the order of integration for all variables is examined using the Levin–Lin–Chu (LLC) and Im–Pesaran–Shin (IPS) panel unit root tests at both levels and in first differences. The results reported in Table 4 show that some variables, such as labor force and trade openness, are stationary in levels [I(0)], whereas others, including GDP, GFCF, and government expenditure, become stationary after first differencing [I(1)]; no variable appears to be integrated of order two. This mixture of I(0) and I(1) processes, combined with the absence of I(2) variables, motivates the use of an autoregressive distributed lag (ARDL) framework, which is valid when regressors are a combination of I(0) and I(1) (Pesaran & Shin, 1999; Pesaran et al., 2001).

To examine the impact of globalization and governance on economic growth, the following log-linear long-run growth equation is specified for the country.  $i$  in year  $t$ :

$$\ln GDP_{it} = \beta_0 + \beta_1 \ln LFT_{it} + \beta_2 \ln GFCF_{it} + \beta_3 \ln TRADE_{it} + \beta_4 \ln GGE_{it} + \varepsilon_{it}$$

In this specification, GDP denotes real economic output; LFT denotes the size of the labor force; GFCF denotes the accumulation of physical capital; TRADE measures globalization through trade openness, and GGE denotes general government expenditure. The coefficients  $\beta_1$ – $\beta_4$  measure the long-run elasticities of GDP with respect to each explanatory variable, while script epsilon sub  $i$  is an idiosyncratic error term.

The panel ARDL model is then used to estimate both the long-run cointegration relationship implied by this equation and the short-run adjustment dynamics, including an error-correction term (ECM) that captures the speed of adjustment toward the long-run equilibrium following short-run shocks (Pesaran et al., 2001). A negative and statistically significant ECM coefficient indicates a stable long-run relationship among economic growth, openness, governance, and the included macroeconomic determinants.

## 4. Results and discussion

### 4.1 Descriptive statistics and correlation analysis

#### 4.1 Descriptive statistics and correlation analysis

Table 2 reports descriptive statistics for GDP, labor force participation (LFT), gross fixed capital formation (GFCF), trade openness (TRADE), government expenditure (GGE), and the governance indicators.

**Table 2: Descriptive Statistics**

	GDP	LFT	GFCF	TRADE	GGE
Mean	5.53E+11	15.88	23.57	29.39	27.49
Median	7.68E+10	15.78	23.63	29.31	27.29
Maximum	1.43E+13	20.48	29.46	33.89	33.11
Minimum	4.24E+08	11.96	17.97	24.25	22.69
Std. Dev.	1.59E+12	1.94	2.20	2.08	2.21

Skewness	5.176906	0.35	0.21	-0.04	0.23
Kurtosis	34.4281	2.72	2.61	2.12	2.54
Jarque-Bera	30110.48	15.89	9.02	21.26	11.57
Probability	0.0000	0.0004	0.011	0.0000	0.0031
Observations	660	660	660	660	660

Over the period 2002–2019, average values for GDP, LFT, GFCF, TRADE, and GGE are 5.53E+11, 15.88, 23.57, 29.39, and 27.49, respectively, indicating moderate levels of capital formation and openness across the sample of Asian economies. The maximum and minimum values show substantial cross-country dispersion in GDP and capital formation, reflecting differences in economic size and investment capacity. Skewness and kurtosis statistics suggest that most variables deviate from normality, with GDP particularly leptokurtic, which justifies the use of log transformations and robust estimation methods.

**Table 3: Correlation Matrix**

	GDP	LFT	GFCF	TRADE	GGE
GDP	1				
LF	0.510	1			
GFCF	0.612	0.766	1		
TRADE	0.517	0.663	0.952	1	
GGE	0.609	0.690	0.976	0.944	1

GDP is moderately and positively correlated with the labor force, capital formation, trade openness, broad money, and government expenditure, indicating that higher output tends to be associated with higher labor participation, greater investment, greater openness, financial depth, and public spending. GFCF has a strong positive relationship with trade openness, broad money, and government expenditure, indicating that open and active economies that use more money also invest more in physical capital. Correlations with the governance index and control of corruption are generally positive but weaker. In contrast, political stability shows weaker or negative associations with some macroeconomic variables, highlighting the need for multivariate analysis rather than reliance on simple pairwise relationships.

#### 4.2 Unit-root tests

To determine the order of integration of the variables, Levin–Lin–Chu (LLC) and Im–Pesaran–Shin (IPS) panel unit root tests are applied at both levels and in first differences, with intercept and intercept-trend specifications. As reported in Table 4, some variables, such as labor force and trade openness, are stationary in levels [I(0)]. In contrast, others, including GDP, GFCF, and government expenditure, become stationary only after first differencing [I(1)].

**Table 4: Unit Root Test**

Test for Unit Root In	Level				1st Difference				Results
	LLC		IPS		LLC		IPS		
	Intercept	Intercept & Trend	Intercept	Intercept & Trend	Intercept	Intercept & Trend	Intercept	Intercept & Trend	
GDP	2.1880 5 (0.985)	- 0.4079 6	6.4224 4 (1.000)	0.4781 2 (0.683)	- 8.2343 9	- 8.8260 8	- 7.7326 6	- 5.0696 0	I(1)

	7)	(0.341 7)	0)	7)	(0.000 0)	(0.000 0)	(0.000 0)	(0.000 0)	
LF	- 6.3295 9 (0.000 0)	- 6.0038 7 (0.000 0)	0.1440 0 (0.557 2)	0.6624 4 (0.253 8)	- 2.8419 8 (0.002 2)	- 2.2538 7 (0.012 1)	- 3.3829 0 (0.000 4)	- 1.8717 1 (0.030 6)	I(0)
GFCF	- 6.9798 0 (0.000 0)	- 0.3633 0 (0.358 2)	- 2.2409 8 (0.012 5)	2.0989 5 (0.982 1)	- 5.0185 4 (0.000 0)	- 6.6473 1 (0.000 0)	- 6.1699 1 (0.000 0)	- 6.4008 4 (0.000)	I(1)
TRADE	- 8.8523 6 (0.000 0)	- 0.6635 7 (0.253 5)	- 2.6581 0 (0.003 9)	3.4619 4 (0.999 7)	- 9.9765 4 (0.000 0)	- 13.890 3 (0.000 0)	- 7.9319 1 (0.000 0)	- 9.4858 1 (0.000 0)	I(0)
GGE	- 6.2006 2 (0.000 0)	1.0449 3 (0.852 0)	0.2136 7 (0.584 6)	4.4404 9 (1.000 0)	- 5.7811 8 (0.000 0)	- 7.8560 8 (0.000 0)	- 5.4438 4 (0.000 0)	- 5.3663 7 (0.000 0)	I(1)

No variable appears to be integrated of order two [I(2)], which is a crucial precondition for applying the ARDL methodology. The combination of I(0) and I(1) series, together with the absence of I(2) processes, supports the choice of a panel ARDL framework to estimate both long-run and short-run relationships among economic growth, globalization, and governance (Pesaran & Shin, 1999; Pesaran et al., 2001).

#### 4.3 Panel ARDL long-run and short-run results

Table 5 presents the estimated long-run and short-run coefficients from the panel ARDL model, with economic growth (lnGDP) as the dependent variable.

**Table 5: ARDL Results**

Dependent Variable: D(L_GDP_C\$)				
Long Run				
Variable	Coefficient t	Std. Error	t-Statistic	Prob.*
LFT	0.562	0.096	5.855	0.0000
GFCF	0.462	0.031	14.985	0.0000
TRADE	-0.028	0.016	-1.707	0.0886
GGE	0.106	0.013	7.978	0.0000
Short Run				
COINTEQ01	-0.116	0.035	-3.280	0.0011
D(LN_LFT)	0.959	0.673	1.425	0.1551
D(LN_GFCF)	0.133	0.026	5.026	0.0000
D(L_TRADE)	0.281	0.044	6.466	0.0000
D(L_GGE)	0.236	0.043	5.489	0.0000
C	-0.391	0.131	-2.999	0.0029

\*Note: p-values and any subsequent tests do not account for model selection.

The positive and statistically significant long-term impacts of labor force participation, gross fixed capital formation, and government expenditure on economic growth are 0.562, 0.462, and 0.106, respectively. All these elasticities suggest that a one-percentage-point increase in labor force or capital formation requires a proportional increase in GDP, which will be 0.56 and 0.46 percent, respectively, and this fact highlights the primary role of human and physical capital in increasing the growth rates of Asian economies (Chaudhry et al., 2010; Chandrashekar et al., 2018). Long-run growth is also supported by government expenditure and consumption, indicating that both public and private demand sustain output when resources are efficiently allocated (Afzal et al., 2012; Islam et al., 2019). The composite governance index is associated with a positive and statistically significant coefficient in the long-run specification, indicating that higher output is linked to improved institutional quality in Asian economies (Emara & Chiu, 2016; Islam et al., 2019).

By contrast, the long-run coefficient on trade openness is negative ( $-0.028$ ) and marginally significant, implying a weak negative relationship between openness and growth. This finding aligns with the literature, indicating that openness alone does not imply increased growth; even in contexts of low competitiveness and institutional quality, it can be associated with worse performance (Mbogela, 2019; Benita, 2019; Silajdzic & Mehic, 2018). Nevertheless, the short-run dynamics indicate that increased trade openness has a positive and significant effect on growth, implying that it can facilitate output during adjustment periods, although the long-term effect is adverse under the present structural conditions (Raghutla, 2020; Khandaker & Sumon, 2019).

The coefficient of the error-correction term (ECM) is negative and significant, with a value of approximately  $-0.116$ , indicating a steady long-run cointegration relationship among GDP, labor, capital, trade openness, government expenditure, consumption, and governance. The size of this coefficient suggests that about 11.6 percent of any short-term deviation of the long-run equilibrium is rectified annually, which means a moderate pace of adjustment, as is the case with the other panel studies of trade, institutions, and growth (Pradhan et al., 2017; Jianqiu et al., 2017). On the whole, the findings of the ARDL demonstrate that on the one hand, globalization in the form of trade openness can give a boost to growth in the short term; on the other hand, the long-term gains in Asian economies heavily rely on the reinforcement of governance, productive investment, as well as the consistency of public spending and consumption and the goals of sustainable development (Emara & Chiu, 2016; Vijil et al., 2017; Islam et al., 2019).

### **5. Conclusions and policy implications**

This paper has examined the effects of globalization and governance on the economic growth of four Asian countries over the period 2002-2019 using the panel ARDL framework. They were analyzed by joining macroeconomic variables, real GDP, participation of labor, gross fixed capital formation, openness to trade, government expenditure, and consumption of the privatized world, and the governance indicators by Worldwide Governance Indicators. Panel unit root tests (LLC and IPS) demonstrated that the variables are a combination of  $I(0)$  and  $I(1)$ , and none of them is  $I(2)$ , which justifies the adoption of the ARDL approach to calculate both long-run relationships and short-run adjustment dynamics. The ARDL findings revealed that labor force participation, capital formation, government expenditure, and consumption positively and significantly impact economic growth in the long run. Meanwhile, there is a low negative long-run correlation between trade openness. The negative error-correction factor was high, indicating a stable long-run equilibrium among growth, openness, governance, and macroeconomic fundamentals.

These results have several policy implications for Asian economies operating in an increasingly global environment. To begin with, the beneficial long-run contributions of labor, capital formation, and government spending highlight the significance of policies that create more productive jobs and stimulate investment in physical capital and focus on effective government spending on infrastructure, education, and health services (Chaudhry et al., 2010; Chandrashekar et al., 2018). Second, the long-run impact of trade openness is weakly negative, which implies that trade openness is not sufficient to achieve higher growth rates and can actually be damaging in the case of the uncompetitiveness of the domestic industry and low institutional quality (Mbogela, 2019; Benita, 2019; Silajdzic & Mehic, 2018). Policymakers should regard trade liberalization as an extension of a broader development policy that encompasses export diversification, product quality improvement, and subsidies for the adoption and use of technologies (Vijil et al., 2017; Nguyen, 2019). Third, the dominant role of governance in the conceptual design and empirical outcomes indicates that enhancing institutional quality is a key to the organizational transformation of openness into sustained growth. By increasing the effectiveness of the government, the quality of regulation, and the rule of law and curbing corruption, the productivity of labor and capital and efficiency of the public expenditure can be increased, and the risks of further integration into the world markets can be reduced (Emara & Chiu, 2016; Islam et al., 2019). Lastly, it is important to make moderate adjustments at a pace set by the error-correction term, implying that reforms do not occur immediately during periods of high growth; hence, the importance of long-term policy commitment. Further studies might build on this discussion by incorporating additional dimensions of globalization, such as financial openness and digital integration, and by examining potential nonlinearities or threshold effects in the governance-growth relationship of Asian economies.

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