Globalization and socio-economic development in post-transition European Union countries: panel causality and regression analyses

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Abstract

The consequences of globalization on economic growth and development have largely been debated both by scholars and policy makers. However, literature lacks a multidimensional analysis of the relationship between of all forms of globalization and the development of a country. Therefore, the purpose of the present paper is to investigate the impact of various globalization types on socio-economic development in eleven European Union (EU) states that faced the transition from a centralized to a market economy, during the period 1993-2016, with the help of Dumitrescu and Hurlin (2012) causality test, Beck and Katz (1995) PCSE estimator and pooled OLS regression, considering the results of pre-tests. The empirical research revealed that economic, political and cultural globalization positively influences the socio-economic development of all the analysed states. These findings may offer valuable information for the policy makers of the eleven economies which could enhance the development in a globalized era.

Keywords: globalization, socio-economic development, panel regression and causality analyses, post-transition EU economies

Introduction

Globalization is no longer a new phenomenon for the academic and business environment. It became a common concept, usually used for explaining various aspects of this dynamic and complex world (Akinlo, 2003). The consequences of globalization on economic growth and development have largely been debated by both scholars and politicians. However, even if it is considered a multidimensional phenomenon, the meaning of globalization is mainly restricted to its economic dimension (Lalountas *et al.*, 2011). In the context of the adjustment programs of

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International Monetary Fund and World Bank, meant to foster globalization, many policy makers of developed and developing countries have liberalized their economic policies, opened up the markets and promoted free trade, in order to enhance the economic growth.

Literature offers a wide range of studies which have analysed the effects of globalization even since 1970's, most of them paying attention especially to the economic and financial globalization. However, the opinions among researchers are dived. Many studies revealed a positive relationship between financial globalization and economic growth (King and Levine, 1993; Odedokun, 1996), underlying that the financial globalization determines an increase of 1% in the annual real per capita GDP growth, during a period of five years (Bekaert, 2001). There are also voices which argue that globalization offered opportunities especially to the developed world: while the most advanced countries used their competitive advantage to increase their share of money and trade (Khor, 2001; UNCTAD, 2003), the developing states faced a worsening of their position in the world economy (Collier and Dollar, 2001). The idea according to which globalization created two contrasting 'global villages' – one powerful and rich and another one poor and marginalized (Onwuka and Eguavoen, 2007) – belongs especially to the social scientists who are non-economists (Cieślik, 2014). They usually tend to criticize globalization because they consider that its social costs are higher than the benefits. Even though some economists have also pointed out the shortcomings of the current forms of globalization (Dreher, 2006), they have brought empirical evidence to illustrate that the positive effects of globalization on growth are superior to all the negative consequences. Their major argument is related to the benefits brought by international trade and foreign investments, best illustrated by the countries from South and East Asia, which experienced a 'growth miracle' (Abbot, 2003).

Regarding the impact of globalization on development, various researches were conducted on the case of the African and Latin American states (Onwuka and Eguavoen, 2007; Lawal, 2006; Figueroa, 2014). Meanwhile, studies on Central and Eastern European countries, which have experienced a significant economic, social, cultural and political globalization during 1996-2016 period (as shown by Table 1), are rather limited and focused only on the consequences of the economic globalization. Therefore, this paper has a significant contribution to the literature, by investigating the impact of the major globalization types on socio-economic development, proxied by human development, in eleven post-communist EU countries. Meanwhile, another novelty aspect of the study results from the analysis of the main types of globalization on socio-economic development. Most of the empirical studies have generally focused only on the impact of globalization on economic growth and development.

Table 1. Globalization in post-communist EU countries

Country	Year	Economic Globalization	Social Globalization	Cultural Globalization	Political Globalization
Bulgaria	1993	51.63	46.88	52.17	75.80
Bulgaria	2016	77.15	76.50	78.24	87.06
Croatia	1993	41.80	57.99	56.19	38.50
Croatia	2016	74.25	82.61	87.79	85.84
Czechia	1993	58.20	67.04	83.06	74.21
Czechia	2016	82.61	82.56	90.67	90.40
Estonia	1993	69.25	61.76	57.40	34.95
Estonia	2016	86.22	84.33	84.57	80.25
Hungary	1993	53.32	64.78	74.69	80.97
Hungary	2016	82.37	80.84	84.82	92.18
Latvia	1993	57.16	57.23	57.36	35.11
Latvia	2016	81.44	79.97	74.65	78.12
Lithuania	1993	56.11	55.09	48.15	36.17
Lithuania	2016	78.18	85.14	86.08	79.19
Poland	1993	37.85	56.63	67.80	85.65
Poland	2016	72.84	78.93	86.30	91.84
Romania	1993	39.19	41.66	49.32	75.40
Romania	2016	70.35	76.23	74.89	91.36
Slovak Rep.	1993	49.21	60.75	68.93	62.98
Slovak Rep.	2016	80.84	82.11	86.58	85.73
Slovenia	1993	46.23	65.78	73.46	37.70
Slovenia	2016	76.83	83.20	84.14	83.79

Source: Authors' representation.

Starting from the idea according to which the position of a state in the world system may be the major determinant of that economy to enhance sustainable growth and development (Crowly *et al.*, 1998, p. 32), the purpose of the present paper is to investigate the impact of the economic, political and cultural globalization on the socio-economic development of eleven post-transition EU states.

The rest of the article is structured as the following. The forthcoming part briefly summarizes the relevant literature regarding the effects of globalization on development. Section 3 defines the data and the research method and Section 4 performs the empirical analyses and explains the main findings of the analyses. Lastly, the conclusions are presented in Section 5.

1. Literature overview

Even from the very beginning, globalization generated strong reactions among its exponents and opponents. While the formers perceive globalization as a positive

process of increasing integration into the world economy, which leads to higher living standards and economic freedom, the latter group sees it as a negative phenomenon in terms of unequal pattern of development, due to economic exploitation, environmental degradation and cultural homogenization (Akhter, 2004).

These divided opinions regarding the consequences of globalization on development can be associated with three major theories that dominate the literature. The first one comes from the neoliberal school. It states that, while globalization is related to the free movement of goods, services, capital, technology and workers, the development is defined in terms of human well-being (Figueroa, 2014). According to the ideas of the neoliberals, the most important effects of globalization are related to international trade and foreign investments. On one side, they can increase the efficiency and competitiveness in the utilization of productive resources and, on the other side, they determine improvements in the quality of life. The positive consequences result from higher specialization, access to new ideas, products, international best practices and know-how (Sachs, 2000; Crafts, 2000). These intangible assets brought by the multinational corporations in the host countries also enhance the investments and enterprises' competitiveness (UNCTAD, 2001), which will lead to more powerful corporations (Ocampo, 2003). Under this increased competition, the salaries of the unskilled workers may diminish, but globalization encourages the acquisition of new skills which could be better valued on the labour market (Grennes, 2003). However, Spilimbergo *et al.* (1999) conclude that trade openness reduces the income inequalities only in the skill-abundant countries.

Regarding the impact of globalization on the labour market, it was argued that FDI positively influences the employment, both directly and indirectly, through job creation within suppliers and retailers (Lall, 2004). An example is brought by Lee (1996) and Orbeta (2002), on the case of the Asian states. Moreover, Muhammad *et al*. (2010) mentioned that globalization strengthened the East Asian regional economic cooperation, which, in turn, led to faster economic growth. Similar results were found on the case of US cities, which experienced rapid growth in the volume of trade, investments and labour moving within the states (Feiock *et al.*, 2008). In the context of globalization, due to the high level of collabouration, the interconnected regional entities will lead to the expansion of the industrial clusters, which represent a major source of economic growth (Scott and Storper, 2003).

It was noticed that the economic development is positively and significantly related to the level of the industrialization of a state (Lawal, 2006). Actually, some researchers pointed out that globalization occur in the latest stage of the development of the industrialized nations (Anya, 1999). However, other studies considered that globalization fosters industrialization into developing countries, therefore reducing the global income inequality (Firebaugh and Goesling, 2004). Yet, the major condition for globalization to spread and improve the well-being of the population is that the labour market quickly responds to the changes in the supply and demand (Grennes, 2003).

Some recent studies argued that the relation between globalization and human development depends on the economic freedom and corruption (Akhter, 2004). Globalization reduces or even eliminates the barriers on the international trade and, hence, it decreases the level of corruption. Therefore, it has a positive impact on economic freedom and a negative one on corruption. Moreover, globalization requires institutional reforms, such as markets' liberalization, transactions' transparency and improved quality of public sector services. Yet, globalization may significantly diminish corruption only in the middle and high income countries and not in the low income states (Lalountas *et al*., 2011).

The second theory associates globalization with a new world order in which global powers determine capital accumulation only in a few economies, while the rest of them experience no significant improvements (Ming-Chang, 2006; Petras and Veltmeyer, 2001). Therefore, the results of globalization are reflected in the inequality of benefits, in the detriment of those who are already less privileged (Mander and Goldsmith, 1996). The critics of globalization underline that this phenomenon is negatively influencing the long-term prosperity of the world, since it alters all the three dimensions of the sustainable development. Some scholars claim that globalization undermined the social cohesion (Greider, 1997), since it widened the gap between the salaries of skilled and unskilled workers (Wood, 1998) and, thus, exacerbated the social conflicts (Rodrik, 1997). The absolute poverty has increased in many developing states, while the relative poverty has augmented in the majority of the countries (Lee and Vivarelli, 2006). Moreover, through the migration of the highly-skilled workers from poor to rich countries, globalization is making human capital scarcer where it is already scarce and more abundant where it is already abundant and, thus, increasing the inequality between states (Haque and Kim, 1995). Meanwhile, this brain-drain phenomenon lowers the wages in the developed countries (Bronfenbrenner, 1996).

Findings from other studies indicate that globalization causes a reduction of the companies' size (Sebbens, 2000), the result being an increasing unemployment (Agiomirgianakis and Zervoyianni, 2001). This consequence occurs especially because both imports and inward FDI may eliminate a part of the domestic production (Aitken and Harrison, 1999). The job displacement effect is higher if the foreign investments are accompanied by financial liberalization, which will generate a shrinking of the domestic investments, due to the increased interest rate (Berg and Taylor, 2001).

One of the major concerns of the opponents of globalization is that it affects peoples' health through the environmental degradation, huge income inequality and denial of human rights (Legge, 1998). In this regard, the most cited examples are China (Lee and Vivarelli, 2006) and the African states (Lawal, 2006). However, in the case of the last ones, the problems are related more to the internal socio-economic and political environment than to the consequences of globalization. For example, Nigeria did not benefit from globalization due to lack of diversity of the exports,

inability to attract more foreign investors and huge indebtedness (Onwuka and Eguavoen, 2007).

The third theory admits that globalization is a process that has both benefits and costs (Sirgy *et al*., 2004; Ming-Chang, 2006). For example, some sociologists who have tested the relationship between globalization and quality of life, measured through the level of education, health and income, found out that globalization has both positive and negative effects on the living standard in the developing countries (Tsai, 2007; Sapkota, 2011). Similar results were revealed by Figueroa (2014), who has analysed the case of Central and South American countries. Her results showed that, while the overall globalization index had a positive impact on human development index, the effects were mixed when globalization was disaggregated. The economic globalization sub-index showed a negative impact and the social and political globalization sub-indexes had positive effects on human development in the analysed states. Orenstein and Haas (2005) also noticed that the impact of globalization on the development of the Central and Eastern European states depends on country's position in the international economy and on the geopolitical relations.

The regression analysis conducted by Sabi (2007) on 150 countries reveals a strong relation between globalization and human development only for the high-income countries. Therefore, the conclusion of his study was that globalization has a significant contribution to human development only after the states achieve a certain level of income. Yet, some positive consequences of globalization on the economic growth of the developing states might be noticed. For example, Lall (2004) observed that several developing countries experienced an increase in exports and employment after opening the markets to trade and foreign investments. However, the magnitude of the impact depends on the 'national absorptive capacities' (Abramovitz, 1989), defined through institutional setting, labour skills, technological capabilities and competitiveness of domestic firms (Shafaeddin, 2005). An example of mixed employment effects of trade liberalization is brought by the Latin American states (Cimoli and Katz, 2003). Meanwhile, shifting the production through FDI and trade from developed to developing states may increase inequality both in the former and in the latter economies (Zhu and Trefler, 2001).

2. Data and econometric methodology

The impact of economic, political and cultural globalization on the socio-economic development in post-transition EU countries during the period 1993-2016 have been explored by using panel causality and regression analyses.

2.1. Data

In the applied analysis, socio-economic development is proxied by human development index (HDI) of the United Nations (2019). This index was chosen

because it best quantifies the essential determinants of socio-economic development (Perkins *et al*., 2012, p. 40). It is a geometric mean of three normalized indexes: of life expectancy, of education and of gross national income per capita index. Globalization is proxied by main globalization indexes of KOF Swiss Economic Institute. The KOF index is the most comprehensive measure of globalization that is currently available (Cieślik, 2014). The Institute calculates the composite index based on economic, social and political dimensions (Gygli *et al*., 2018). In the study, economic and political globalization, together with cultural globalization, a sub-index of social globalization index, are used to see the influence of globalization on the socio-economic development proxied by HDI. However, social globalization index is excluded from the model due to the high correlation (0.9185) between HDI and social globalization.

Table 2. Data description

Variables	Description	Source
SOCDEV	Human development index	United Nations (2019)
EG	Economic globalization	KOF Swiss Economic Institute (2019)
PG	Political globalization index	
SG	Social globalization index	
CG	Cultural globalization index	

Source: Authors' representation.

Table 3. The main characteristics of the dataset and correlation matrix

	SOCDEV	**EG**	**PG**	**CG**
Mean	0.7896629	68.48489	77.8252	75.0007
Maximum	0.894	86.26739	94.24039	90.66572
Minimum	0.666	37.84824	34.95123	45.39761
Std. Dev.	0.0540442	12.06699	14.03707	9.369281
	SOCDEV	EG	CG	PG
SOCDEV	1.0000			
EG	0.6775	1.0000		
CG	0.6305	0.5527	1.0000	
PG	0.4469	0.1863	0.5466	1.0000

Source: Authors' calculations.

The data availability determines the sample and time duration of the study. The sample is composed of eleven EU transition members (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia). The time duration is the period 1993-2016 and the data is annual. The econometric analyses are performed with the help of the software Stata 14.0, E-views 10.0 and Gauss 10.0.

The main characteristics of the dataset are presented in Table 3. The mean of socio-economic development proxied by HDI in the panel is 0.789662, the highest level being 0.894 and the lowest one about 0.666. Meanwhile, the standard deviation is 0.05.

2.2. Econometric methodology

In this study, the impact of globalization on the socio-economic development in the eleven EU transition economies is analysed with causality analysis and panel regression analysis. The dependent variable is the socio-economic development proxied by HDI, while the explanatory variables are economic globalization, political globalization and cultural globalization. Globalization has both direct and indirect effects on economic growth. By enhancing trade and foreign direct investment, globalization raises the employment level, thus reducing the income inequality and poverty (Gurgul and Lach, 2014; Destek, 2018; Santiago *et al*., 2020). Meanwhile, its spillover effects foster education and health levels (Huynen *et al*., 2005; Moloi *et al*., 2009). Therefore, considering all these effects of globalization, the human development index has been chosen as dependent variable. Therefore, the model is:

$$SOCDEV_{it} = \alpha_i + \beta_1 EG_{it} + \beta_2 PG_{it} + \beta_3 CG_{it} + \varepsilon_{it} \quad (1)$$

First, pre-tests of cross-sectional dependence and unit root tests are conducted in order to see the need for further tests. In this regard, Bresuch and Pagan's (1980) LM test, Pesaran (2004) CD LM test and Pesaran *et al*., (2008) adj. LM tests are conducted to check the availability of cross-sectional dependence among the series. Then, the stationarity of the variables is examined with Pesaran (2007) CIPS test, because the variables in the causality and regression analyses should be stationary to prevent potential false relationships among the series (Gujarati and Porter, 2009).

Furthermore, the reciprocal interaction between socio-economic development and various globalization indicators is analysed with Dumitresu and Hurlin (2012) causality test. Lastly, the size of economic, political and cultural globalization's effect on the development is investigated with the help of the regression analysis. In this context, Chow (F) and BP (χ^2) pretests are conducted to specify the estimation method. The serial correlation is tested by using Wooldridge (2002) autocorrelation test, while heteroscedasticity is checked with the help of Greene (2003) heteroscedasticity test after regression estimation.

3. Results and discussions

First of all, the presence of cross-sectional dependence among the series of socio-economic development and main globalization components was investigated

by using Breusch and Pagan (1980) LM test and Pesaran *et al.* (2008) LM adjusted test regarding the dataset's characteristics to select the more reliable unit root test and causality test. Furthermore, the presence of cross-sectional dependence among the countries shows that a shock in a country will also affect the other states of the sample. The test results are presented in Table 4. Considering the p values, the null hypothesis of cross-section independence was declined. Therefore, we inferred the presence of cross-section dependence among the countries.

Table 4. Cross-sectional dependency tests' results

Test	Test statistic	Prob. value
LM test	124.1	0.0000
$\boldsymbol{LM_{adj.}}$ **test**	13.84	0.0000
LM CD	1.903	0.0570

Source: Authors' calculations.

The stationarity of the variables is explored after pre-tests of cross-sectional dependence. The CIPS unit root test of Pesaran (2007), regarding the presence of cross-sectional dependence, was conducted to examine the availability of unit root in the variable series; the test results are shown in Table 5. Maximum lag length of 1 was applied and Schwarz information criterion was considered in determination of the optimal lag length. The results revealed that SOCDEV was I(1), and the other variables of EG, PG, and CG were I(0).

Table 5. Panel CIPS unit root test results

Variables	Constant	Constant + Trend
SOCDEV	-1.230	0.907
d(SOCDEV)	-3.863***	-3.453***
EG	-3.628***	-2.323**
d(EG)	-5.135***	-3.227***
PG	-2.929***	-1.853**
d(PG)	-6.994***	-5.015***
CG	-2.454***	-3.723***
d(CG)	-5.873***	-3.847***

***, **, and * is respectively significant at 1%, 5% and 10% significance levels.
Source: Authors' calculations.

The causal interaction among various globalization indicators and socio-economic development was analysed with the help of Dumitrescu and Hurlin (2012) causality test, after pretesting cross-sectional dependence and unit root (see Table 6). The causality test results revealed one-way causality from economic globalization,

political globalization, social globalization and cultural globalization, but no significant causality from development to the globalization indicators. So, the main globalization types had significant effects on the socio-economic development. Even though an impact of the socio-economic development on the main types of globalization is theoretically expected, a significant causality is not considered to be possible, in the context of the socio-economic development level of the countries.

Table 6. Dumitrescu and Hurlin (2012) test results

Null Hypothesis	W-Stat.	Zbar-Stat.	Prob.
EG ↛DSOCDEV	**4.28893**	**6.07464**	**1.E-09**
DSOCDEV ↛EG	0.80959	-0.59008	0.5551
PG ↛DSOCDEV	**4.40957**	**6.30574**	**3.E-10**
DSOCDEV ↛PG	1.21074	0.17833	0.8585
SG ↛DSOCDEV	**6.08266**	**9.51056**	**0.0000**
DSOCDEV ↛SG	1.11553	-0.00405	0.9968
CG ↛DSOCDEV	**6.10942**	**9.56182**	**0.0000**
DSOCDEV ↛CG	1.34886	0.44289	0.6578

Source: Authors' calculations.

Secondly, panel regression analysis was used to see the effect size of economic, political and cultural globalization on the socio-economic development. In this context, Chow (F) and Breusch Pagan (BP) tests were used to determine the appropriate panel estimation method. Chow test was conducted to make a selection between pooled OLS and fixed effects model (FEM). The test results are presented in Table 7. Furthermore, BP test was used to make a specification between pooled OLS and random effects model (REM). The null hypothesis asserting that pooled OLS is effective was accepted. So, considering the results of both tests, we decided to use pooled OLS.

Table 7. Results of the estimation method test of panel regression

Test	p value
Chow (F) test	0.3530
BP (χ^2) test	1.0000

Source: Authors' calculations.

The impact of economic, political and cultural globalization on the development was investigated with the help of the regression analysis. The estimation results, presented in Table 8, revealed that economic and cultural globalization positively affected the socio-economic development, but political

globalization had no significant effects on development. The explanatory variables in the model explicated 75% of the changes in the socio-economic development. Moreover, the coefficients denoted that 1 unit increase in economic globalization raised the development by 0.144 units and 1 unit increase in cultural globalization led to a 0.3629 units increase in socio-economic development. The same model was estimated with PCSE (panel-corrected standard errors) estimator of Beck and Katz (1995) and we obtained almost the same findings as those seen in Table 7. The impact of cultural globalization on socio-economic development was found to be higher than the other globalization types, aspect that could be explained through the fact that the countries experienced relatively more changes in cultural globalization.

Lastly, the autocorrelation and heteroscedasticity problems underlying the regression analysis were tested for the reliability of the estimation results. The autocorrelation aspect was investigated by using Wooldridge (2002) autocorrelation test and the results verified non-availability of autocorrelation problem in the model. The heteroscedasticity was tested by using Greene (2003) test, which showed that the null hypothesis (no heteroscedasticity) was accepted.

Table 8. Results of panel regression

Dependent variable: SOCDEV (pooled OLS)			
Variables	Coefficient	Std. Error	t-Statistic
EG	0.00144***	0.000166	8.699478
PG	0.000166	0.000142	1.169420
CG	0.003629***	0.000250	14.49414
C	0.405904***	0.013757	29.50599
R-squared	0.759718	Woolridge autocorrelation test	3,243 (0,2812)
Adjusted R-squared	0.756945	Greene heteroscedasticity test	145,23 (0,8321)
F-statistic	274.0201***		
Dependent variable: SOCDEV (PCSE estimator)			
Variables	Coefficient	Std. Error	
EG	0.0014413**	0.0001615	
PG	0.0001658	0.0001619	
CG	0.0036287***	0.0001644	
C	0.4059038***	0.014233	

*** indicates that it is significant at 5% significance level.
Source: Authors' calculations.

Therefore, the findings slightly differed when using the causality and regression analysis. While the first one revealed that all forms of globalization have significant effects on socio-economic development, the regression analysis showed that only the economic and cultural globalization positively influences the

development, the political globalization having no impact. These results are not surprising, considering the fact that the study was focused on eleven post-communist states, some of which experienced a very long and difficult transition period, dominated by the lack of political desire to make radical changes. Consequently, in these cases, the level of political globalization is much reduced, fact that explains why it has no impact on the development. In many Central and Eastern European states, the political globalization was enhanced by the process of EU adhesion. However, many of these economies which have embraced capitalism and global society have faced soon the problem of increased inequalities among the social classes (Bran *et al*., 2014). Meanwhile, the pressure of cultural globalization led to creative industries (Lin *et al*., 2017) which, together with the policies focused on attracting the foreign investors and stimulating the international trade, have accelerated the socio-economic development.

Conclusions

In this paper we have empirically investigated the interaction between economic, political and cultural globalization and socio-economic development, proxied by human development index, in eleven post-transition states, during the period 1993-2016. To analyse this relationship, we used the KOF globalization index and the HDI, as the most comprehensive measure of socio-economic development.

The economists and sociologists have tried, during time, to explore the consequences of globalization on economic growth and development of various states. Despite the divergent arguments that exist in the literature, the dominant opinion is that globalization, by increasing the economic freedom and providing access to information, empowers people and promotes the human welfare.

The results of our research revealed that there is only a one-way causality relationship between economic, political and cultural globalization, on one hand, and socio-economic development, on the other hand. The direction of this relationship was from the three globalization types towards development, the highest impact being noticed in the case of the cultural globalization, followed by the economic one. The political globalization proved to have no significant impact on the socio-economic development. This finding can be explained through the fact that the countries experienced relatively higher global cultural integration during the analysed period. The results showed that both economic and cultural globalization positively influenced the socio-economic development in various ways. This finding could be related to the fact that, quite often, the policy-makers are focusing their attention on measures aimed at enhancing the economic globalization, which may have consequences on the cultural globalization.

Starting from these findings, future studies might be conducted in order to explore the relationship between globalization and the main determinants of the socio-economic development.

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