IMPACTS OF GLOBALIZATION ON QUALITY OF LIFE

Panel Data Evidence from Developing Countries and the Asia-Pacific

生活の質に対するグロバリゼーションの影響

途上国およびアジア太平洋パネルデータからの発見

A thesis submitted in fulfilment of the requirements for the degree of
Doctor of Philosophy

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Panel Data Evidence from Developing Countries and the Asia-Pacific

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The modern world economy and society are globalizing more rapidly than ever (Urata, 2002: 20; Dreher et al., 2008: 1-4). Consequently, the impacts of globalization and its various dimensions have been widely debated and examined by academics, politicians, policymakers, the private sector and even the general public. However, there is no consensus regarding how the benefits of globalization are distributed across and within countries and how globalization does affect quality of life (QOL). Although there are a number of studies that assess the impact of globalization, most proxy it with a specific aspect/s, ignoring its comprehensibility, and focus on its impacts on income or economic achievements (Garrett, 2000; Nyahoho, 2001; Dreher, 2006).[1] Of course, income is an important part of QOL, but health and education are important as well (Stieglitz, 2006); hence, these aspects should also receive similar research efforts.

On this backdrop, this PhD study attempts to narrow the gap in this area of research by offering several analyses of the impacts of globalization on QOL in developing countries (DCs) in general and in the Asia-Pacific in particular.

This thesis is organized into six chapters. **Chapter 1** introduces the thesis with research questions, hypotheses, research approach, and so on. **Chapter 2** reviews the related literature and identifies some specific research gaps on which this study makes some contributions. Chapters 3 to 5 are the main body of this research which is uniquely designed to answer specific research questions.

Chapter 3 evaluates the effects of globalization on QOL, particularly on human development, gender development and human poverty in DCs. Using panel data from 126 DCs from 1997 to 2005 and applying the *fixed effect (FE) panel regression model*,[2] it is found that globalization not only promotes human and gender development but also reduces human poverty significantly. The outcome of this analysis was presented in the 43rd annual conference of the Asian Studies on the Pacific Coast (ASPAC) at Soka University of America in June 2009 and received the *ASPAC Esterline Graduate Student Best Paper Award*. The paper appears in the *E-ASPAC*, a peer-reviewed electronic journal for ASPAC, June 2010.

Chapter 4 examines whether QOL in Asian countries is converging (or diverging), and assesses the impact of globalization on the converging (or diverging) process. Using panel data from selected 19 countries from 1975 to 2005 over five-year intervals, and applying the *dynamic panel data model*,[3] it is evident that overall QOL, measured by the Human Development Index (HDI), of most countries in the region is moving closer to that of Japan (the benchmark country) and that globalization has a significant impact on this convergence process. Interestingly, although the income aspect of QOL is found to be diverging sharply, the shrinking gaps in health and education indicators outweigh the income gap. The outcome of this analysis was presented and won the *Best Paper Award* (2nd place) at the 2nd Summer Institute organized by the Global Institute for Asian Regional Integration (GIARI), Waseda University and was published in the *Asian Regional Integration Review* 2: 1-28, in March 2010. The revised paper was also presented at the Association of Asian Studies (AAS) Annual Meeting in Philadelphia, March 2010.

Chapter 5 examines the extent to which the key elements of globalization such as international trade, foreign direct investment, foreign aid, transnational labor migration and tourism have been mainstreamed into the Poverty Reduction Strategy Papers (PRSPs) of low income countries (LICs) in the Asia-Pacific.[4] Using a content analytic framework, it is found that the LICs are moderately open (average score of 1.7 on the 0-3 point scale) towards global society. The outcome of this analysis was presented in the 2nd International Development Conference in Toronto, November 2008 and the 10th Association of Pacific Rim Universities Doctoral Student Conference in Kyoto, July 2009. The paper is currently being reviewed by *Development in Practice*, a Routledge journal.

In conclusion, this thesis makes a number of contributions to research on the relationship between globalization and QOL by incorporating comprehensive measures and specific elements of both the dependent and explanatory variables with the most recent and a wide coverage of data. In Chapters 2 and 3 it improves existing methodologies and Chapter 5 is the only of its kind. **Chapter 6** summarizes the contribution of each chapter as the conclusion of this thesis. All the research activities, including numerous presentations at international conferences, were generously funded by the Global Center of Excellence Program, Global Institute for Asian Regional Integration (GIARI), Waseda University.

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[1] For details on the impacts of globalization, see World Bank (1993, 2002) and Yusuf (2001).

[2] $log\ Y_{it} = \alpha + \beta_1\ logC_{it} + \beta_2\ logG_{it} + (u_i + \epsilon_{it})$, *where, Y* is the vector of dependent variables; *i* represents country and *t* represents time. C_{it}represents the vector of control variables and G_{it}represents the measures of globalization. α is the constant term. β are the coefficient of each explanatory, which are the parameter of interest that explains the strength and direction of impact. $u_i + \epsilon_{it}$ is the composite error term, where u_i is the unobservable country effect fixed over time and ε_{it} is an error term.

[3] $Y_{jit} = \alpha + \beta_1 Y_{jit-1} + \beta_2\ G_{it} + \beta_3\ C_{it} + \eta_i + \eta_t + \varepsilon_{it}$, where, where Y_{jit} represents QOL gap between Japan and country *i* at year t; $Y_{jit-1}$is lag of the dependent variable; η_i is the country fixed effect; η_t is the time varying effect; and ε_{it} is an error term.

[4] Poverty Reduction Strategy Papers (PRSPs) are the national development planning and policy documents that are prepared by governments in LICs through a participatory process involving domestic stakeholders and external development partners, including the IMF and the World Bank.

I dedicate this thesis
to my parents, Nepali peasants,
who sacrifice greatly for my education

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Acronyms

AFTA	ASEAN Free Trade Agreement
ASEAN	Association of South East Asian Nations
ATK/F	A.T. Kearney and Foreign Policy Magazine
c.i.f.	cost, insurance, and freight
CDF	Comprehensive Development Framework
CSGR	Centre for the Study of Globalisation and Regionalisation (Warwick University)
DAC	Development Assistance Committee
DFID	Department for International Development
EAP	East Asia and Pacific
ETH	Eidgenössische Technische Hochschule
EU	European Union
FDI	Foreign Direct Investment
f.o.b.	free on board
FE	"fixed effect"
GDI	Gender-related Development Index
GDP	Gross Domestic Product
GEM	Gender Empowerment Index
GMM	Generalized Method of Moments
GNH	Gross National Happiness
GNI	Gross National Income
GPF	Global Policy Forum
HDI	Human Development Index
HDR	Human Development Reports
HIPC	Heavily Indebted Poor Country
HOSS	Heckscher-Ohlin-Samuelson-Stolper
HPI-1	Human Poverty Index for developing countries
ICT	Information and Communication Technology
IMF	International Monetary Fund
INGO	International Non-governmental Organization
JRC	European Commission–Joint Research Centre)
KOF	Konjunkturforschungsstelle (German Word)
LAC	Latin America & Caribbean
LIC	Low-income country
LMC	Lower-middle Income Country
LTTE	Liberation Tigers of Tamil Eelam

M&A	Mergers and Acquisitions
MDG	Millennium Development Goal
MGI	Maastricht Globalization Index
MNEs	Multinational Enterprises
NGO	Non-governmental Organization
NICs	Newly industrialized economies
NIEs	Newly Industrializing Economies (Hong Kong, Singapore, Korea, and Taiwan)
ODA	Official Development Assistance
p.a.	Per annum
PDR	People's Democratic Republic
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
QOL	Quality of Life
SA	South Asia
SMEs	Small and Medium size Enterprises (SMEs
SSA	Sub-Saharan Africa
TFP	Total Factor Productivity
UMC	Upper-middle Income Country
UN	United Nations
UNCTAC	The United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNESCO	The United Nations Educational, Scientific, and Cultural Organization
WDI	World Development Indicators
WDR	World Development Report
WIR	World Investment Report
WMRC	World Markets Research Centre
WTO	World Trade Organization

Chapter 1

Introduction

1.1 General Background

The modern world economy and society are globalizing more rapidly than ever seen in the past (Urata, 2002:20; Dreher et al., 2008:1-4). The rapid increase in global economic activities, mainly in international trade and foreign direct investment (FDI), has fueled the globalization process, particularly after the Second World War (Urata, 2002:20). For example, the trade to gross domestic product (GDP) ratio more than doubled from about 24% in 1960 to nearly 58% in 2008. More rapid trends can be observed in FDI flow. Its ratio to GDP rose nearly eight times from 0.54% in 1970 to 4.28% in 2007. Even more rapid progress can be observed in terms of information and communication technology (ICT). For example, only about 6% of the world's population had mobile and telephone subscriptions in 1975, which reached more than 70% in 2007. In the same manner, reflecting the rapid increase in worker mobility, the global inflow of remittances increased from about $2 billion in 1970 to more than $420 billion in 2009. Interestingly, this figure is mainly driven by the increasing flow in developing countries (DCs), as the remittance inflow in DCs increased from less than $0.5 billion to $317 billion during the same period.[1] Such accelerating globalizing trends are fuelling economic growth for nations and offering many opportunities for people around the world to improve their quality of life (QOL). "Global markets, global technology, global ideas and global solidarity can enrich the lives of people everywhere, greatly expanding their choices" (UNDP, 1999:1).

Consequently, globalization has been one of the most closely observed processes among scholars, policymakers, politicians and even the general public in recent years (Collier and Gunning, 2008: 1-2). A Google web search on September 5, 2010 resulted in over 57 million references to "globalization" and over 28 million for "globalisation." The references from the Web of Science, an online search engine of scholarly materials provided by Thomson Reuters, also resulted in more than 16,900 hits for "globalization" and more than 3,700 hits for "globalisation" in its topic search.[2] In this enormous interest, the mainstream literature has focused on the impact of globalization on economic efficiency and growth outcomes (Garrett, 2000; Nyahoho, 2001; Dreher, 2006). It is clear that income is an important part of QOL, but health and education are as well (Stiglitz, 2006). Hence, these aspects

[1]All the data are taken from the World Development Indicators (WDI) online database of the World Bank unless otherwise specified (accessed September 5, 2010).

[2]*Web of Science* provides access to the world's leading citation databases, which cover over 10,000 journals worldwide, including open access journals and over 110,000 conference proceedings. A leading information company, Thomson Reuters provides the service.

should also receive similar research efforts. Similarly, most of the existing studies narrowly define globalization by taking the income or materialistic aspects of globalization, ignoring the political and social aspects. In this regard, recent articles framing the theoretical linkage between globalization and QOL by Sirgy et al. (2004), and empirical testing of some of the linkages by Tsai (2007), conclude that globalization has both positive and adverse effects on QOL.

In this context, this thesis employs both comprehensive measures and the key components of globalization and QOL simultaneously within the same research framework, as comprehensive indexes and real specific variables in research have their own merits. The KOF index of globalization and the Human Development Index (HDI) are used as comprehensive measures of globalization and QOL, respectively (for details about the indexes, see Chapter 2). International trade, FDI, ICT and international migration are used as key elements of globalization and sub-constructs of the HDI (i.e., life expectancy at birth, adult literacy, school enrollment and GDP per capita) as QOL indicators. The thesis assesses the impacts of globalization on the human aspects of development and poverty reduction empirically by improving the methodology of assessment and widening the coverage and quality of data. Furthermore, it examines the effect of globalization on QOL convergence in the Asia-Pacific region. To complement the empirical results, it also assesses the level of mainstreaming of globalization issues in the Poverty Reduction Strategy Papers (PRSPs) in Asia-Pacific countries through a content analytic framework. No such effort has been taken in the past although the globalization process is becoming more and more important for low-income countries (LICs) for achieving their overriding goal of poverty reduction.

This chapter proceeds as follows. Section 1.2 explains the research questions. Section 1.3 discusses the research hypotheses. Section 1.4 discusses the significance of the research. Section 1.5 highlights the research approach. Finally, section 1.6 briefly discusses on the structure of the thesis. Each chapter was uniquely designed to address a specific set of research questions. Therefore, each chapter includes all of the following components in detail: research questions, hypotheses, significance and methodologies. Thus, only brief highlights are presented here as an introduction.

1.2 Research Questions

The paradox of globalization is that scholars do not agree on the nature of its human consequences. They cannot even agree on a particular definition of globalization. There are many proponents of globalization (e.g., Bergh and Nilsson, 2009; Tsai, 2007; Lamla, 2006; Thorbecke and Eigen-Zucchi, 2002; Zoellick, 2001; Fligstein, 2001; Krugman, 1996) and at the same time, there are critical opponents (e.g., Busch & Bain, 2004; Leclair, 2002; Oxfam, 2002; Ponte, 2002; Scott, 2001). Theories as well as empirical evidences are contradictory. The major sources of controversies lie within the different approaches toward defining terms, different kinds of data used in research (proponents use

more "hard" quantitative data whereas opponents use more qualitative and subjective data), and different analytical methods (Ravallion, 2004). Thus, this study asks the following research questions:

1. What are the major debates regarding the concepts of and relationships between globalization and QOL?
2. What are the globalization and QOL trends over the last 30 years?
3. How does globalization affect QOL, particularly in DCs? More specifically, how does globalization affect human development, gender development and human poverty, and how different is the effect on different income groups within the countries?[3]
4. What are the recent trends of QOL gaps between rich and poor countries in the Asia-Pacific region? Are QOL indicators in the region converging or diverging?
5. How does globalization affect the QOL convergence or divergence process in the Asia-Pacific?
6. What are the policy responses of LICs to the rapid globalization trends? More specifically, to what extent are the key elements of globalization mainstreamed in the PRSPs of the LICs in the Asia-Pacific?

1.3 Hypotheses

In the debate regarding the QOL impact of globalization, this thesis expects a positive outcome from globalization. The following four hypotheses are tested:

- Globalization – conceptualized as the various global flows including goods, services, capital, people, information and ideas that erode national boundaries and integrate national economies, cultures, technologies and governance – has a significant positive impact on QOL indicators – in terms of HDI, the gender related development index (GDI) and human poverty index for developing countries (HPI-1)– in the developing world.
- Quality of life indicators – in terms of HDI as overall QOL and its components (life expectancy at birth, adult literacy, school enrollment, and GDP per capita)– are converging in the Asia-Pacific countries.
- Globalization – measured by the KOF indexes and represented by international trade, FDI, ICT and international migration– has a significant positive impact on QOL convergence.
- Globalization – represented by international trade, FDI, foreign aid, tourism and international migration– is one of the key integral parts of development policy as represented by the PRSPs in LICs in the Asia-Pacific.

[3] According to the World Bank, developing countries (or economies) are divided according to 2009 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, $995 or less; lower middle income, $996 - $3,945; upper middle income, $3,946 - $12,195; and high income, $12,196 or more. DCs include all categories except high income.

1.4 Research Approach

The purpose of the study is to answer the research questions by testing the research hypotheses objectively as explained in previous sections. To fulfill these objectives, each chapter was independently designed with a separate methodology. Details regarding the methods are explained in each chapter. However, a brief explanation of our approach is explained below.

Firstly, globalization and QOL were conceptualized based on existing literature. Conceptualization is essential as the terms are rather vague and sometimes scholars define them differently, even interpreting them either positively or negatively. The effect mechanism globalization on QOL is summarized in Figure 2.1 based on existing literature to support the conceptual model. Research Question 1 mainly addresses in Chapter 2.

Secondly, most hypotheses are tested empirically, improving the data quality and coverage as well as methodology, to answer the Research Questions 2 through 5 in Chapters 3 and 4. In each analysis, both longitudinal and time series data constructing a panel of countries are used as much as possible depending on data availability. In the first case, panel data of 124 DCs from 1997 to 2005 is used in a "fixed effect" (FE) panel estimation model. The FE model explores the relationship between predictor and outcome variables within an entity (country, person, company, etc.). When using the FE model, it is assumed that something within the individual may impact the predictor or outcome variables, which needs to be controlled for. This is the rationale behind the assumption of a correlation between an entity's error term and predictor variables. The FE model removes the effect of these time-invariant characteristics from the predictor variables so the predictors' net effects can be assessed.

Next, 19 countries from the East Asia and Pacific (EAP) and South Asia (SA) from 1975 to 2005 are taken to test the convergence hypothesis on QOL indicators, applying both conventional methods as well as transparent and direct methods of calculating gaps between the benchmark country, Japan, and each selected country. Line graphs of the trends of these gaps are plotted for each QOL indicator, which clearly shows the situation of convergence or divergence. Then, the effect of globalization on the trend of the observed gaps between Japan and each country is examined with a regression analysis. To do so, lagged dependent variables are included with the set of explanatory variables because QOL-inequality- tends to change slowly over time. However, this creates several serious methodological problems and simple ordinary least square (OLS) and pooled regression methods generate biased estimation. Particularly, lagged dependent variable at the right hand side of the equation generate dynamic structure of the model and need to control for possible biases arising from it (Kurita and Kurosaki, 2007). Given the inclusion of the lagged dependent variable and fixed country effects, the OLS estimator is biased and inconsistent in short panels (Nickell, 1981). To deal with this problem, a dynamic panel estimation model is followed. Particularly, as suggested by Arellano and Bover (1995) and Blundell and Bond (1998), the system generalized method of moments (GMM) estimator is applied to assess the impacts of globalization on QOL convergence.

Finally, the results from the empirical analyses are complemented by qualitative methods using a content analytic framework. To address Research Question 6, a content analysis is an appropriate, systematic, replicable data reduction technique (Stemler, 2001) that can be used to determine the presence of a particular concept (key elements of globalization) within a body of text (PRSPs from the Asia-Pacific countries). Every PRSP from LICs in the Asia-Pacific is taken and assessed for the level it mainstreams globalization elements. Such an analysis provides a better understanding of the nexus between policy design and real world situation of globalization and comparisons between policies and performance among countries in the context of the most backward countries in the region, helping policymakers design better policies.

1.5 Significance of the Study

In the context of rapid growth and controversies of globalization, this study generally contributes to an understanding of the complex relationships between globalization and QOL by resolving some unclear issues in the debate. This is important for two reasons: first, although there is somehow a consensus among economists that globalization promotes economic growth, there are conflicting views on the equity impacts of globalization. In terms of other QOL indicators, such as health and education, the views are unclear even among economists. Therefore, this study should throw some light on this aspect and make the issues more understandable.

Second, globalization is an inevitable force, growing so rapidly in recent decades that no one can avoid its effects whether it is positive or negative. In fact, as Stiglitz (2003:519) believes, "Globalization can be a powerful positive force." However, as globalization has downside risks as well (ibid), one should be cautious when understanding, interpreting and reacting to globalization. It seems that gains from globalization are not automatic, but depend on one's own action. While countries need to design programs, policies, and institutions that address such downside risks and empower themselves to gain and mitigate developmental challenges, communities and individuals need to recognize global opportunities in addition to possible threats for society and humankind. The fact is that the better globalization is managed, the better the overall consequence and perception of globalization will be, which will ultimately make the globalization process more acceptable and beneficial. Thus, this study should make some contribution demonstrating the effects of globalization on a number of QOL indicators in a cross-country framework.

To meet this objective, the approach here is simple and easy to understand, the results are clear, consistent and reliable, and the conclusions and arguments are straightforward. Therefore, this thesis can be a good reference for new scholars in this research field from any discipline. Because the multidisciplinary approach takes economic, political and socio-cultural principles and variables in the analyses, it covers a wide range of readership in the field. This is in fact essential as both the

dependent and explanatory variables of this study demand such a multidisciplinary approach. Although it is limited in providing rigorous details, as certain discipline-specific studies do, it is believed that the methodologies used are sufficiently reliable and transparent. Even in the subjective scoring method in Chapter 5, the subjectivity is transparent and consistent enough across countries that anyone can use the results to make international comparisons.

Overall, this study is believed to be useful for policymakers (including the donor community) to design globalization policies for the overall development and betterment of their citizens' QOL. Furthermore, it is also useful for general people to understand the complexity of the globalization process, as globalization is changing economical, political, and social systems at the global, regional, national, and individual levels, rapidly affecting everyone's life. Finally, it contributes to narrowing down the research gap in the QOL consequences of globalization research, as explained in Chapter 2.

1.6 Structure of the Thesis

The thesis is divided into six chapters. The main aim, approach and conclusion of each chapter are briefly explained below.

The main aim of **Chapter 2** is to review the existing literature to identify the shortcomings in the research field and to explore the research areas to contribute to. Specifically, it conceptualizes the key terms globalization and QOL, highlights existing arguments and ideas on the relationships between the key terms. Based on existing literature, it introduces a dialectic model of the impact mechanism of globalization on QOL. Furthermore, it recognizes the weakness and gaps in the current body of knowledge and explains the potential contributions of this study to narrowing these gaps. Finally, the chapter demonstrates the usefulness and importance of this research.

Chapter 3 evaluates the effects of globalization on QOL, particularly on human development, gender development and human poverty in DCs. It applies the FE panel regression model to the annual panel data of 124 DCs, covering nine years from 1997. The data are mainly from the World Development Indicators (WDI) online database of the World Bank, Human Development Reports (HDR) of the United Nations Development Program (UNDP), and the updated database of Dreher (2006). It is found that globalization (in terms of the KOF index) not only promotes human and gender development, but also significantly reduces human poverty.

Chapter 4 examines whether QOL in Asian countries is converging (or diverging), and assesses the impact of globalization on the converging (or diverging) process. Panel data of 19 selected countries from the Asia-Pacific region is used, covering 1975 to 2005 over five-year intervals. The data sources are the same as in Chapter 3. However, an additional variable, the Democracy Index, one of the control variables comes from Freedom House, which reports the Democracy Index for most of the countries since 1972, is added. Following the conventional method of calculating "sigma (σ)" and

"beta (β)," and also applying more transparent and direct methods of observing the trends of gaps between richer and poorer countries, it is found that most of the QOL indicators are converging, except for GDP per capita. Precisely, QOL indicators of most countries in the region are moving closer to that of Japan (the benchmark country). Furthermore, applying the dynamic panel data model, the study finds that globalization has a significant impact on this convergence. Interestingly, although the income aspect of QOL, measured by GDP per capita, is found to be diverging sharply, globalization indicators are found to have a converging effect on the income gap.

Chapter 5 examines the extent to which the key elements of globalization such as international trade, foreign investments, foreign aid, transnational labor migration and tourism have been mainstreamed into PRSPs, the main development planning documents of LICs. Every published PRSPs of each LIC in the Asia-Pacific is used. Using a content analytic framework, the chapter finds that LICs in the region are very keen towards globalization. Particularly, trade openness gained the highest priority in the PRSPs, followed by foreign investment, foreign aid and tourism. However, transnational migration received the lowest priority as a poverty reduction strategy, which calls for further investigation. The results are important in the context of recent international development efforts that target the sole goal of poverty reduction, such as the World Bank and International Monetary Fund (IMF)'s framework of poverty reduction strategy and the United Nations declaration of the Millennium Development Goals (MDGs).

Finally, **Chapter 6** concludes the thesis. It explains the major contribution that each analytical chapter (Chapters 3 through 5) makes in the research field. Chapter 3 contributes to the literature using both key elements and comprehensive indicators of globalization and QOL, covering a wider sample of DCs with the most recent data and improving the analytical methodology. Similarly, Chapter 4 not only contributes to the methods of testing the convergence hypothesis, but also covers a wide range of QOL indicators and examines the impacts of globalization on the convergence process. Chapter 5 is unique in its nature because there are no such attempts to assess globalization elements in PRSPs although globalization issues cannot be ignored in the policy framework of LICs.

Chapter 2

Globalization and Quality of Life: Theories and Evidence

Chapter Synopsis

The main purpose of this chapter is to review the existing literature on the impacts of globalization on quality of life (QOL). Specifically, it conceptualizes the key terms globalization and QOL, and highlights existing arguments and ideas on the relationships between these key terms. Based on the existing literature, it introduces a dialectic model of the impact mechanism of globalization on QOL. Furthermore, *it recognizes the weakness and gaps in the current body of knowledge and explains the potential contributions of this study to narrow these gaps. Finally, the chapter elaborates the usefulness and importance of this study.*

2.1 Introduction

Every society has its own social, economic, and political challenges to improve their quality of life (QOL) and globalization is gradually becoming central to all the three challenges (Rosi, 2008). However, there are controversies regarding what "globalization" means, the theoretical and methodological approaches for studying it, and the diagnoses and solutions of problems attributed to it (Ravallion, 2004). This is because globalization is a rather recent topic for academics, which attracted the attention of the social scientists since only the early 1980s (Rossi, 2008). This chapter reviews the literature on globalization and QOL in general and their relationship, focusing on the developing world and the Asia Pacific in particular, to expand the understanding of globalization and QOL, to identify research gaps and to propose an area of research to narrow down these gaps. The chapter proceeds as follows.

Section 2.2 reviews different concepts of the main explanatory variable, globalization, and the main dependent variable, QOL. A proper conceptualization of globalization is essential because it is a highly contested term that means different things to different people. Even scholars tend to view globalization with both positive and negative meanings. Similarly, defining QOL is also very important because it is also a vague term like globalization that has different meanings for different people. QOL is a multifaceted and elusive concept (e.g., Dasgupta, 1993; Doyal and Gough, 1991; Nussbaum and Sen, 1993).

Section 2.3 examines the theoretical channels of gains and losses from globalization and empirical evidence on the impacts of globalization on QOL. This is the most important section of this

chapter, because it explores the current theoretical debate as well as contradictory results from existing empirical studies on the impacts of globalization on QOL. Based on the existing literature, it presents a dialectic model of the impact mechanism of globalization on QOL at the end of the section.

Finally, Section 2.4 highlights the shortcomings and research gaps of the existing literature and explains how this research contributes to reducing these gaps. It is worth noting here that as each major chapter has its own research problem and analytical method, relevant literature is further detailed in each chapter so that readers can understand each chapter without consulting this one. Thus, a broad review of the literature without specific details is presented here.

2.2 Concepts and the Definition of Globalization and QOL

When defining globalization and QOL, scholars tend to focus on certain aspects or issues that relate to their own discipline or area of interest, which causes contradictory definitions and findings. For the most part, globalization and QOL are viewed as economic terms and scholars tend to proxy globalization with international trade and/or foreign direct investment (FDI), and proxy QOL with income or GDP per capita. However, globalization and QOL have many components and dimensions and ignoring one or some of them tends to result in biased conclusions.

On the other hand, understanding specific components and phenomena deepens analyses and leads to focused conclusions. Therefore, more focused studies are useful to explain the certain aspect of the system. Thus, because of its complex nature and dynamics, globalization and QOL research demands both holistic and specific approaches. This study follows both specific elements, as suggested by existing literature, and emerging broad and comprehensive concepts and measures of the terms. This section does not intend to propose a new definition, but reviews the existing meaning or definition of globalization and QOL in existing literature and selects the most appropriate ones for this study.

2.1.1 Globalization

Globalization is a highly contested concept that means different things to different people (Bardhan, 2004), raising both positive and negative emotions in different groups and circles (Slabbert, 2003:3, Scholte, 2005). Some view globalization as beneficial to the world's economic development by raising standards of living in poorer nations (Stiglitz, 2002; Ohmae, 2005) and as a common economic order that binds us all together (Lynas, 2000 and Ohmae, 2005). They also see it as a process that is both inevitable and irreversible. However, for many others, globalization mostly benefits richer nations and hurts the future development and wellbeing of many countries (Hirst and Thompson, 1999; Hertz, 2001). This latter perception of globalization views it as making the rich richer and the poor poorer (Slabbert, 2003: 3). More critically, Shiva (2004) defines globalization as a new kind of "corporate

colonialism" being unleashed upon both poor countries and the poor in rich countries. On the other hand, Barker (1999: 34) argues that globalization refers to both time–space compressions of the world and the intensification of the world as a whole. Ohmae (2005) put it differently that globalization represents the ever-increasing abundance of global connections, and our understanding of them, but can also be confusing and disorientating. Through connecting communities in one region of the world to developments on another continent, globalization can constitute both the context and content of economic activity (Held et al., 1999: 2; Lewis et al., 2003: 36; Slabbert, 2003; van der Merwe, 2005).

Furthermore, Senge (2006: xiii) has noted that while the globalization of business and industrial development raises the material standards of living for many, it also creates significant side effects in the form of environmental sustainability challenges. He emphasizes that local environmental stresses, always a feature of industrial development, are now matched by problems on a larger scale like global warming and weather instability. This is in line with the views of Bigelow and Peterson (2002), who assert that corporate globalization is directly responsible for aspects that are intrinsically adverse to the ecological health of the planet such as polluting the natural environment and denuding scarce natural resources. Thus, Slabbert (2003:4) suggests that globalization is actually much more than a purely economic phenomenon. From this perspective, globalization can be seen as the widening, deepening and speeding up of worldwide interconnectedness in all aspects of contemporary political, social, educational, financial and spiritual life.

Because of the vagueness and complexity of defining globalization, as discussed above, development practitioners and scholars mostly refrain from explicitly defining globalization. Some try to define it broadly, without properly explaining how to measure it. For example, for Goldin and Reinert (2007:2);

> Globalization is an often-discussed but seldom-defined phenomenon. At a broad level, globalization is an increase in the impact on human activities of forces that span national boundaries. These activities can be economic, social, cultural, political, technological, or even biological, as in the case of disease. Additionally, all of these realms can interact. For example, HIV/AIDS is a biological phenomenon, but it affects and is affected by economic, social, cultural, political, and technological forces at global, regional, national, and community levels.

However, such a vague conceptualization is not measurable, and, hence, cannot be used in empirical research. To solve this problem, several institutions and scholars have tried to develop single index of globalization to measure it comprehensively. As globalization is broad, multifaceted, and even contested term, it requires a multidimensional approach. In fact, composite indicators usually measure "*multidimensional concepts which cannot be captured by a single indicator*" (OECD/JRC, 2008, p. 13). Thus, as the expression implies, a composite indicator is composed of more individual indicators, each capturing a part of the whole picture. A proper set of indicators is fundamental for the relevance of the final composite index. Based on this principle, this study compares the existing comprehensive indicators of globalization and selects the best one for the research purpose.

Seven globalization indices have been developed by different institutions and scholars in the recent decade: 1) *G-Index* by World Markets Research Centre (Randolph, 2001), 2) *ATK/FP Globalization Index* by A.T. Kearney and Foreign Policy Magazine (A.T. Kearney/ Foreign Policy, 2007), 3) *CSGR Globalization Index* by the Centre for Study of Globalization and Regionalization at Warwick University (Lockwood & Redoano, 2005), 4) *KOF Index of Globalization* by ETH Zurich (Dreher, 2006), 5) *Maastricht Globalization Index (MGI)* by International Centre for Integrated assessment and Sustainable development (ICIS) at Universiteit Maastricht (Martens & Raza, 2008) and 6) *Global Index* by Trans Europe research program of the European Science Foundation (Raab, et al., 2008). Each of the indexes is briefly discussed below.

1) *G-Index:* In 2001, the World Markets Research Centre (WMRC) developed the "G-Index" for 185 countries as a comprehensive measure of globalization. The focus of the "G-Index" is economics as 90% of its variables are economic. Five % of its weight goes to telephone traffic and the remaining 5% goes to internet hosts. Even within economic variables most weight goes to exports. The index attempted to measure the depth, breadth and richness of the broadest range of economic links binding and economy to the rest of the world. Although this index claimed to be a global index, it ignored political and social factors of globalization. This indicator cannot be used as it has no updates available.

2) *ATK/FP Globalization Index:* This index is considered the most well known indicator of globalization and was produced by A.T. Kearney and published by Foreign Policy. However, the index only ranks 62 countries and accounts for 85 % of the world's population according to the degree of globalization as measured by 12 variables. It tracks and assesses changes in four key components of global integration, incorporating measures such as trade and investment flows, movement of people across borders, volume of international calls, internet usages and participation in international organizations. The variables fall in the four categories of economic integration, personal contact, technological connectivity, and political engagement. As this covers very few countries, and provides just the ranks, it cannot be used for such empirical research.

3) *CSGR Globalization Index*: The Centre for the Study of Globalization and Regionalization (CSGR) at Warwick University introduce this index, which attempts to measure the economic, social and political dimensions of globalization for more than 150 countries on an annual basis over the period 1982 to 2004, and combines these into an overall globalization index. These indices are also available by region of the world (as defined by the World Bank). The index enables us to address questions such as: Is a particular country more globalized than in was twenty or thirty years ago; which were the most and least globalized countries of the last decade, the decade before that, and before that? Also, this comparability allows us to investigate in depth the relationship between globalization and key economic variables such as economic growth, inequality, and government spending. Although this indicator is comprehensive and in usable format for empirical research, this is

not suitable for more timely research as the data covers only up to 2004.

4) *Konjunkturforschungsstelle (KOF) Index of Globalization:* Axel Dreher at the KOF Swiss Economic Institute developed this index in 2006. It measures the economic, social and political aspects of globalization, covers 24 variables, and the indexes are available from 1970 to 2007 for 158 countries on an annual basis. This database is available publicly and is updated in a timely manner.[8] As it covers a wide range of variables, countries, and annual updates are available on time, it is useful for empirical works. In fact, this indicator has become popular in globalization research as there are already more than 100 scholarly works that have used it. Thus, this study uses the KOF index as its main explanatory variable, which is explained later in detail.

5) *Maastricht Globalization Index (MGI):* This index was developed by Martens & Raza (2008) of the International Centre for Integrated Assessment and Sustainable development (ICIS) at Universiteit Maastricht. Being a rather new index, it attempts to improve existing indices. It tries to cover a wider range of quality data but is limited to 117 countries and the index is available only for 2008. The index was constructed covering a large number of variables from five domains: political, economic domain, social & cultural, technological, and ecological. As this index is not available for a long period of time, it is also not suitable for a panel data analysis.

6) *Global Index:* The Global Index attempts to capture the phenomenon of globalization on four separate dimensions: economic, socio-technical, cultural, and political. The Trans Europe research program of the European Science Foundation published yearly data for all sub-dimensions as well as an overall globalization index for 97 countries over the period 1970 to 2002. However, no data is available after that. In fact, Raab, et al. (2008) built Global Index on existing work by Dreher (2006), ATK/FP Index by Kearney/Foreign Policy Magazine (2007) and the CSGR Index, but extends this work by additional non-economic dimensions and indicators. In particular, due to the vast increases in technological changes, a detailed measure of socio-technical interconnectedness was considered a central dimension of globalization. In addition, a cultural measure of globalization was also emphasized. Finally, they considered the economic dimension of globalization as well. Because of the limitations in coverage of countries and time period this index is also not suitable for this study.

Constructing such composite indicators has made a significant contribution to globalization research, which is making it possible to consider a wide range of issues of globalization in scholarly works. Although using such composite indexes has its own limitations, as it may lead to unrealistic conclusions, the development of a composite indicator is essential to globalization research due to the complexity and comprehensibility of issues involved. Of course, one should be careful when using such composite indexes and interpreting the results from such indexes. Particularly, conclusions cannot be generalized from such composite indexes for particular sectors or issues, as the results always come from combined effects. In fact, if we want to observe the combined effect of a

[8] KOF index is available at: http://globalization.kof.ethz.ch/

comprehensive process of globalization, we have no better choice than composite indexes because certain components of globalization cannot capture such combined effect. Therefore, this study intends to use a reliable composite indicator of globalization as the major explanatory variable.

To obtain better empirical results, the selection criteria for the composite index are: comprehensibility of the index, i.e. the coverage of issues or variables, and the broader coverage of time and countries. With these criteria, the KOF index of globalization best suited this study's purpose. Although there are some new composite indicators introduced in more recent years as explained above, the KOF index is considered the most comprehensive indicator of globalization to date. As a main explanatory variable, a more detailed explanation of the KOF index is given below.

To define globalization, Dreher (2006:1092) followed the explanations of Clark (2000), Norris (2000), and Keohane and Nye (2000:4). He summarized that;

> Globalization is meant to describe the process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows including people, information and ideas, capital and goods. Globalization is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence.

More specifically, Dreher summarized the definition of the KOF index in the following three dimensions. Firstly, "economic globalization" is measured by the long-distance flow of goods, capital and services as well as information and perceptions that accompany market exchanges. Economic globalization is further categorized into two sub-dimensions as *actual economic flows* and *restrictions* to trade and capital. Actual economic flows include data on trade, FDI flows and stocks, portfolio investment, and income payments to foreign nationals, all as % of GDP. And, *restrictions* are measured by hidden import barriers, mean tariff rates, taxes on international trade (as a share of current revenue) and capital account restrictions.

Dreher defines "social globalization" as the spread of ideas, information, images and people, having three sub-dimensions: *personal contacts, information flows* and *cultural proximity*. Data on *Personal contacts* capture direct interaction among people living in different countries using variables such as international telecom traffic, the degree of tourism, government and worker transfers received and paid, the stock of the foreign population and the number of international letters sent and received. The second sub-index is *information flows,* which is calculated based on the number of internet users, the share of households with a television set, and international newspapers traded. The third sub-index refers to *cultural proximity,* which is measured by the number of English songs in national hit lists, movies shown in national cinemas that originated in Hollywood, exported books (relative to GDP), and McDonald's restaurants and IKEA stores located in the country.

Finally, "political globalization" is defined as the level of diffusion of government policies, which is, indeed, difficult to measure. To construct the index, Dreher used the number of embassies

and high commissions in a country and, the number of international organizations to which the country is a member and the number of United Nations (UN) peace missions a country has participated in, and number of international treaties it has signed since 1945.

To construct the indices of globalization, Dreher transformed each of the variables introduced above to an index on a scale of one to 100, where 100 is the maximum value for a specific variable over the period 1970 to 2007, and one is the minimum value. Higher values denote greater globalization.

Constructing a comprehensive indicator is complex and there is always some room for improvement. This is more challenging for globalization as the concept is very broad and views are even contradictory. However, Dreher's effort can be considered as the best that can be done with current data availability. A more detailed explanation of the methodology used to construct the KOF index is given in the Section 3.2 of the Chapter 3.

Besides scholarly efforts to construct the composite index of globalization, many international organizations are making tremendous efforts on collecting, compiling and publishing the data on globalization related variables. It is worthwhile to discuss to what extent they collect such data and what problems they are facing in this process. Therefore, some of the major institutional efforts are discussed here.

1) *World Bank Globalization Indicators:* The World Bank's globalization related data are available in its WDI online database. Recently, the World Bank made it free to everyone and there is no subscription is required to get the data. A large number of globalization related variables are available on the database ranging from trade flows including exports and imports, flows of capital including FDI, portfolio and foreign aid, flow of people including tourists, workers and professionals, flow of information including the expansion of telephone, mobile phone and internet subscriptions, and so on. This makes it easier for researchers since the database reports indicators by level and proportion mainly as % of GDP. More than 900 indicators are arranged in a number of topics in time series from 1960 for more than 210 countries and economies of the world.[9] A unique report on "Global Links" is included in the print versions of WDI each year, which provides data on global economic integration including trade and investment expansion and development in its Chapter 6 focusing developing economies.[10] It provides number data on globalization related variables, such as Integration with the global economy, growth of merchandise trade, direction of trade of developing economies, primary commodity prices, regional trade blocs, tariff barriers, trade facilitation, external debt, global private financial flows, net official financial flows, aid dependency, movement of people, travel and tourism, and so on (World Bank, 2010). As Millennium Development Goal 8 focuses on landlocked countries, the "Global Links" chapter of the WDI also focuses on the challenges that are

[9] The database can be accessed at: http://data.worldbank.org/data-catalog/world-development-indicators
[10] Chapter 6 of the WDI 2010 can be accessed at: http://data.worldbank.org/sites/default/files/wdi/section6.pdf

faced by these countries in integrating into the global system because they have the unique problem of unpredictable supply chains, reflecting an uncertainty in shipment delivery time, low demand levels, greater inventory costs, and low private sector capacities. Rent-seeking activities are higher when shipments transit through other economies and international corridors, contributing to higher trading costs (Arvis, Raballand and Marteau, 2007). On average, landlocked economies trade 30 % less than coastal economies (Limao and Venables, 2001). Access to global shipping and freight networks is an important determinant of a country's export competitiveness. Because landlocked economies lack direct access to liner shipping networks, access to air cargo networks is especially important to them. Though faster and more reliable than road transport, air freight typically costs 4–5 times more than road transport and 12–16 times more than sea transport (World Bank, 2009a). Consequently, demand for air freight is limited in landlocked developing economies that ship small volumes of low-value-per-unit goods. Establishing and improving the efficiency of international trade corridors could significantly benefit landlocked economies. Overall, WDI is the one of the most comprehensive databases that is useful in development and globalization studies.

2) *OECD Globalization Indicators:* The OECD is another comprehensive source of data and information related to globalization. The organization puts significant effort into providing globalization data. Although most of the indicators are limited to its member countries, the OECD globalization indicators help identify the economic activities that are under foreign control. Particularly, the database is designed to provide information on the contribution of multinational enterprises to growth, employment, productivity, labor compensation, research and development, technology diffusion and international trade. It shows the financial, technological and trade interdependencies within the OECD countries.[11] Particularly, the OECD regularly reports on key developments and trends in foreign direct investment (FDI) flows, and makes forecasts. These reports are prepared using the most recent annual FDI statistics released by OECD countries and statistics for international mergers and acquisitions (M&A). Additionally, it provides statistical indicators for the analysis of international economic integration (trade aspects), annually, for the 30 OECD member countries, in current and constant prices. Its International Trade Indicators database brings separate databases together in one application to provide cross-disciplinary background information for globalization analysis. Its macro trade indicators include total trade, trade of goods, and trade of services in current and constant prices for the 30 OECD member countries; micro trade indicators give further details of trade indicators in current prices. Furthermore, in 2007, the OECD published the Handbook of Economic Globalization Indicators to gauge the intensity and magnitude of the globalization process.[12]

[11] OECD globalization indicators are available at:
http://www.oecd.org/topicstatsportal/0,3398,en_2825_35728892_1_1_1_1_1,00.html#35731225
[12] An introduction about the OECD Economic Globalization Indicators is available at:
http://www.oecd.org/dataoecd/37/25/34964971.pdf

3) *UNCTAD Development and Globalization: Facts and Figures:* The United Nations Conference on Trade and Development (UNCTAD) published its second issue of *Development and Globalization: Facts and Figures* in 2008. Its first issue was published in 2004. In the context of the changing paradigm of globalization, this publication aimed to enhance the analytical emphasis and to offer some explanations for new and emerging economic trends. It covers 27 topics in the subject area of global growth and composition of demand, payments balances and determinants, external resources, international trade, and population. It illustrates UNCTAD´s independent research in the areas of its core mandate, namely the integrated treatment of trade, development and interrelated issues in the fields of finance, technology, investment and sustainable development, and its endeavors in the area of statistics. Overall, it covers issues such as trade, investment, external finance, commodities and manufactures, together with relevant facts about population. It provides concise explanations and key data that surveys major developments in the world economy over the past 40 years. This is simply presented and easy to understand even by general people. As per the mandate of UNCTAD, the focus of this work is on DCs, particularly in the context of globalization. More importantly, it not only covers globalization issues but also its impacts on the overall development of DCs.[13]

4) *Globalization Tables and Graphs by Global Policy Forum (GPF):* To demonstrate the main features of globalization, the GPF gathers a large number tables and graphs. It tries to answer questions such as what is new in the globalization processes, what drives the process, how does it change politics, and how does it affect global institutions like the UN. It provides tables of data on economic globalization that covers broad to specific issues, such as General Analysis on Globalization of the Economy, International Trade and Development, Trade Agreements, Multilateral Agreement on Investment and Related Initiatives, Transnational Corporations, Export Processing Zones, World Trade Organization, the World Bank, IMF, Global Taxes, and Dollarization. Furthermore, the GDF provides data on world poverty and development, debt relief and activities of transnational corporations, and so on. Overall, it provides tables and charts measuring globalization in terms of technology, demographics, and culture.[14] The GPF is an independent policy advising and advocating institution. It is active on networking NGOs and advocacy. It defines itself as a "policy watchdog" to monitor the work of the United Nations and global policymaking. Particularly, its works focus on the UN Security Council, the food and hunger crisis, and the global economy to promote accountability and citizen participation in decisions regarding peace and security, social justice and international law. The GPF gathers information and circulates it through their website (http://www.globalpolicy.org/) as well as through frequent media interviews. It analyzes deep and persistent structures of power and dissects rapidly-emerging issues and crises. While their work challenges mainstream thinking and questions conventional wisdom, they seek democratic, cooperative, peaceful and sustainable solutions

[13] This publication is available at: http://www.unctad.org/en/docs/gdscsir20071_en.pdf
[14] The globalization tables and graphs can be accessed at: http://www.globalpolicy.org/tables-and-charts-ql/globalization-tcql.html

to the world's great problems. In this respect, their efforts on providing globalization related information shows the interest of independent institutions that deal with a wide range of policy problems.

Among these numerous variables of globalization, it is not easy to select representative variables for a specific analysis. As this study intends to complement the broader analysis by extending it to specific variables, it is essential to select the most representative variables. Based on the existing literature, four key variables are selected, which are also frequently used as proxies for globalization. The most used proxy for globalization is probably international trade. Scholars also use FDI, capital flows, information flows, and international migration, among others. Thus, these four variables are selected for empirical analyses in Chapters 3 and 4. A brief description of each variable is presented below.

International trade is one of the leading factors of globalization. Because of the importance of trade, and the availability of data, most scholars of globalization use trade volumes (imports and exports) as a proxy for globalization. It is simple to understand and easy to interpret. According to the World Bank's World Development Indicators (WDI) online database, which is one of the major sources of data of used in this study, "trade is the sum of *exports* and *imports* of goods and services measured as a share of gross domestic product."[15] The *export* of goods and services comprises of the free on board (f.o.b.) value of all goods and services provided to the rest of the world in US dollars.[16] Similarly, *imports* consist of the cost, insurance, and freight (c.i.f.) value of all goods and services purchased from the rest of the world valued in US dollars.[17]

FDI generally comes together with trade as it goes hand in hand. FDI almost unanimously is seen as a driving force of economic growth and such a belief is especially viable among politicians of developing countries striving to accelerate economic and technological development and to enhance the competitiveness of host economies (Tvaronavičienė and Kalasinskaitė, 2010:5). This study also uses FDI as a key element of globalization. The definition follows the WDI online database: "FDI are the net inflows of investment to acquire a lasting management interest (10 % or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments."

International migration is another dimension of globalization and a significant part of global integration not only in economic but also in social and cultural terms. This aspect is also more

[15] The WDI online database is available at: http://data.worldbank.org/data-catalog

[16] "Free on board" refers to the price of a traded good and service excluding transport cost. It means the price after loading onto a ship but before shipping, thus *not* including transportation, insurance, and other costs needed to get a good from one country to another.

[17] "Cost, insurance, and freight" is the price of a traded good or service including transport cost. It means that a price includes the various costs, such as transportation and insurance, needed to get a good from one country to another.

sensitive in political terms. “Migrants contribute to the economies of both their host country and their country of origin. Yet reliable statistics on migration are difficult to collect and are often incomplete, making international comparisons a challenge” (World Bank, 2010:417). Thus, many scholars take remittances as a proxy of migration. According to the WDI online database;

> Workers’ remittances and compensation of employees comprise current transfers by migrant workers and wages and salaries earned by nonresident workers. Workers’ remittances are classified as current private transfers from migrant workers who are residents of the host country to recipients in their country of origin. They include only transfers made by workers who have been living in the host country for more than a year, irrespective of their immigration status. Compensation of employees is the income of migrants who have lived in the host country for less than a year. Migrants’ transfers are defined as the net worth of migrants who are expected to remain in the host country for more than one year that is transferred from one country to another at the time of migration.

Another important element of globalization is the flow of *information and communication technology (ICT)*. In his book, *Globalization and its Discontents*, Joseph Stiglitz (2002) argued that the greatest disparity between developed and less developed nations is no longer a matter of natural resources, or even of human capital, but is the growing digital divide or access to information communication technology (ICT). It is often identified as a primary actor in enabling national and regional economies to develop new social and organizational capacity and exploit new knowledge assets that can then lead to a better ability to participate in the wider global economy, serving as a primary means to achieve social and economic development (WSIS, 2004:13). The United Nations Educational, Scientific, and Cultural Organization (UNESCO, 2002:12-13) define;

> ICT as the combination of informatics technology with other, related technologies, specifically communication technology,” where “*informatics* is the science dealing with the design, realization, evaluation, use, and maintenance of information processing systems, including hardware, software, organizational and human aspects, and the industrial, commercial, governmental and political implications of these,” and “*informatics technology* is the technological applications (artifacts) of informatics in society.”

This is a broad definition of ICT. However, in empirical research most scholars use access to a telephone or mobile phone and/or internet as a proxy of ICT. This study uses telephone and/or mobile phone users per 100 people to measure ICT development.

There is no doubt that globalization is closely associated with QOL. In fact, this is the reason that globalization has been attracting researchers’ interests. The following sub-section discusses the concept of QOL.

2.2.2 Quality of Life

> What is it to live a good life? That we care about the answer to this question is not surprising. For if we choose to live rather than to die, we want our lives to be good ones. But we do not agree with one another as to what constitutes a good life. . . Not only do we disagree with one another as to the nature of the good life; often we find that the answers we have given are unsatisfactory even for ourselves. . . Yet we cannot let the matter rest, so long as we care about improving the quality of our lives. When we ask what it is to live a good life, we are concerned with what is, in many ways, the most important question of all (Smith, 1980: 17).

Like globalization, QOL is also a vague term as Smith's quote above captures its philosophical substance. A single definition and measurement cannot satisfy all purposes. It attracts almost all academic disciplines, actors and issues of a society from the individual to the global level. As this study primarily follows an economic approach, it reviews the concept and definition of QOL from an economic perspective.

Throughout the history of economics, QOL enhancement has been the central objective, even though this objective is sometimes implicit. For the most part, a measure of welfare has been national income, which, in the first half of the 20th century, was transformed from an abstract theoretical concept to a solid empirical measure. In the last half of the 20th century, as national income measurement evolved into a system of national economic accounts with GDP at the center, alternative approaches to measuring wellbeing have been proposed and developed, many of them foreshadowing or linking up with today's QOL measures. These approaches branch out in several directions. Some efforts are directed to measuring specific aspects of QOL, such as food and housing. Some others attempt to develop more comprehensive indicators of wellbeing by synthesizing indicators related to material living conditions, length of life, education, and so on.

Some scholars measure subjective wellbeing based on personal reports on feelings of wellbeing, such as individual happiness or life satisfaction. However, economists tend to ignore this subjective indicator on the grounds that it is what people do that is important, not what they say (Fuchs, 1983: 14). As data on happiness and life satisfaction have accumulated, however, there has been a small but growing amount of economic research on reported happiness and life satisfaction, and these measures have started to be used in discussions and analyses of public policy choices (Donovan and Halpern, 2002; Gruber and Mullainathan, 2002).

These days, GDP is commonly faulted as a measure of wellbeing, but it was not always that way. Since the French Physiocrats of the late 18th century, national income has played a central role in economic analysis.[18] One of the founding fathers of modern welfare economics, A.C. Pigou (1929),

[18] The Physiocrats were a group of French economists. Their theories were most popular during the second half of the 18th century. Physiocracy is perhaps the first well-developed theory of economics, whose most significant contribution was the emphasis on productive work as the source of national wealth. This is in contrast to earlier schools, in particular mercantilism, which often focused on the ruler's wealth, accumulation of gold or the balance of trade.

considered national income as the primary measure of economic wellbeing. Pigou also distinguishes between economic welfare and a broader concept of social welfare, of which economic wellbeing is a component. However, his view "that there is a clear presumption that changes in economic welfare indicate changes in social welfare in the same direction, if not the same degree" (p. 3) is still widely held by economists.

The foundation work in the measurement of national income was done by Simon Kuznets, the third Nobel laureate in economics. Starting in the late 1920s, he established a comprehensive research program on national income under the sponsorship of the National Bureau of Economic Research (NBER), the leading organization in empirical economic research at that time in the United States. Kuznets identified and examined at length the same questions that scholars face today in developing a comprehensive measure of wellbeing. He argued vigorously that national income is an attempt to appraise an economy's performance in the light of some generally accepted end purpose(s); in ordinary times, this purpose is to provide commodities and services that contribute to consumers' wellbeing, both present and future. A common system of national economic accounts was adopted by many countries in the world, as well as the Statistical Office of the United Nations, due particularly to the pioneering work of 1984 Nobel laureate Richard Stone (1985).

Despite the establishment of "official" concepts, scholars were not satisfied with the measure and tried to develop adjusted GDP or GNP as a measure of economic welfare. A well known attempt to adjust GNP to obtain a more meaningful measure of economic wellbeing is a study by William Nordhaus and James Tobin (1973), which contributed to contemporary measures such as the Index of Sustainable Economic Welfare. They include the value of nonmarket economic activities by eliminating consumer costs, governmental military spending and similar outlays necessary for the economy's functioning and by subtracting the costs associated with urbanization and congestion. Of these, the biggest adjustment by far is the imputation for nonmarket activities, which is nearly equal in magnitude to the flow of consumer goods and services through the market. This total for consumption is then virtually doubled by an imputation for the value of leisure on the grounds that twice as much consumer output would have been available if people had forgone leisure for work. These adjustments to GNP are made for United States data for the period 1929–1965. In the end, Nordhaus and Tobin arrive at a conclusion that is comforting to economists: "Although GNP and other national income aggregates are imperfect measures of welfare, the broad picture of secular progress which they convey remains after correction of their most obvious differences" (p. 532). In contrast, the recently proposed Index of Sustainable Economic Welfare grew hardly at all in the United Kingdom between 1950 and 1996 (Jackson et al., 1998). Among other differences from the Nordhaus–Tobin measure, this index includes sizeable adjustments for income inequality, costs of climate change, and the cost of ozone depletion, and does not include an imputation for leisure.

Since the introduction of a national economic accounting system, some economists were interested in measuring welfare by developing alternative indicators rather than adjusting GDP or GNP. Two dominant concerns motivated this work: first, serious reservations about the validity of GDP or GNP as a measure of welfare, and, second, after World War II, as economic research increasingly turned toward less developed countries for which statistical sources were scarce, the need for QOL indicators that drew on whatever limited data were available. Among the leaders of those motivated by the desire to get meaningful empirical measures for less developed areas were scholars at Stanford University's Food Research Institute. M.K. Bennett sought to compare international differences in consumption levels for the period 1934–1938 by developing 16 non-monetary indicators ranging across five categories of consumption: food and tobacco, medical and sanitary services, housing, education and recreation, and transportation and communications (Bennett 1951). W.O. Jones and Christian Merat (1962) tried to study material living levels in sub-Saharan Africa by drawing on the data most widely available, statistics of international trade.

Some notable alternative indexes of economic welfare that build out from measures of personal consumption include the Osberg–Sharpe Index of Economic Wellbeing (Osberg, 2001; Osberg and Sharpe, 1998), a physical QOL index (Morris, 1979), a biological standard of living (Komlos, 1995; Steckel and Floud, 1997), and others.

Scholars are also interested on the psychological aspect of wellbeing. The first attempt in economics to assess the trend of wellbeing in terms of personal reports on happiness or life satisfaction is that of Easterlin (1974), who found that over the period 1946–1970, average happiness in the United States rose through the late 1950s, and then fell, returning to near its 1946 level. Bernard M.S. van Praag made notable advances in the analysis of subjective data on the adequacy of income (see the overview in van Praag and Frijters, 1999). A major difference from so-called "objective measures" is that these subjective measures do not require value judgments from the analyst on questions of scope, netness, and valuation because the aggregation of the various dimensions of wellbeing is performed by the respondent when arriving at his or her stated wellbeing (Frey and Stutzer, 2002; Oswald, 1997).

Interestingly, just after taking the throne in 1972, Bhutanese King Jigme Singye Wangchuck introduced the concept of Gross National Happiness (GNH) to replace the traditional GNP to measure the country's progress, and more specifically, as the guiding philosophy of Bhutan's development process. It was a unique attempt, although it is hard to use in empirical work. The basic principle of GNH is that happiness is the central goal of human kind and consists of the means to achieve this goal. In fact, Bhutan developed GNH guidelines and working principles and account for national progress as per the GNH. Bhutan set an enabling environment for GNH through a set of policies in four key areas: 1) sustainable and equitable socio-economic development, 2) conservation of the environment,

3) preservation and promotion of culture, and 4) promotion of good governance.[19] Although it seems that all of these thematic areas appear abstract and may very well be an incomplete catalogue of policy areas for good development, these issues encompass an important area of concentration to promote happiness. The four pillars correspond to only certain sectors of interventions by the Bhutanese government. Unlike sectoral fragmentation, the GNH attempts to take a holistic development approach. However, the GNH has not been popular as it has not been adopted by any other country. Nevertheless, as it captures the concept of happiness, it is occasionally discussed in news media.

As the most legitimate international organization and having a mandate to world peace and development, the UN was also among the early reactors against economic measures of wellbeing, which pointed out that international disparities in real life conditions did not simply parallel economic conditions (United Nations, 1952, 1961). The organization was looking closely at the debate and finally introduced the Human Development Index (HDI) and has published it annually in the Human Development Report (HDR) since 1990, which follows the wisdom of David Morris's physical QOL index (Morris, 1979) and combines the measures of economic output, life expectancy, and education.[20]

The HDI is probably the most successful current multidimensional indicator. It was proposed by the UN in 1990 as a protocol to measure countries' degree of development, based on Amartya Sen's idea of *functioning and capabilities* (Sen, 1985). This protocol identifies health, education, and material wellbeing as the key to human functioning. The achievements in health, education and material wellbeing were associated with the variables *life expectancy at birth*, a mixture of *literacy rate* and *gross enrolment rate* (with weights of 2/3 and 1/3, respectively), and the *log of the standard per capita GDP*, respectively, suitably normalized. Finally, the HDI consists of the *arithmetic mean* of the normalized values of those three variables (third stage). The HDI is complemented by other companion indices that focus on specific subjects, most notably gender and poverty. Two remarks are worth mentioning. The first is that those indices use different types of mean in order to aggregate partial indicators. Second, the poverty measure includes a specialized index for more developed countries. Both features are present in the proposal contained in this work. The details of the HDI are further discussed in Chapter 3 of this thesis, as it is the main QOL indicator used as the dependent variable of this study.

Although the HDI has gained popularity over the years, it has also been criticized for several reasons. For example, the HDI is not distribution sensitive. In addition, other equally important dimensions of human development, such as participation, security of persons and property, dignity and self-respect, etc., are not captured in the measure. It has also been criticized for adopting a linear

[19] Details description of about the GNH is available at: http://www.grossnationalhappiness.com/default.aspx

[20] Launching the report in 1990, lead author Mahbub ul-Haq explained its essential purpose: "Our interest is not just in the expansion of national income, but in the extension of human wellbeing." As a former Planning Minister in Pakistan, ul-Haq knew first-hand the frustrations of using traditional economic models to bring prosperity for all in a country endowed with great resources and vast potential, but wracked by equally great poverty and gaping inequalities (http://hdr.undp.org/en/mediacentre/lets-talk-hd/2010-01/).

averaging method of aggregation, which implies perfect substitutability between longevity, knowledge and living standards (Mishra & Nathan, 2008; Hopkins, 1991). It also ignores quality aspects of education and health.

The need for multidimensional indicators when assessing economic development is already well established. The recent report by Stiglitz, Sen and Fitoussi (2009) is one of the most recent attempts to transform such a need into an institutional commitment to change our national accounting systems. There have been a number of efforts and proposals to improve the HDI or develop new indexes. However, they are still in the exploratory stage and not utilized in the real world of international development. Therefore, these new efforts and proposals are not discussed here.

2.3 Globalization and QOL: Empirical Evidence, Theoretical Linkages

There is a huge body of literature on the impacts of different elements of globalization on different aspects of QOL. As each analytical chapter of this thesis (i.e. Chapters 3 – 5) conduct independent analyses, a more detailed review of the literature is discussed in each chapter. It is believed that this will help readers understand each chapter in its context independently. Therefore, this chapter reviews the literature that examined the impacts of broader aspects of globalization, particularly the KOF index, on different aspects of QOL, followed by the channels of such effects.

Recent studies that use comprehensive indicators of globalization as well as QOL show favorable impacts of globalization on QOL. For example, Tsai (2007) tested contradicting hypotheses empirically using comprehensive globalization and QOL measures, the KOF index and the HDI, and panel data of from 112 developing countries (DCs) from the period 1980-2000 in 10-year intervals. He found significant positive impacts of the overall globalization index and the economic globalization index on the HDI. Furthermore, he argued that several hypotheses about globalization's negative effects, through increasing societal instabilities and reducing state power and social spending, are not supported by the analysis. Clearly, it showed that globalization contributes more than hampers progress in QOL. Interestingly, globalization is also found to be contributing to HDI (and its components except income indicators) convergence in the Asia-Pacific (Sapkota, 2010). In the case of Latin America, Camarero and Tamarit (2008) applied a "SURE" approach to testing for convergence among Mercosur countries and found that small countries are catching up with Brazil and, to some extent, Argentina.[21] However, catching up among the larger countries was found to be weaker. In a similar analysis, Bergh (2006) used the Economic Freedom Index and the KOF index of globalization and claimed that globalization poses no threat to the welfare state. More specifically, he claimed that

[21] Mercosur or Mercosul (*Southern Common Market*) is a Regional Trade Agreement (RTA) between Argentina, Brazil, Paraguay and Uruguay founded in 1991 and later amended and updated in 1994. Its purpose is to promote free trade with movement of goods, people, and currency. Here, small countries refers to Paraguay and Uruguay and larger countries refers to Argentina and Brazil.

the market economy and globalization do not pose threats to these welfare states, but are instead neglected factors in explaining their survival and good economic performance. This view is also supported by Koster (2009), who claimed that the welfare state is not affected by social and political openness.

Health is always the central aspect of QOL. There are some recent works that investigated the impacts of globalization on health indicators, particularly on life expectancy. For example, Bergh and Nilsson (2009) analyzed the relation between three dimensions of globalization (economic, social and political) and life expectancy using a panel of 92 countries over the period 1970-2005. Using different estimation techniques and sample groupings they find a very robust positive effect from economic globalization on life expectancy, even when controlling for income, nutritional intake, literacy, number of physicians and several other factors. Interestingly, the result also holds when the sample is restricted to low income countries. For political and social globalization, however, the effects were not robust. Similarly, Ekman (2003) also used aggregate level panel data for 123 countries for the period 1975-2000 and argued that globalization significantly increases life expectancy at birth. Interestingly, the level of water pollution decreased significantly (Lamla, 2006).

Education is another key component of QOL. Noelke (2008) argued that globalization has a significant effect on technological change. However, there is no strong effect on youth unemployment. There are many studies that show that quality education not only enhances economic growth but also contributes significantly to public health. Interestingly, Jamison and Hanushek (2007) empirically found that such positive and significant effects of education on health and economic development is far higher in more globalized countries.

Globalization's impact on workers or working conditions is an issue that has also drawn much research attention in recent years. Interestingly, Potrafke (2010) argues that the working conditions of unskilled workers are not likely to deteriorate and the jobs of unskilled workers are not likely to disappear in the course of globalization. Interestingly, while globalization is shown to loosen the protection of the regularly employed, it tightens the labor laws protecting temporary workers (Fischer and Somogyi, 2008). There is also a large body of literature on the impact globalization has on government expenditure. The structure of government expenditure largely affects its citizens' welfare. According to the "disciplining hypothesis," globalization restrains governments by increasing budgetary pressures. Consequently, governments shift their expenditures in favor of transfers and subsidies and away from capital expenditures. However, Dreher, Sturm and Ursprung (2008) used panel data of 108 countries for the period 1970-2001 and found that globalization does not affect the composition of government expenditures. However, Gemmell, Kneller and Sanz (2008) argued that economic globalization reduces the share of government expenditures allocated to social security, although only in the case of developed countries.

The most used dependent variable in past and present globalization research is probably economic growth. This represents the income or economical aspect of QOL. A recent study by Chang and Lee (2010) empirically investigated the globalization-growth nexus, applying Pedroni's panel cointegration technique and re-examined the co-movement and causal relationship between economic growth, the overall globalization index, and its three main dimensions: economic, social, and political. In their analysis of panel data of 23 Organization for Economic Cooperation and Development (OECD) countries from 1970 to 2006 they found long-run unidirectional causality running from the overall index of globalization, economic globalization, and social globalization to growth. Rao, Tamazian and Vadlamannati (2008) claimed that highly globalized countries have higher steady state growth rates (SSGR), which is also supported by Dreher (2006). Interestingly, emerging economies were found to be more globalized than others as they have higher growth rates (Naghshpour and St. Marie, 2008), and globalization negatively correlates with inflation rates (Pehnelt, 2007).

Inequality is also heatedly discussed topic in academic and policy arenas. There is a tremendous amount of literature that focuses on finding determinants of inequality, and generally points to globalization as being one. (Gaston 2008; Dreher and Gaston, 2008; Bergh and Nilsson, 2008; Gaston and Rajaguru, 2007). However, a recent empirical study by Ohadi and Tayebi (2009) that uses a panel income distribution regression model of cross-sectional data from the selected countries and a relevant time series from the period 1985-2004 shows that globalization has influenced significantly and expectedly caused inequality to be reduced in a particular group of countries, such as emerging market economies, high income, middle income and low income countries.

Another aspect of QOL is peace and stability. Both intrastate and interstate conflicts can seriously downturn people's QOL. Thus, researchers are also interested in observing the impact of globalization on different aspects of peace and stability. Interestingly, recent studies show that globalization has reduced the number of interstate military disputes (Choi, 2010). Using cross-sectional time-series data for 114 countries during the period from 1970 to 2001, Choi found that socioeconomic and political globalization significantly reduced militarized interstate disputes. Globalization is claimed as the most powerful explanatory variable even when controlling for common conflict-related variables such as democracy, economic interdependence, joint membership in international organizations, and others incorporated into the analysis. Interestingly, Koste (2009) demonstrated that the consequences of social openness for people's preferences confirm the hypothesis that people prefer voluntary solidarity to compulsory solidarity and the market mechanism. Social globalization has also been found to be an effective tool in fighting corruption, enhancing domestic press freedoms (Charron, 2008). Interestingly, trade restrictions and tariff burdens also contribute significantly to the size of smuggling (Buehn and Farzanegan, 2008). Furthermore, using panel data for 133 countries from 1960 to 2006, Tavares (2007) found a positive association between

democracy and openness. These are all the factors contributing to peace and stability, which is the basic environment for a high quality life.

Impact Channels of Globalization on QOL: There are two main impact channels of globalization on QOL: a direct channel and an indirect channel through economic growth. Globalization has been supported worldwide for its growth and welfare enhancing effects on the basis of the propositions embedded in the well known economic theories of international trade and investment. The major theories include the Ricardian comparative advantage theory, the Heckscher-Ohlin-Samuelson model and the "new trade theories" of the 2008 Noble laureate Paul Krugman.[22] These theories assume the main growth-enhancing effects of globalization can be realized through: (i) static efficiency gains from improved resource allocation due to increased specialization both in national as well as world economies; and (ii) dynamic efficiency gains from economies of scale, diffusion of information, technology transfers, knowledge spillover, cross-border borrowing/lending for investment and consumption and portfolio risk diversification (Nissanke and Thorbecke, 2006: 6)

What is the effect mechanism of globalization to growth? Globalization affects growth directly through three main sub-channels: exports, imports and capital inflows. Through the export channel, trade liberalization policies encourage exports, which benefit export industries and contribute to GDP growth. This link is relatively transparent; however, scholars still debate on the direction of causality. Do exports influence growth, does growth influence exports, or do the effects go both ways? Frankel and Romer (1999) conclude, using an instrumental approach, that trade influences growth both by increasing human and physical capital and by boosting total factor productivity growth.

As for the import channel, in the short run, imports hurt the previously protected domestic industries and create a fall in fiscal revenues as a result of lower tariffs. However, the initial negative consequences on output are likely to be more than compensated through a more efficient allocation of resources and benefits of competition, leading to a higher growth path. The Asian newly industrialized economies (NICs) are successful cases of trade liberalization leading to growth. Their import liberalization was preceded by, or implemented with, export promotion policies and other measures to strengthen the technological capability of domestic producers, which lead to surprisingly high growth.

Through the capital inflow channel, FDI, portfolio and other capital flows boost domestic output and growth through the production of new products and transfer of new technology, skills and management knowhow. However, the effects are not automatic. If FDI takes the form of "Greenfield investment,"[23] the production of new products and creation of new long-term jobs are more likely. Similarly, the study by Prasad *et al.* (2003) acknowledged that it is difficult to establish a strong positive causal relationship between financial globalization and economic growth. Furthermore these

[22] For a detail description of these theories, see Appleyard, Field and Cobb (2009).
[23] Greenfield investment refers to the construction of new production facilities by an investor, while acquisition is the purchase of existing assets (see also O'Huallachain and Reid, 1997).

short-term capital flows contribute to the increased vulnerability to external shocks of the recipient developing countries.

Clearly, globalization has more favorable than detrimental channels to affect growth. How does growth affect QOL? The positive effect of growth on overall QOL is well understood and less contradictory. However, the welfare effect of growth primarily depends on the nature of growth itself. If growth is concentrated in one particular segment of society, it may deteriorate QOL of poor and disadvantaged segments, which is opposite to the development objective. For developing countries, particularly low income countries, poverty is the major problem of development. Millions of people in these countries are living below the poverty line, and enhancing QOL of such people is the major challenge of global development. Thus, pro-poor or inclusive growth is advocated by scholars and policy makers because this growth channel affects QOL most systematically. Hence, Foster and Szekely (2000:69) emphasized the need for specific policy measures to safeguard the poor together with a growth strategy:

> ...growth is good for the poor. However, it seems that it is even better for other sectors of society. This suggests a role for additional policies aimed specifically at guaranteeing that the poor share the benefits of development more proportionally.

Thus, it is clear that pro-poor growth cannot be achieved spontaneously. It requires a strong commitment on the part of policymakers to adopt pro-poor policies that can produce a sustained, broad based, well distributed growth path. Basically, initial conditions and institutions in country-specific settings determine the exact design of such pro-poor policies.

Apart from the *growth* channel, there are number of other channels, through which globalization can produce winners and losers, and hence impact QOL. For example, changes in relative prices of factors and products directly affect income distribution, which may negatively affect QOL. The well-known Samuelson-Stolper theorem of international trade explains the income distribution effects induced by a shift in relative product prices in the process of opening up trade.[24] The losers (especially the poor) may be vulnerable to these induced effects in addition to changes in absolute and relative prices of wage goods (Williamson 2002). According to the Stolper-Samuelson theorem as applied to the within-country inequality, developing countries well-endowed with unskilled labor should experience a decline in income inequality through an increased demand for unskilled labor, while unskilled labor in developed countries lose out with an adverse effect on equity. This was the case in Philippines as Baliscan and Fuwa (2004) found favorable effect of terms of trade on agricultural and rather high rate of provisional income convergence.

[24] A detailed description of the Samuelson-Stolper theorem of international trade is also well discussed in Appleyard, Field and Cobb (2009).

Factor mobility is another channel of gains and losses from globalization that is well explained in the Heckscher-Ohlin-Samuelson-Stolper (HOSS) model.[25] In fact, income convergence among the globalizing countries during the first wave of modern globalization between 1870 and 1914 was driven primarily by migration. Sixty million people, including largely unskilled workers, migrated from Europe to North America and other parts of the new world during that period (Williamson, 2002 and World Bank, 2002). However, such convergence is less likely to take place through labor migration in the current phase of globalization because the extent of cross-border mobility differs significantly between skilled and unskilled labor (Faini, 2001).

Vulnerability and volatility is another channel of gains and losses from the globalization process. Greater openness tends to be associated with greater volatility and economic shocks, which affect more severely the vulnerable and poor households, and deepen poverty and income inequality (Culpeper 2002). Goldberg and Pavcnik (2004) also emphasize the effect of trade liberalization on inequality because of the increasing vulnerability of unskilled labor through several labor market channels.

The channel of information flow accounts well for gains and losses in the literature on globalization. Graham (2004) has argued that the increasing flow of information about the living standards of others can result in changing reference norms and increased frustration with relative income differences because members of a given socioeconomic or occupational group in a poor country can increasingly compare their welfare with similar groups in richer countries. There is no debate on the enormous opportunity brought by the flow of information. Thus, the current important issue is the design and development of channels through which this flow of information is made accessible to poor households in a useful form, particularly in low income countries.

Similarly, institutions mediate the various channels and mechanisms through which the globalization process affects QOL of the poor (Sindzingre, 2004). Institutions act as a filter intensifying or hindering the positive and negative effects between globalization and QOL of the mass population, particularly the poor, and can help explain the diversity, heterogeneity and nonlinearity of outcomes. This filtering process operates at the global, regional, country and even village level. International institutions such as the IMF and World Trade Organization (WTO) follow their own rules of the game, having often a major impact on QOL outcomes. Likewise, institutions that protect agricultural commodities in the developed countries can block the channel of exports for the same commodities from the poorest countries, thereby preventing them from harvesting the benefits of trade openness. At the other extreme are examples of village-level institutions that can protect resident households from environmental degradation and subsequent poverty caused by overexploitation of local natural resources by multinationals and/or domestic industries. Rodrik (1998a and 1998b) argues

[25]Heckscher-Ohlin-Samuelson-Stolper (HOSS) model is also explained in detail in Appleyard, Field and Cobb (2009).

convincingly that the benefits of trade openness can be reaped fully only in countries with effective institutions, in particular institutions that can successfully resolve the distributional conflicts stemming from openness. He also highlights the primacy of institutions over geography and integration in explaining comparative economic development experiences (Rodrik, 2004 and 2005).

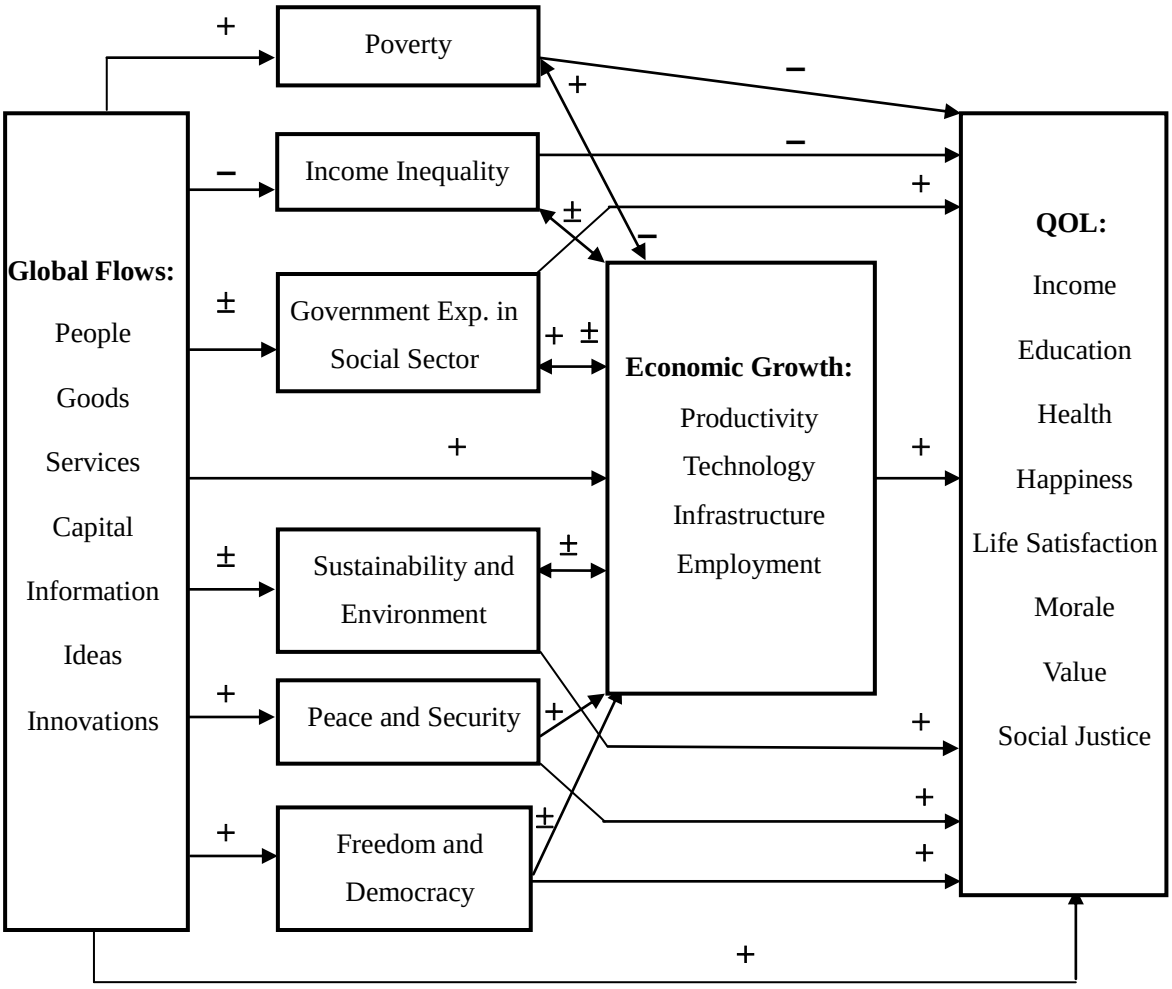

Figure 2.1 Globalization and QOL: A Dialectic Model of Impact Mechanisms
(+ for favorable, − for adverse, and ± for either way)

Source: Author's elaboration.

Based on the discussion, Figure 2.1 summarizes the empirical evidence and theoretical linkages on the impacts and impact mechanisms of globalization on QOL. The arrows show the direction of impacts and the signs show the nature of impact (+ for favorable, − for adverse, and ± for either way). The figure demonstrates just the major impact mechanisms, which are debatable as the impacts are not straightforward, but situational and conditional on policies and institutions. However, it gives a glimpse of the channels of the QOL effect of globalization.

2.4 Shortcomings of Existing Literature and Potential Contributions of This Study

The major contribution of this study is to employ both comprehensive measures and the key components of globalization and QOL simultaneously within the same research framework. Comprehensive indexes and real variables in research both have their own merits. As the concepts of globalization and QOL are rather vague, a comprehensive indicator that can incorporate its broad concept is required. However, the interpretation of such indicators and the results from it are not free from errors because of the complex interactions between the index components. Thus, it is always worthwhile to complement results from such broad indicators with results from its major component variables. However, most of the existing literature take either comprehensive indexes of globalization and QOL, or some of their basic variables to proxy them, which may lead to either unreliable or narrowly focused conclusions.

For example, most of the existing literature on globalization narrowly defines globalization and takes some specific elements as a proxy. The effects reported for one dimension of globalization might therefore appear only because other important aspects of globalization are omitted from the regressions (Dreher, 2006). Since the purpose of this study is to assess the overall effects of globalization, it uses the KOF index of globalization as an explanatory variable, which is further complemented by the analyses of several key elements of globalization.

Similarly, the mainstream literature has focused on the impact of globalization on economic efficiency and growth outcomes (Garrett, 2000; Nyahoho, 2001; Dreher, 2006). It is clear that income is an important part of living standards, but health and education are as well (Stiglitz, 2006); hence, these aspects should also receive similar research efforts. As discussed above, some recent research efforts tried to take an overall QOL effect of globalization after the introduction of the HDI by the United Nations Development Programme (UNDP). However, similar to recent globalization scholars, the same situation exists of scholars just focusing on the HDI rather than its component elements. This study, therefore, takes both the HDI, the comprehensive indicator of globalization, as a dependent variable, and complements the results by taking each component variable of the HDI, one by one, in separate regressions as dependent variables.

This study further assesses the impacts of globalization on the human aspects of development and poverty reduction empirically by improving the methodology of assessment and widening the coverage and quality of data. Most of the existing literature focuses on certain groups of countries, such as the OECD, the European Union (EU), North America, or single country, such as the US, Japan, China, India, or Bangladesh. This study covers 124 DCs (all the DCs that have sufficient data) in Chapter 3 and 20 countries from the East Asia and Pacific (EAP) and South Asia (SA) regions in Chapter 4. It also includes the poverty reduction strategy papers (PRSPs) of all the 13 low income countries from these regions. Similarly, it uses panel data covering 1997 to 2005 in Chapter 3 and 1975 to 2005 in Chapter 4. Most previous studies used only cross-sectional estimates and do not

adequately control for endogeneity. Thus, their results might be biased towards unobserved characteristics that do not vary over time or might reflect reverse causality rather than being consequences of globalization. Thus, this study is believed to correct this problem and produces more reliable results.

Finally, this study uniquely assesses the level of mainstreaming of globalization issues in PRSPs in the Asia-Pacific countries through a content analytic framework. No such effort has been taken in the past although the globalization process is becoming more and more important for low-income countries for their overriding goal of poverty reduction. Therefore, it is believed that this qualitative research complements the empirical evidence from Chapters 3 and 4.

Apart from such an academic contribution, this research is believed to be useful for policymakers (including the donor community) to design globalization policies for optimizing gains from it. As globalization is changing the economic, political, and social systems at the global, regional, national, and individual levels, rapidly affecting everyone's life, it is useful for people to understand the complexity of globalization. This research is expected to make some contribution in this respect as well.

Chapter 3

Globalization and Quality of Life: Evidence from Developing Countries

Chapter Synopsis

This chapter covers one of the three core parts of the thesis. It evaluates the effects of globalization on human development, gender development and human poverty in developing countries. Applying the fixed effect model to the annual panel data of 124 developing countries covering nine years from 1997, this chapter shows that globalization (in terms of the KOF index and key elements of globalization, such as trade, foreign direct investment, flow of information and communication, and international migration) not only promotes human and gender development, but also significantly reduces human poverty. Not surprisingly, all three aspects of globalization (economic, social and political) contribute to the overall effect of globalization. In general, the results from the key elements of globalization are consistent with the results from the KOF indexes.

3.1 Introduction

Due to its accelerating trend, globalization has been one of the most closely observed processes among scholars, policymakers, politicians and even the general public in recent years (Collier and Gunning 2008, 1-2). Consequently, scholars have devoted their efforts to analyzing the impacts of globalization on different aspects of human life and society. Their arguments are, however, highly contested in terms of impact mechanisms and the gainers and losers of globalization. Some are quite critical as they observe the negative effect of globalization on QOL and society in the form of job elimination, especially in the manufacturing sector (Scott, 2001). These "hyperglobalists" argue that globalization is creating a new era of human history in which nation-states and governments are powerless to improve the quality of life of their citizens (e.g., Guillen, 2001; Soros, 2000). In their view, globalization is a great threat to society and they strongly oppose a globalized world.

In contrast, many others observe the positive influence of globalization on QOL (e.g., Thorbecke and Eigen-Zucchi, 2002). For these "pro-globalists," trade liberalization and increased marketing integration are opportunities to increase productivity and wages, which lead to improved QOL of workers (Zoellick, 2001). They claim that the negative influence of globalization, such as the elimination of manufacturing jobs, is highly overstated and the decline of the manufacturing industry is the result of rapid changes in technology rather than globalization (Krugman, 1996).

In the debate on the possible consequences of globalization, non-economists generally tend to oppose globalization as they expect the costs associated with globalization to exceed its benefits,

particularly in developing countries. On the contrary, supported by a number of empirical studies, most economists strongly believe the net effect of globalization is positive (Dreher 2006, 1091). Although Sirgy et al. (2004) and Tsai (2007) have investigated this question by assessing globalization's effects on human and social aspects of development, their efforts are still exploratory and further empirical examinations are necessary. This chapter attempts to contribute to the study of globalization with an empirical analysis that tests the theories proposed by earlier research, with a focus on the human aspects of development.

The chapter proceeds as follows. Section 2 explains the recent trends and linkage between globalization and human aspects of development and poverty. As most of the conventional research tends to take a narrow definition of globalization, focusing on trade and investment flows and removing barriers on such flows, this section defines globalization comprehensively, considering not only economic aspects but also social and political aspects. The chapter also assesses the linkages of globalization and human aspects of development and poverty based on existing theories and empirical findings. It discusses both positive and negative consequences of globalization and presents a theoretical model that explains the possible mechanism of globalization's impact on QOL. Then, the chapter observes the general trend of globalization and QOL indicators in the world by comparing different regions. Through a presentation of presenting globalization trends, the chapter starts with the key elements of globalization, such as trade, foreign investment, migration and information flows. Then, it shows overall globalization trends in terms of KOF indexes.

Section 3 discusses the methodology employed, the data used and the variables analyzed. The chapter uses a quantitative approach by taking nine years of annual data starting from 1997 that covers all developing countries as long as they have sufficient data for the analysis. A panel data regression model, particularly a fixed effect model, is used to analyze the data.

Section 4 presents the results. It shows that globalization (in terms of the KOF index) not only promotes human and gender development but also significantly reduces human poverty. Not surprisingly, all three aspects of globalization (economic, social and political) contribute to the overall effect of globalization. Interestingly, even after extending the analysis, taking some key elements of globalization, such as trade, foreign direct investment, flow of information and communication, and international migration, the results are generally consistent with the results from the KOF indexes.

Section 5 concludes the chapter. It is argued that globalization is good for human aspects of development. Globalization also helps to systematically reduce gender differences and human poverty. Thus, policymakers should accelerate the globalization process. However it is wise to take some policy measures to tackle the negative consequences and optimize the benefits of globalization.

3.2 Globalization and QOL: Definition, Trends and Linkages

Most empirical studies related to the so-called third wave of globalization[26] employ proxies, such as trade, capital flows and openness as measures of globalization using cross-section data (Dreher 2006:1092). For example, Heinemann (2000:298) shows that more globalized countries have lower increments in government outlays and taxes and lower government consumption. Rodrik (1998) also used cross-sectional data and found no effects of capital that account for openness in economic growth. Recently, however, some scholars have used panel data to find the effects of globalization and showed positive impacts of openness on growth and poverty but mixed impacts on income inequality (Dollar and Kraay, 2004; Greenaway et al., 1999; Edition et al., 2002).

Furthermore, the World Bank (2002) study, *Globalization, Growth and Poverty* came up with three significant findings. First, poor countries (with a combined 3 billion people) have broken into the global market for manufactures and services. The study noted a shift in developing country exports over a 20 year period from a predominant share of primary commodities to manufactures and services. This successful shift of exports, an element of global integration, has generally supported poverty reduction. The study found examples of this integration among Chinese provinces, Indian states, and the countries of Bangladesh and Vietnam. The second finding concerned the inclusion of marginalized people and area both across and within countries. One of the most disturbing global trends of the past two decades is that a number of countries (with a combined 2 billion people) have been in danger of becoming marginalized in the world economy. Incomes in these countries have fallen, poverty has risen, and they have participated less in trade than 20 years earlier. The world, therefore, has a large stake in helping countries integrate with the global economy and facilitate the greater inclusion of countries in globalization today. A third issue identified by the World Bank study concerned standardization or homogenization. Opinion polls in diverse countries reveal the concern that economic integration will lead to cultural or institutional homogenization despite the fact that societies fully integrated into the global economy are culturally and institutionally different. The study concludes that "nations that integrated (i.e., those that opened up to international trade and investments) grew more rapidly than advanced nations (thus reducing the gap with advanced nations) during the past two decades, while nations that did not globalize grew less rapidly than the integrated and advanced nations, thus increasing

[26]According to Martell (2007), "some recent contributions in globalization literature have identified three waves or perspectives in globalization theory — the globalists, skeptics, and transformationalists or post-skeptics (for example, Held et al. 1999; Holton 2005). The first wave of globalization, from 1870 to 1914, was triggered by a combination of falling transport costs (e.g., the switch from sail to steamships and railroads) and reduced tariff barriers. The second wave of globalization, from 1945 to 1980, was lead by further falls in transport costs, trade liberalization and free trade in manufactured goods between developed countries. The third wave started in 1980, as many developing countries (including China, Bangladesh, Sri Lanka, India, Turkey, Morocco, Indonesia, Philippines, and Mexico) broke into the global market for the first time, marked an increase in globalization of services due to information technologies. For theoretical detail, see Martel (2007)."

their gap with respect to the others."

Many suggest that integrating with the regional and global economy opens up national markets and ensures competition, thereby removing inefficiencies and leading to greater growth and poverty reduction (Solow, 1956; Swan, 1956). In the 1990s, several highly visible global cross-country studies argued that openness was good for growth — for example, Dollar (1992), Sachs and Warner (1995) and Frankel and Romer (1999). Similarly, Urata and Yokota (1994) concluded that the policy to liberalize trade and foreign direct investment as well as antitrust laws and other policies to strengthen competition in the domestic market are important for bringing about an increase in productivity, which in turn is important for economic development.

However, a number of scholars have questioned the above arguments. For example, Rodrik (1988) and Devarajan and Rodrik (1989) argue that scale economies and imperfect competition are prevalent in developing countries, which complicate the welfare impact of trade liberalization. The theoretical possibility of a welfare-reducing impact from trade liberalization in the presence of imperfect competition and increasing returns to scale has been pointed out in other studies such as Ocampo and Taylor (1998) and Eaton and Grossman (1986). Gomory and Baumol (2004) further argue that globalization may have extremely painful consequences. Some groups of people and some nations may suffer economic damage. More specifically, Stiglitz (2004) noted that in cases where the globalization process had not been managed well it resulted in adverse effects on growth and even led to increased poverty in some countries. Nissanke and Thorbecke (2006) raised the issue of whether the present form of globalization was conducive to the growth-cum-structural transformation process, which was capable of engendering and sustaining pro-poor economic growth and favorable distributional consequences. Contrary to the income convergence thesis, they claim that it is possible for globalization to generate adverse distributional consequences at the national and global levels, which could slow down or even reverse the present poverty alleviation trend.

These detailed studies, however, failed to consider the overall effect of globalization, as they focused on individual sub-dimensions. As all the dimensions of globalization are strongly related and are important in explaining the consequences of globalization, omitting important variables from the regression equation can generate severely biased estimates (Dreher, 2006:1092). In addition, as mentioned earlier, most of these studies, motivated by conventional wisdom, focus solely on economic growth, income poverty and income inequality (Garrett, 2000; Nyahoho, 2001; Dreher, 2006). To avoid these shortcomings, this study intends to use QOL indicators as dependent variables and a comprehensive indicator of globalization, along with its major elements, as explanatory variables.

3.2.1 Globalization

> Globalization is not new, but the present era has distinctive features. Shrinking space, shrinking time and disappearing borders are linking people's lives more deeply, more intensely, more immediately than ever before (UNDP, 1999:1).

Although globalization is not new, as explained in the Human Development Report 1999 entitled "Globalization with a Human Face," globalization is a highly contested term that has both positive and negative meanings. Consequently, development practitioners and scholars mostly refrain from explicitly defining globalization, and rather vaguely interpret it as real cross-border interactions and exchanges (Goldin and Reinert, 2007: 2). While explaining the newness of the current era of globalization, UNDP outlines four key elements: first, *new markets* that operate 24 hours a day, linking foreign exchanges and capital globally at a distance in a real time; second, *new tools* with internet connections, cellular phones, and media networks; third, *new actors* in the World Trade Organization (WTO), which has authority over national governments, multinational corporations, which have more economic power than many states, and the global networks of non-governmental organizations (NGOs) and other groups that transcend national boundaries; and fourth, *new rules* in multilateral agreements on trade, services and intellectual property backed by strong enforcement mechanisms and more binding for national governments, which significantly reduce the scope for national policy (UNDP, 2009:1). This explanation helps us to conceptualize the term as it highlights the major driver of globalization in this age. Furthermore, signaling the negative consequence of globalization, UNDP (ibid: 2) advocates for globalization with *ethics* that reduce the violation of human rights, *equity* and *inclusion* that reduce disparity among people and nations, *human security* that reduces the instability of societies and the vulnerability of people, *sustainability* that reduces environmental destruction and, *development* that reduces poverty and deprivation.

In the literature, globalization is mostly defined in economic terms. For example, in its Handbook of Economic Globalization Indicators, the OECD (2005:18) listed a number of important features of globalization. Most of them belong to the economic domain, such as the reduction of barriers to trade, high integration of financial markets, rapidly increasing foreign direct investment, the role of multinational firms on economic internationalization, close linkages between trade and direct investment, evolving multilateral frameworks for trade and investment (e.g. TRIMS, TRIPS, GATS, etc.), internationalization of production, location strategies for the activities of multinational firms, a significant proportion of intra-firm world trade, accelerating international dissemination of technology and simultaneous shortening of the cycle of production and technological innovation, substantial interdependence of the various dimensions of globalization (trade, direct investment flows, technology transfers, capital movements, etc.), compression of time and distance in international transactions and reduction of transaction costs, multiplication of regional free-trade agreements, global strategies adopted by firms including the global conception of markets, multi-regional integration strategy, and so on.

In the discourse of globalization, we cannot ignore its social and political dimensions, which are usually not considered properly. In fact, cross-national connections are created in the economic, political, cultural, social, and environmental domains. Although these dimensions necessarily overlap, it is analytically useful to distinguish them. Political globalization can be viewed as the formation of international connections among elected officials, bureaucrats, judges, social movement activists, and states. Political globalization is driven by the formation of intergovernmental organizations (IGOs) like the United Nations and the World Trade Organization, and international nongovernmental organizations (INGOs) like the International Committee of the Red Cross. Political officials, regulators and judges are the actors of global governance and "world order," in which global and international ties are formed (Slaughter, 2004).

How about the social (including cultural as well) dimension? Social globalization is mainly driven by the major world religions, media houses, multinational corporations, and international tourism. In this modern age, such processes of social globalization are fueled by the development of the international communication infrastructure (radio, satellites, and intercontinental telecommunication) and the rapid expansion of communication technologies (internet, cell phones, and television). Another element of social globalization is international migration which creates transnational connections and social relationships. For instance, as migration grows, international ties across countries grow at the individual level because they maintain connections with their countries of origin through remitting money back to their home. At the same time, with their work, community and family they build new relationships in their destination countries.

Measuring these concepts is a major challenge in empirical work. In fact, if any concept can be expressed in numbers, it gives more meaning than explanation. Because of its inevitability in empirical research, a number of composite indicators have been developed recently, as explained in Chapter 2. Apart from academic literature, such composite indicators are widely used in business analyses, specialized media, and policy arenas as well. While such composite indicators of globalization are useful to understand the business climate and current development trends of growth for business circles, it provides a world view that helps them reinforce their policies for policymakers (Dreher et al., 2009). Although, Chapter 2 discusses briefly about the KOF index, further detailed explanations are presented below, as globalization is the key explanatory variable of this study.

To define globalization, Dreher followed the explanations of Clark (2000), Norris (2000), and Keohane and Nye (2000:4). He summarized that "globalization is meant to describe the process of creating networks of connections among actors at multi-continental distances, mediated through a variety of flows including people, information and ideas, capital and goods. Globalization is conceptualized as a process that erodes national boundaries, integrates national economies, cultures, technologies and governance and produces complex relations of mutual interdependence" (Dreher 2006: 1092).

More specifically, Dreher summarized the definition of the KOF index in the following three dimensions. Firstly, "economic globalization," which is measured by the long-distance flow of goods, capital and services as well as information and perceptions that accompany market exchanges. Economic globalization is further categorized in two sub-dimensions as *actual economic flows* and *restrictions* to trade and capital. As he defines,

> The sub-index on *actual economic flows* includes data on trade, FDI and portfolio investment. Data on trade and FDI flows is provided by the World Bank (2009), stocks of FDI are provided by the UNCTAD's World Investment Report. Portfolio investment is derived from the IMF's International Financial Statistics. More specifically, trade is the sum of a country's exports and imports and portfolio investment is the sum of a country's stock of assets and liabilities (all normalized by GDP).[27]

Furthermore, to construct *actual economic flows* index, Dreher includes both the inflows and outflows of FDI and the stocks of FDI, which is normalized by GDP. In addition, Dreher also account for the extent that a country employs foreign people and capital in its production processes. He uses income payments to foreign nationals and capitals are included to proxy for that.

Similarly, *restrictions* on trade and capital is measured using hidden import barriers, mean tariff rates, taxes on international trade (as a share of current revenue) and an index of capital controls. Specifically:

> Given a certain level of trade, a country with higher revenues from tariffs is less globalized. To proxy restrictions of the capital account, an index constructed by Gwartney and Lawson (2009) is employed. This index is based on the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions and includes 13 different types of capital controls. The index is constructed by subtracting the number of restrictions from 13 and multiplying the result by 10.[28]

Method by Gwartney and Lawson (2009) is also used to calculate the indices on mean tariff rates and hidden import barriers. As per Gwartney and Lawson, a rating of 10 is given to tariffs free countries. The countries are panelized with lower ratings as the mean tariff rate increases. When the mean tariff rate approaches 50 %, the rating is decline toward zero. Finally, World Economic Forum's Global Competitiveness Reports (various issues) are used to account for hidden import barriers.

Secondly, "social globalization" is defined as the spread of ideas, information, images and people. The KOF index of Social Globalization has three sub-dimensions; *personal contacts, information flows* and *cultural proximity*. Personal contacts capture direct interaction among people living in different countries. More specifically;

> It includes international telecom traffic (traffic in minutes per person) and the degree of tourism (incoming and outgoing) a country's population is exposed to. Government and workers' transfers received and paid (in % of GDP) measure whether and to what extent countries interact,

[27] This explanation is abstracted from the KOF Index of Globalization web site: http://globalization.kof.ethz.ch/static/pdf/method_2010.pdf (Accessed in May 5, 2010)
[28] Ibid.

> while the stock of foreign population is included to capture existing interactions with people from other countries. The number of international letters sent and received also measure direct interaction among people living in different countries.[29]

Dreher derived the first four variables derive from the World Bank (2009) and for the latter, the Universal Postal Union's Postal Statistics Database is utilized.

The second sub-index is *information flows,* which measure the potential flow of ideas and images. To measure the flows Dreher used three variables; the number of internet users, (per 100 people), the share of households with a television set, and international newspapers traded (in % of GDP). He further clarifies as,

> All these variables to some extent proxy people's potential for receiving news from other countries – they thus contribute to the global spread of ideas. The variables in this sub-index derive from the World Bank (2009) and UNESCO (various years).[30]

The third sub-index refers to *cultural proximity,* which is, indeed, the most difficult to measure. Although, Dreher (2006) suggests the number of English songs in national hit lists or movies shown in national cinemas that originated in Hollywood, many countries lack such data. Therefore, Dreher used the information about the exported books (relative to GDP), as suggested in Kluver and Fu (2004). Besides traded books, he also used the McDonald's restaurants located in a country and number of Ikeas shops per country. Both are considered as major worldwide chain restaurant and stores that highly influence people's food habit and living style changes. To clarify the information he said,

> Traded books proxy the extent to which beliefs and values move across national borders. According to Saich (2000, p.209) moreover, cultural globalization mostly refers to the domination of U.S. cultural products. Arguably, the United States is the trend-setter in much of the global socio-cultural realm (see Rosendorf, 2000, p.111). As an additional proxy for cultural proximity we thus include the number of McDonald's restaurants located in a country. For many people, the global spread of McDonald's became a synonym for globalization itself. In a similar vein, we also use the number of Ikea per country.[31]

Finally, "political globalization" is defined as the level of diffusion of government policies, which is, indeed, difficult to measure. Dreher measures political globalization using some proxies. He used the number of embassies and high commissions in a country and, the number of international organizations to which the country is a member and the number of UN peace missions a country participated in. Furthermore he included also the number of treaties signed between two or more states since 1945. This data are taken from the United Nations Treaties Collection. In fact, Dreher's approach cannot account for the quality of the diplomatic interaction between the states. If he can consider how the bilateral relations of a country is advancing, and how countries are active in the UN and other international organizations, the merit of the index would be highly enhanced. However, the readily availability data

[29] Ibid.
[30] Ibid.
[31] Ibid.

which can be updated yearly basis are needed and there are no such qualitative information at all. Therefore, Dreher's effort is can be considered as the best to the extent that can be done under the current data availability environment.

To construct the indices of globalization, Dreher transformed each of the variables introduced above to an index on a scale of one to 100, where 100 is the maximum value for a specific variable over the period 1970 to 2007, and one is the minimum value. Higher values denote greater globalization. To construct the overall index of globalization, Dreher follows the following method:

> The data is transformed according to the percentiles of the original distribution. The weights for calculating the sub-indices are determined using principal components analysis for the entire sample of countries and years. The analysis partitions the variance of the variables used in each sub-group. The weights are then determined in a way that maximizes the variation of the resulting principal component, so that the indices capture the variation as fully as possible.[32]

He used the same procedure to construct the sub-indices of globalization. The data are calculated as annual basis. He further described the methodology as flows:

> However, not all data are available for all countries and all years. In calculating the indices, all variables are linearly interpolated before applying the weighting procedure. Instead of linear extrapolation, missing values at the border of the sample are substituted by the latest data available. When data are missing over the entire sample period, the weights are readjusted to correct for this. When observations with value zero do not represent missing data, they enter the index with weight zero. Data for sub-indices and the overall index of globalization are not calculated if they rely on a small range of variables in a specific year and country. Observations for the index are reported as missing if more than 40% of the underlying data are missing or at least two out of the three sub-indices cannot be calculated. The indices on economic, social and political globalization as well as the overall index are calculated employing the weighted individual data series instead of using the aggregated lower-level globalization indices. This has the advantage that data enter the higher levels of the index even if the value of a sub-index is not reported due to missing data.[33]

Following the definition and measurement of globalization in terms of KOF indexes, Figure 3.1 presents the comparative trends of the three types of globalization from 1970 to 2007. As expected, economic globalization is the strongest of the three factors. In fact, most literature considers economic indicators as a proxy of globalization. This is not only because of data availability and the clarity of economic indicators, but also because of its influence in global integration. Figure 1 also shows that economic globalization has the steadiest trend, without much fluctuation. Even during the Asian Financial Crisis (1997-1998), the trend did not drop sharply. To observe the effect of the current global financial crisis, however, we do not yet have data.

[32] Op Cit. http://globalization.kof.ethz.ch/static/pdf/method_2010.pdf (accessed in May 5, 2010). The weights applied for each variable are given in Appendix 3.1.
[33] Op Cit. http://globalization.kof.ethz.ch/static/pdf/method_2010.pdf (accessed in May 5, 2010). The weights applied for each variable are given in Appendix 3.1.

Representing the high turmoil in international security as well as the increasing role of global governance, political globalization fluctuates more with higher values. Interestingly, political globalization shows much more of a contribution to the overall globalization trend than social globalization. The trend rises above and falls below the overall trend in the middle of Figure 3.1. Social globalization, on the other hand, is continuously the lowest of all trend lines. However, its progress goes along with the pace of other forms of globalization. To find out why social globalization is the lowest may require a specific assessment of its variables and their quality of data.

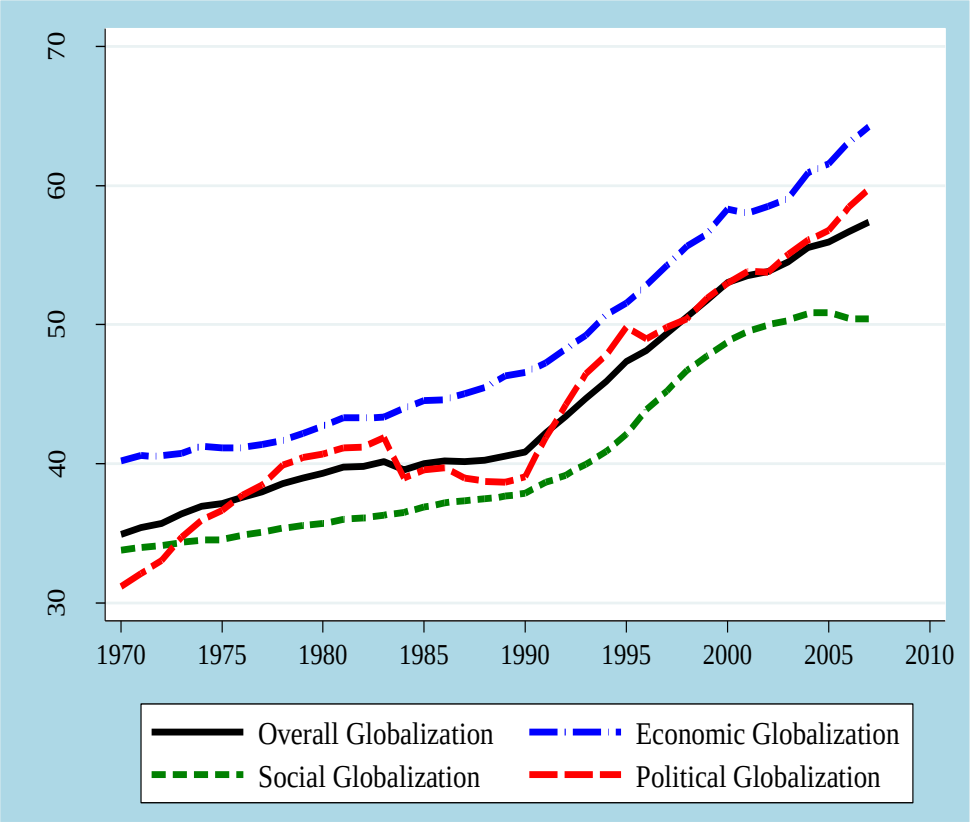

Figure 3.1 Global Trend of Overall Globalization and Its Sub-Indexes (1970-2007)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 5, 2010).

Interestingly, globalization has moved faster since the beginning of the 1990s. This can be explained by the end of the Cold War in the 1990s, which lead to the opening of many countries in Eastern Europe, Russia and the states that emerged after the collapse of Soviet Union, and many other developing countries. The dramatic increase of political globalization since 1990 has contributed much to the accelerating globalization process.

How can the trends of sub-indexes of each dimension of globalization be explained? In Figure 3.2, the trends of two sub-indexes of economic globalization and the trend of the KOF index of Economic Globalization from 1970 to 2007 can be observed. In general, actual flows are stronger than removing

barriers to restrictions. Although low levels of barriers to trade and investment are the foundation of economic flows, actual economic flows can also be determined by other factors, such as technological advancements. Thus, the result of higher levels of actual flows is as expected. Similarly, it can be seen in the graph that restrictions to trade and investment were drastically removed after 1990, which resulted in the merging of the indexes for a few years around 1995. However, actual flows continued to rise sharply, separating from the trend of removing restrictions in 1998. Thus, it is revealed that, as the major contributing factor to de-facto globalization, actual flows are on top of globalization. In fact, actual flows consist of trade flows, FDI flows and portfolio investment flows, which are the backbone of modern globalization.

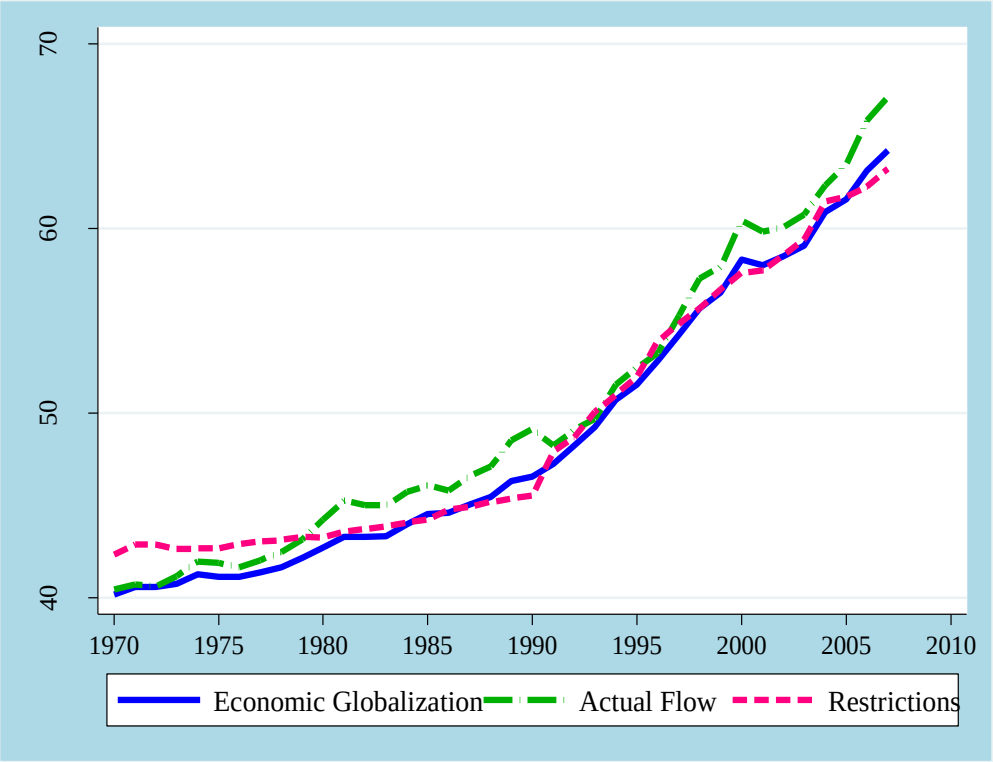

Figure 3.2 Global Trend of Economic Globalization and Its Sub-Indexes (1970-2007)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 5, 2010).

Figure 3.3 shows the trend of sub-indexes of social globalization. Interestingly, personal contacts that capture direct interaction among people living in different countries and measured by international telecom traffic (traffic in minutes per person) and the degree of tourism (incoming and outgoing) a country's population is exposed to, among others, found negligible progress from 1970 to 2007. Flows of information, or the potential flow of ideas and images, which is measured by the number of internet users (per 100 people), the share of households with a television set, and international newspapers traded (in % of GDP) has had a relatively increasing trend since the beginning of the 1990s.

In fact, before the early 1990s, neither mobile phones nor the internet were widely available to consumers. Thus, the revolution of information communication technology since the 1990s is largely contributing to the social aspect of globalization, although its significant impact on economic globalization also cannot be ignored. Similarly, the third aspect of social globalization, cultural proximity, also has an increasing trend and has become more rapid since the beginning of the 1990s. However, the cultural aspect of globalization is the weakest of the three.

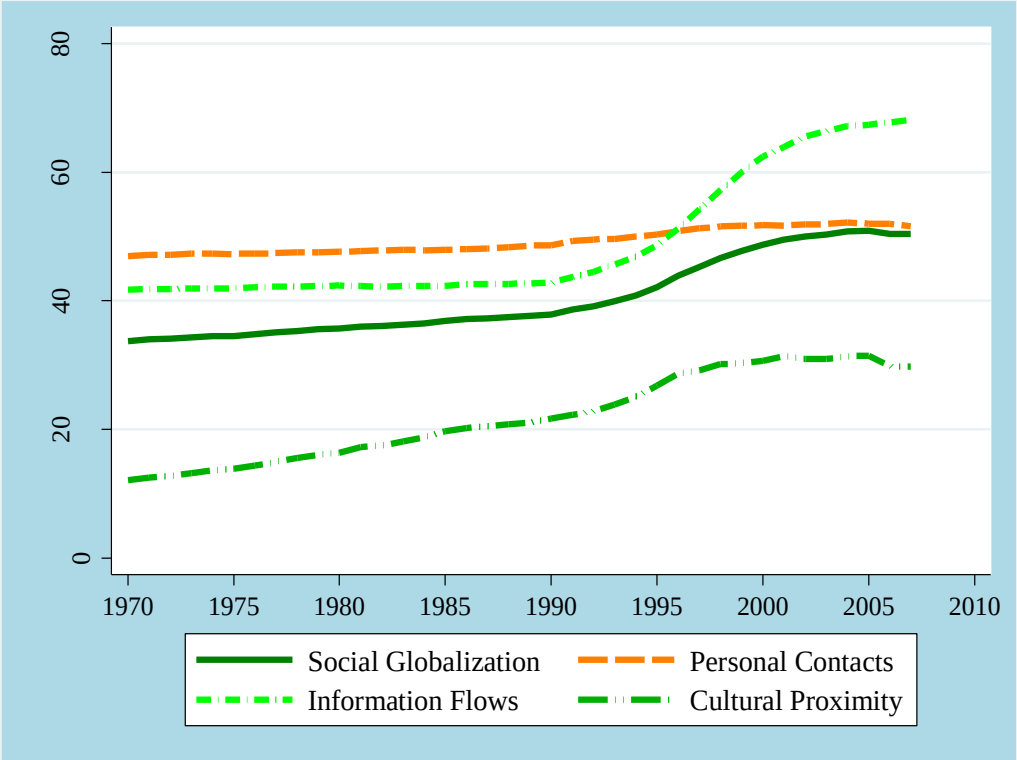

Figure 3.3 Global Trend of Social Globalization and Its Sub-Indexes (1970-2007)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 5, 2010).

After examining the global trends of types of globalization, it is worthwhile to observe the trends across different regions. Figure 3.4 presents the regional comparison of overall globalization from 1970 to 2007. It clearly shows that Sub Saharan Africa, Asia, South America and Oceania are below the world average. Europe is the most globalized region followed by the North America; both are above the world average. Like the world trend, regional trends, in general, also have increased since the 1990s.

Interestingly, the Asian trend, which used to be second lowest among regions, has risen sharply since 1990 and surpassed South America and Oceania in 2000. This trend was mainly driven by the successful globalization of some East Asian countries, including China. Notably, the globalization trends for all regions moved upward from 1970 to 2006, and more importantly, trends have become steeper since the early 1990s. Results indicate a favorable impact of the end of the Cold War in the

1990s on the global as well as regional economies and societies.

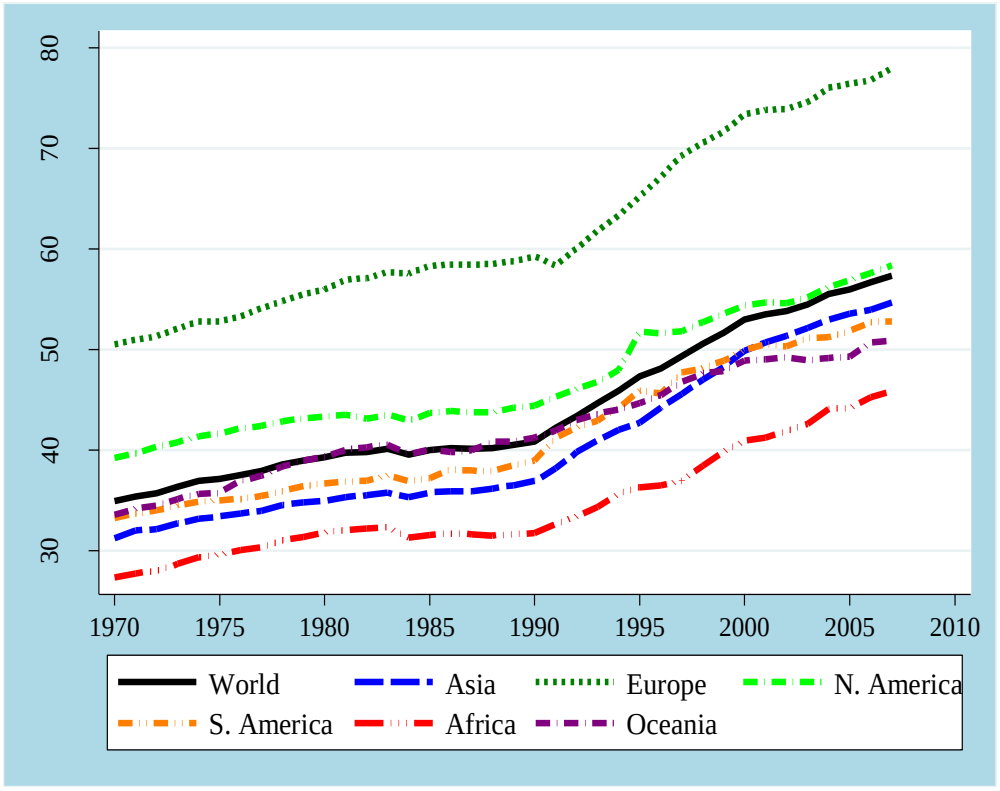

Figure 3.4 Regional Comparison of Overall Globalization Trends (1970-2007)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 5, 2010).

To complement the analysis from the KOF index, this study considers some of the real variables of globalization in a regression analysis. This not only provides an understanding about the relationships between such key real elements of globalization and QOL, but also checks the consistency of the results that ultimately enhance the reliability of whole study. The selection of the key globalization variables was based on the existing literature in the sense that the most proxy variables for globalization were considered. The most used proxy for globalization is international trade. Scholars also use FDI, capital flows, information flows, and international migration frequently. Therefore, this study uses international trade, FDI, ICT and international migration for its disaggregated analysis. A brief discussion and definitions are presented below.

The first element of globalization considered here is international trade, one of the leading factors of globalization. Trade has great potential for improving QOL in developing countries (DCs). Trade can contribute to poverty alleviation and development by expanding markets, creating jobs, promoting competition, raising productivity, and providing new ideas and technologies, each of which has the potential to increase the real incomes of poor people. Of course, these linkages are not automatic as

many countries have experienced unfavorable outcomes of relying on trade liberalization alone to reduce poverty. Thus, a number of socio economic challenges need to be addressed simultaneously from a more comprehensive approach, including improving poor people's health and education, improving the business climate and infrastructure, and removing barriers that prevent potential importers and exporters from exploiting the opportunities afforded by more open markets. Therefore, improving market access for developing countries is a priority. This would yield benefits that far exceed those of additional aid or debt relief. However, aid to enhance trade would be effective to ensure the benefits from increased market access (Goldin and Reinert, 2008). Because of the importance of trade, and the availability of data, most scholars of globalization issues use trade volumes (sometimes exports) as a proxy for globalization. This study also takes international trade as a key element of globalization.

According to the World Bank's World Development Indicators (WDI) online database, which is one of the major sources of data of used in this study, "trade is the sum of *exports* and *imports* of goods and services measured as a share of gross domestic product."[34] The *export* of goods and services comprises of the free on board (f.o.b.) value of all goods and services provided to the rest of the world in US dollars.[35] Similarly, *imports* consist of the cost, insurance, and freight (c.i.f.) value of all goods and services purchased from the rest of the world valued in US dollars.[36] Figure 3.5 shows the comparative trend of international trade between DCs and the world from 1970 to 2007. Here, trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. Interestingly, the trends not only reveal that the trade to GDP ratio is increasing sharply in DCs and the world, but also that international trade has become more and more important for developing countries in recent decades. This can be observed from the trend line of DCs, which surpassed the trend line of the world around 1990. As Winters (2006) and many others argue that trade liberalization generally stimulates medium term economic growth, which generally alleviates poverty, DCs are very keen towards international trade. With this observation, it is assumed that the DCs, particularly the low income countries, want to adopt trade as an effective tool for poverty reduction and overall development. Chapter 5 attempts to test this assumption by analyzing the development planning documents of low income countries in the Asia Pacific region.

[34] The WDI online database is available at: http://data.worldbank.org/data-catalog

[35] "Free on board" refers to the price of a traded good and service excluding transport cost. It means the price after loading onto a ship but before shipping, thus *not* including transportation, insurance, and other costs needed to get a good from one country to another.

[36] "Cost, insurance, and freight" is the price of a traded good or service including transport cost. It means that a price includes the various costs, such as transportation and insurance, needed to get a good from one country to another.

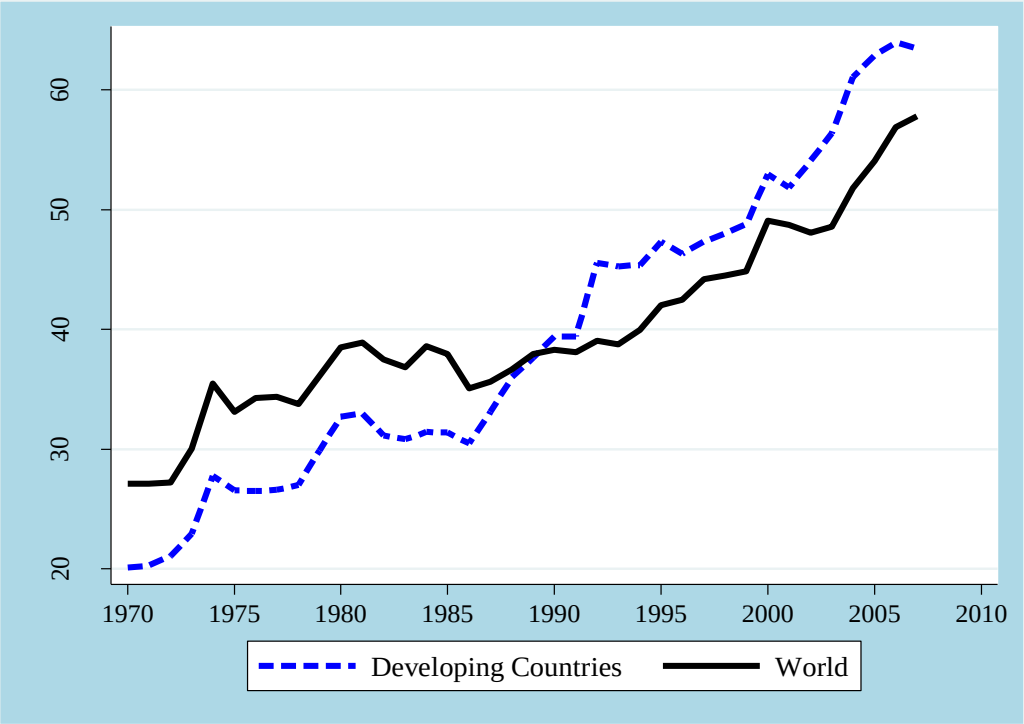

Figure 3.5 Comparative Trend of Trade between DCs and the World (1970-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

In terms of value, foreign trade of DCs rose from about 20 % of GDP in 1970 to nearly 64 % in 2007. Whereas, the world trade to GDP ratio rose from nearly 27 to 57 % during the same period. The ratio was around 38 % for the both DCs and world in 1988. Interestingly, the natures of the trend lines are quite similar, as sharp rises and falls of both lines can be observed at the same points in time. This suggests that the dynamics of global trade are mainly based on trade movement of DCs. Thus, progress on globalization primarily depends on the success of DCs, as they have tremendous possibilities for rapid growth of production and consumption. In fact, developed countries are already in a mature stage in terms of trade and investment, and there are fewer possibilities for high growth of production and consumption. The second key element of globalization considered in this study is foreign investment (FDI). The definition and measurement provided by the WDI online database is used here. As per the WDI, "FDI are the net inflows of investment to acquire a lasting management interest (10 % or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments."

FDI is considered a driver for economic development, as it may bring capital, technology, management expertise, and jobs to receiving countries and access to new markets for foreign investors (Salike, 2009:60). More specifically, in the short run, FDI increases aggregate demand within the host

economy. In the long run, the increase in the stock of capital raises the productivity of labor and leads to higher incomes, which further increase aggregate demand, and ultimately lead to economic growth. Furthermore, the transfer of technology from industrial to developing economies also positively affects growth in the long run. Many scholars, particularly economists, argue that the transfer of technology may be the primary benefit of FDI (French, 1998).Accepting these facts, in general, policymakers emphasize the benefits that FDI can bring to host economies, particularly developing countries. Consequently, many governments have developed policies to encourage inward FDI.

On the other hand, there are also many counter arguments that have raised controversy and social concerns. For example, Multinational Enterprises (MNEs), the leading actor in FDI, have often been accused of taking advantage of low wages and weak labor standards in the developing world. Many others have claimed that MNEs also violate human and labor rights in DCs, where governments are too weak to protect such rights effectively.

In this debate, DCs tend to believe the argument that the overall benefits of FDI outweigh the costs. This can be seen in the significant removal of restrictions on FDI in recent years. This has resulted in a rather dramatic expansion in the level of FDI in DCs. Figure 3.6, which shows the comparative trends of FDI inflows in %age of GDP for both the world and DCs from 1970 to 2007, reveals that FDI inflows in DCs are less volatile than that of the world and are more than the world average in general. The FDI inflow to GDP ratio has continued to increase since 1990 for both DCs and the world. Again, the fluctuation in the world's trend is mostly consistent with the trend of DCs in terms of time and direction. However, in terms of magnitude, the world trend has fluctuated sharply in recent years. Nevertheless, like trade the global trend of FDI is also highly influenced by the FDI trend of DCs.

Notably, world FDI reached a record high in 2000 and declined sharply in 2001. This unusual trend is explained in the World Investment Reports (WIRs) of 2001 and 2002 of the United Nations Conference on Trade and Development (UNCTAD). In fact, the FDI inflow trend reached its highest point of US$1.3 trillion in 2000. However, the developed world remained the major destination that fuelled by cross-border mergers and acquisitions.[37] Consequently, FDI inflows to developed countries increased by 21% and amounted to a little over $1 trillion. Although inflows to developing countries also rose, reaching $240 billion, their share in world FDI flows declined for the second year in a row, to 19%, compared to the peak of 41% in 1994. Furthermore, the 49 least developed countries (LDCs) remained marginal in terms of attracting FDI, with 0.3% of world inflow in 2000 ((UNCTAD, 2002). Therefore, the sharp increase of FDI did not affect DCs much as the sharp increase was not due to the Greenfield investment in DCs. On the other hand, in spite of increasing FDI reaching US$ 240 billion, their share to world GDP dropped for the first time after 1994 (UNCTAD, 2002).

[37] For example, "due to the take-over of Mannesmann by VodafoneAirTouch – the largest cross-border merger deal so far – Germany became, for the first time, the largest recipient of FDI in Europe" (WIR 2001: xiii).

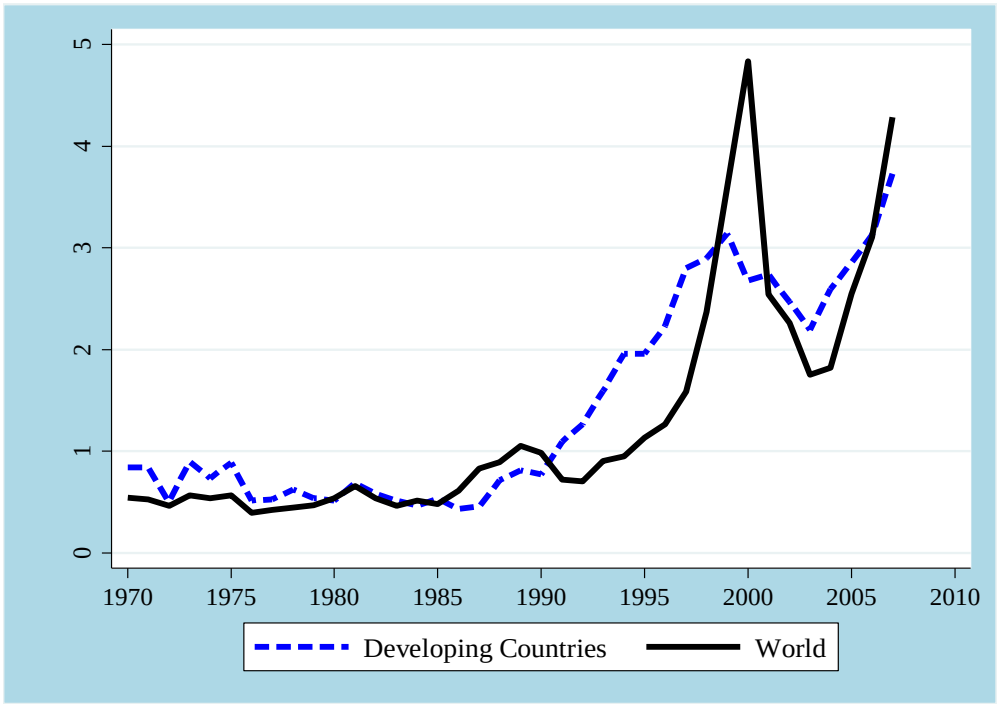

Figure 3.6 Comparative Trend of FDI between DCs and the World (1970-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

Even within the developed world, the European Union (EU), the United States and Japan alone accounted for 71% of world inflows and 82% of outflows in 2000. Among them, EU has raised both inflows and outflows. Its inflows were recorded as $617 billion, which was stimulated by further progress in regional integration, while the United States and other Western European countries remain its main partners outside the region. While the United States remained the world's largest FDI recipient country as inflows reached $281 billion, outflows decreased by 2% to $139 billion. However, the case of Japan was the opposite as its inflows dropped by 36% in 2000 from the previous year to $8 billion. This was not only due to the prolonged slow-down of the country's economic growth, but also due to the restrictive FDI regime. In contrast, outflows from Japan rebounded to $33 billion, the highest level in ten years (ibid).

We can observe from the table that there was a sharp decline of FDI inflow in 2001. The decline was by 51%, which was due to the reversal after the steady growth since 1991 together with sharp rises in 1999 and 2000. This decline was also driven by the economic slowdown in major industrial economies and a sharp decrease in their stock market activity. Therefore, like the previous year's sharp increase, this sharp decline was also mainly driven by developed countries. Their decline of FDI inflows were recorded to have borne the brunt of declining 59% from the previous year. However, developing countries have also suffered as they experienced a decline of 14%. Interestingly, the transition

economies in Central and Eastern Europe (CEE) could resist this global trend as they experienced only a 2% decline (UNCTAD, 2003).

The decline of FDI flow remained only for three years, and then surged again from 2004 until 2007. According to UNCTAD (2009), world FDI inflows rose in 2007 by 30% to reach $1.833 trillion, which was an all-time high, despite the world financial crisis that started at the middle of the year. This rise was mainly driven by the continuous growth experienced by developed countries, developing countries, and the transition economies of South-East Europe and the Commonwealth of Independent States (CIS).

Particularly, the sharp growth was fueled by three factors. Firstly, cross-border mergers and acquisitions amounted to $1.637 trillion, 21% higher than the previous record in 2000. In fact, the financial crisis that started with the subprime mortgage crisis in the United States did not adversely affect global cross-border mergers and acquisitions in 2007. On the contrary, some very large deals took place during the latter half of the year. For instance; the largest deal ($98 billion) in banking history took place with the acquisition of "ABNAMRO Holding NV" by the consortium of Royal Bank of Scotland, Fortis and Santander, and the acquisition of Alcan (Canada) by Rio Tinto (United Kingdom). Secondly, relatively high economic growth in the developing world, which raised the reinvested earnings, accounted for about 30% of total FDI inflows as a result of the increased profits of foreign affiliates. About 79,000 transnational companies and their 790,000 foreign affiliates expanded their production of goods and services, and their FDI stock exceeded $15 trillion in 2007. As per the UNCTAD estimates, their total sales amounted to $31 trillion, which was a 21% increase from the previous year. While their number of employees rose to some 82 million, value added (gross product) was estimated at 11% of global GDP in 2007. Finally, to some extent, the significant depreciation of the dollar against other major currencies also fueled the trend (Ibid).

The third key element of globalization in this analysis is flow of information. Information circulation and availability have always been fundamental to national development. Joseph Stiglitz (2002) pointed out in his book, *Globalization and Its Discontents*, that the greatest disparity between developed and less developed nations is no longer a matter of natural resources, or even of human capital (increasingly mobile as it is). Nevertheless, the disparity is the growing divide in access to and exploitation of informational resources. The dramatic spreading of information communication technology (ICT) is rapidly transforming millions of people's lives, their way of doing business, their access to information and services, and how communicates with each other and entertain themselves. It boosts the global economy. It also strengthens democracy and human rights. The World Economic Forum (2010) also acknowledges the role ICT is playing as a "critical enabler to sustainable socio-economic growth and also a vital ingredient for effective global as well as regional co-ordination in the creation of larger markets."

In fact, ICT itself is one of the most contributing factors for the recent rapid trend of globalization. As ICT infrastructure is expected to continue its rapid growth curve, governments should also give due attention to manage it. To capture the ICT trend, this study uses the %age of people subscribing to mobile and/or telephone services per 100 people.

Figure 3.7 shows the comparative trend of telephone and/or mobile users between DCs and the world. We can observe the rapid dramatic increasing trend in recent decades in the world and in DCs. In 1990, there were less than 5 persons per 100 in DCs who had telephone or mobile phone services. However, this number increased rapidly to more than 55 persons per 100 people in 2007.

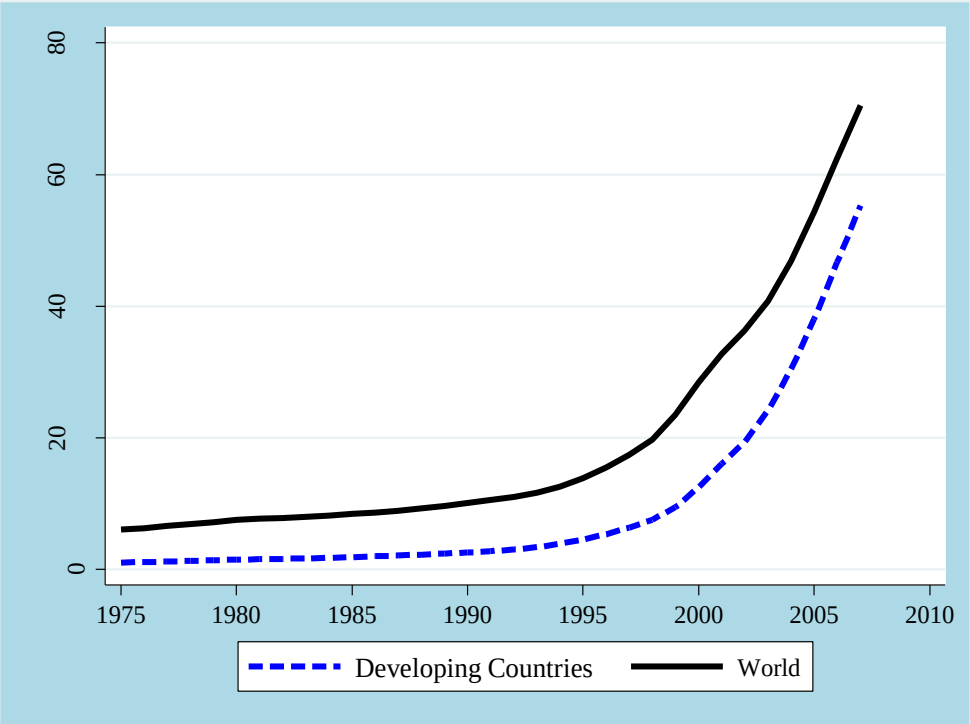

Figure 3.7 Comparative Trend of Telephone/Mobile Users between DCs and the World (1975-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010)..

Interestingly, all of the growth observed occurred in the DCs, as the trend lines are almost parallel. This is because nearly all of the population already had access to telephone services in developed countries from the beginning of study period. Even though DCs have great potential, many still lack access to phone services for the majority of their population. Thus, DCs are very keen on covering their entire population with ICT services, accepting the fact that ICT not only supports economic sustainability, but also play a leading role in fostering environmental and social sustainability, both within their own sectors and as an industry-wide enabling infrastructure. ICT enables greater access to basic services by all segments of society and improves the ways these basic services (e.g., education, finance, and healthcare) are provided to citizens.

Finally, this study considers international migration, particularly inflows and outflows of workers, as a major element of globalization. Migration contributes to the economic wellbeing of countries through remittances. Transfers of expatriates from the home countries to host countries facilitate the transfer of management expertise, which in turn increases performance and the repatriation of income (*OECD*, 1998). Additionally, jobs acquired in foreign countries reduce unemployment rates at home. Migration also facilitates cultural interactions and diversity.

Generally, emigrants are usually higher skilled, wealthier, and more economically productive than other members of their communities of origin, because journeying abroad is rather risky, costly and destination countries impose skill and other requirements. Therefore, the world's poorest residents are not likely to be a part of the international migration system. However, this does not mean that migration does not affect them. Rather, emigration can greatly affect those left behind. Whole communities can be lifted out of poverty by the steady flow of remittances from migrant diasporas. They can build businesses and trade and investment networks, and facilitate the transfer of technology between destination and source countries, which can lead the community to progress and prosperity (Goldin and Reinert, 2007).

In 2005, three % of the world's population (around 191 million people) lived in foreign countries. Although this is low in the history of migration, there has been a rapid growth in migration flows in recent decades. Since the late 1980s, as the result of the end of communism in Eastern Europe and the conflict in the Balkans, European flows have grown dramatically. Although Western Europe has proving to be an increasingly popular destination for migrants, the United States continues to accept more immigrants than any other country in the world. The Middle East has also emerged as a major host of migrants, particularly for low-skilled workers from South and Southeast Asia. Among countries of emigration, the middle-income countries tend to have the highest rates of outflow. In terms of sending labor, Mexico and the Philippines are on top. For example, 10 % of the Philippines's population (over 7 million people) is working overseas (Goldin and Reinert, 2007).

As remittance is the major benefit for DCs from international migration, this study compares world and DC trends in terms of international remittance flows. International remittance is defined as money and goods transmitted to households by international migrant workers. Since the beginning of the 21st century, remittances have been considered one of the key issues in economic development. In 2004, official international remittances to DCs were estimated at $93 billion per year (Ratha, 2004), which was twice the amount of official aid flows to developing countries.

However, as there are a large number of undocumented migrants in industrialized countries, and these so-called illegal migrants and many others prefer to send money by unofficial means, the real amount of remittances are believed to be much higher than official remittances indicate. This study uses the percentage of GDP of workers' remittances and payments officially received by employees.

According to the WDI online database, "Workers' remittances and compensation of employees comprise current transfers by migrant workers and wages and salaries earned by nonresident workers." These data combine the following items: workers' remittances, compensation of employees, and

migrants' transfers, where remittances are classified as current private transfers from migrant workers resident in the host country for more than a year, irrespective of their immigration status, to recipients in their country of origin. Migrants' transfers are defined as the net worth of migrants who are expected to remain in the host country for more than one year that is transferred from one country to another at the time of migration. Finally, compensation of employees is the income of migrants who have lived in the host country for less than a year. Data, in percentage of GDP, are in current U.S. dollars.[38]

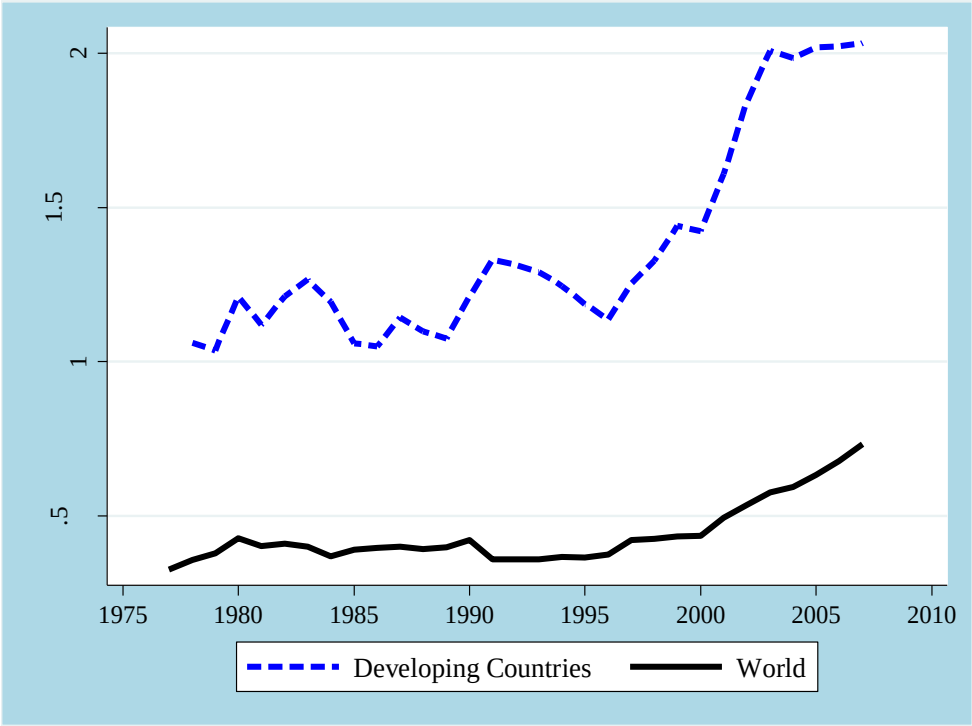

Figure 3.8 Comparative Trend of Remittances of DCs and the World (1977-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

Clearly, Figure 3.8 shows the importance of remittances to DCs vis-à-vis the world. The DCs' remittance trend is not only much higher than the world, but has been increasing dramatically since 1995. If the unofficial flow of remittance were also included, the picture would be more interesting. However, information on unofficial flow is difficult to explore. These trends also suggest that the significance of globalization is much higher for DCs than that of the developed world.

[38] The definitions are summarized from the WDI online data base home page: http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT (accessed in May 9, 2010).

3.2.2 Quality of Life

QOL, the dependent variable of this study, is also a vague term that has different meanings for different people. QOL is a multifaceted and elusive concept (e.g., Dasgupta, 1993; Doyal and Gough, 1991; Nussbaum and Sen, 1993). Generally, QOL definitions emphasize degree of choice, meaning the greater the degree of choice, the higher the QOL. Mainly, choice is explained in economic terms. Thus, for many decades, national QOL measures have been defined by the level of the GNP per capita. However, many scholars (e.g., Daly, 1996; Daly and Cobb, 1994; Ingham, 1993) criticized this definition because it failed to consider important distributional considerations and the problem of environmental degradation from a national perspective. These shortcomings are increasingly realized, and a number of alternative measures have been proposed vis-a-vis the conventional economic measures of life quality, such as GNP. One alternative measure is the Physical Quality of Life Index (PQLI) proposed by Morris (1979). This index measures a country's performance in meeting three basic needs with the following indicators: infant mortality rate, literacy rate, and life expectancy. This index, or its components, have been successfully used by several scholars in their QOL research (e.g., Breedlove and Armer, 1997; Firebaugh and Beck, 1994; Moon, 1991; Wickrama and Mulford, 1996). However, this index fails to consider the income dimension of QOL, which is also a basic, and arguably the primary, aspect of QOL.

For many researchers, although GNP per capita is a significant part of a human development strategy, it cannot capture all aspects of development. Of course, there is a systematic positive relationship between GNP per capita and social and human welfare (McGillivray, 1991), but the social and physiological aspect of QOL cannot be measured correctly by the income variable. However, many others argue that social variables alone cannot accurately measure QOL (Lind, 1992). Thus, a range of socio-economic indicators should be considered to measure QOL. For instance, it is estimated that economic development adds approximately 30 years to life expectancy and reduces infant mortality by 140 deaths per thousands live births (Sagan and Afifi, 1978). Additionally, the World Competitiveness Report (WCR, 1993) also recognizes the importance of measuring social and economic indicators of competitiveness among nations, including human resources as the fifth of the 10 most important economic components of a nation's environment. However, there has been no individual attempt to create such a composite index, as it requires massive efforts and cost.

To cover this shortcoming, the United Nations Development Program (UNDP) introduced the Human Development Index (HDI), a comprehensive measure of QOL, in 1990 aiming to provide a yardstick of human development of all member countries of the United Nations. The focus was on people, as the opening lines of the first HDI publication states (UNDP, 1990:1):

> The real wealth of a nation is its people. And the purpose of development is to create an enabling environment for people to enjoy long, healthy and creative lives. This simple but powerful truth is too often forgotten in the pursuit of material and financial wealth.

Since then, the UNDP has published the Human Development Report (HDR) annually for the world, and occasionally for regions and member states, in detail. The HDR's basic principle is that the essential components of QOL are the combination of a long and healthy life, education, and a decent standard of living. As a result, the HDI has measured human development through the use of three factors; longevity, knowledge and GDP per capita measured in purchasing power parity (PPP).

Because of its popularity and data availability for a wide range of countries since before 1990, this study uses the HDI as an overall measure of QOL. Apart from the HDI, there are four other key indexes that have been reported by the HDR: the *Gender Development Index* (GDI), the *Gender Empowerment Index* (GEM), and the *Human Poverty Indexes* (HPI). This study, however, takes the GDI and HPI along with HDI as dependent variables. Although this study is not going to calculate the HDI and other related indexes, it is worthwhile to know the mechanism of the construction of these indexes because these indexes are the main dependent variable of this study. The construction mechanism of the indices are abstracted from UNDP (2009)

To show how the HDI is calculated, Table 3.1 shows a step-by-step computation of the HDI of 2008 for Turkey. Longevity is measured through life expectancy at birth and converted into the *Life Expectancy Index*. It is defined as the number of years a new born infant would live if prevailing patterns of mortality at birth time were to stay the same throughout the lifetime of the child. Knowledge is measured as the weighted average of the adult literacy rate and the population's mean years of schooling, both relative to their maximums. The weights for these two factors are 2/3 and 1/3, respectively to calculate the *Education Index*. The *GDP Index* is based upon the real GDP per capita of each country in PPP terms, measured in US dollars. PPP is used to convert national currencies into US dollars.

The three indicators, *Life Expectancy Index*, *Education Index* and *GDP Index*, are transformed into the HDI by (i) calculating each indicator's range for all nations; (ii) calculating the deviation from a country's score of the minimum on a given indicator; (iii) computing each index as the deviation from a country's score of the minimum on a given indicator, relative to the indicator's range; (iv) computing the average of the three deprivations indices.

Table 3.1Calculation of the Human Development Index for Turkey, 2005

1	*Life Expectancy Index*		
	Life exp. at birth (years)	71.4 years	
	*Life Expectancy Index**	(71.4 − 25)/ (85 − 25) =	**0.773**
2	*Education Index*		
	Adult Literacy Index*	(87.4 − 0) / (100 − 0) = **0.874**	
	Schooling Index*	(88.7 − 0) / (100 − 0) = **0.687**	
	*Education Index***	2/3 (0.874) + 1/3 (0.687) =	**0.812**
3	*Income (GDP Inde*x)		
	GDP per capita	8,407 (PPP US$)	
	*GDP Inde*x***	log (8,407) – log (100) / log (40,000) – log (100) =	**0.740**
4	**Turkey's HDI in 2005** (Simple average of 1, 2 and 3)	1/3 (0.773) + 1/3 (0.812) + 1/3 (0.740) =	**0.775**

Source: Data are taken from *Human Development Report, 2007/08* (UNDP, 2008: 356), and the calculation methods follow *Technical Note 1*of the same report.

* (Turkey's Value − Min Value) / (Max Value − Min Value)
** 2/3 (Adult Literacy Index) + 1/3 (Gross Enrolment Index)
*** The values are logged, however the formula is the same as the "*"

Notes: The ranges of the variables are as follows: Life expectancy at birth (years) – maximum 85, minimum 25; adult literacy rate (%) – maximum 100 (used 99 for calculation purposes), minimum 0; combined gross enrolment ratio (%) – maximum 100, minimum 0; GDP per capita (PPP US$) – maximum 40,000, minimum 100 (UNDP, 2008: 356).

HDR reports two categories of the Human Poverty Index, HPI-1 and HPI-2, as mentioned earlier. First, it reports a Human Poverty Index for DCs (HPI-1). Second, it reports a Human Poverty Index for developed countries (HPI-2). As our focus is on the DCs, a brief discussion is presented on how HPI-1 is calculated, based on an HDR technical note. While the HDI measures average achievement, the HPI-1 measures *deprivations* in the three basic dimensions of human development captured in the HDI: in terms of deprivation of a long and healthy life, it measures the vulnerability to death at a relatively early age, as measured by the probability at birth of not surviving to age 40; in terms of deprivation of knowledge, it considers the exclusion from the world of reading and communications, as measured by the adult illiteracy rate; and in terms of a decent standard of living, it measures the lack of access to overall economic provisioning, as measured by the unweighted average of two indicators, the percentage of the population without sustainable access to an improved water source and the percentage of children under weight for their age. Calculating the HPI-1 is rather simple. As the indicators used to measure the deprivations are already expressed as percentages, there is no need to create dimension indices for the HDI.

However, calculating the GDI requires measuring dimensional indices. While the HDI measures average achievement, the GDI adjusts the average achievement to respect the *inequalities* between men and women in the same three dimensions as HDI. There are three steps to calculating GDI.

In the first step, female and male indices in each dimension are calculated according to the following general formula:

Dimension index = (actual value – minimum value)/(maximum value – minimum value)

In the second step, the female and male indices in each dimension are combined in such a way that penalizes gaps in the level of dimensional index between men and women. The resulting index, referred to as the equally distributed index, is calculated with the following general formula:

$$\text{Equally distributed index} = \{[\text{female population share } (\text{female index}^{1-e})] + [\text{male population share } (\text{male index}^{1-e})]\}^{1/1-e}$$

where e measures the aversion to inequality. In the GDI, $e = 2$. Therefore, the general equation is transformed to:

$$\text{Equally distributed index} = \{[\text{female population share } (\text{female index}^{-1})] + [\text{male population share } (\text{male index}^{-1})]\}^{-1}$$

which gives the harmonic mean of the female and male indices.

In the third step, the GDI is calculated by combining the three equally distributed indices in an unweighted average. For details, see Technical Note 1 of *Human Development Report, 2007/08* (UNDP, 2009: 356-59).

GDI is a composite index measuring average achievement in three basic dimensions captured in the HDI: a long and healthy life, knowledge, and a decent standard of living (adjusted to account for inequalities between men and women). The HPI-1, which is the measure of human poverty for developing countries, measures poverty in terms of the %age of people expected to die before the age of 40, the % of adults who are illiterate, and deprivation in economic provisioning (UNDP, 2009). Detailed explanations and calculations of the indexes can be found in Technical Note 1of *Human Development Report, 2007/08* (UNDP, 2008: 356-357) and synopses are given in Appendix 3.2.

Figure 3.9 presents the trends of HDI across regions from 1975 to 2005. One general observation is that Sub Saharan Africa has the lowest HDI, followed by South Asia; this fact is consistent with globalization trends, although the regional classifications are somewhat different between Dreher's and the UNDP's reporting. Notably, the HDI has been growing at a more rapid pace from the mid-1990s, which can be attributed to rapid globalization starting from the beginning of the 1990s.

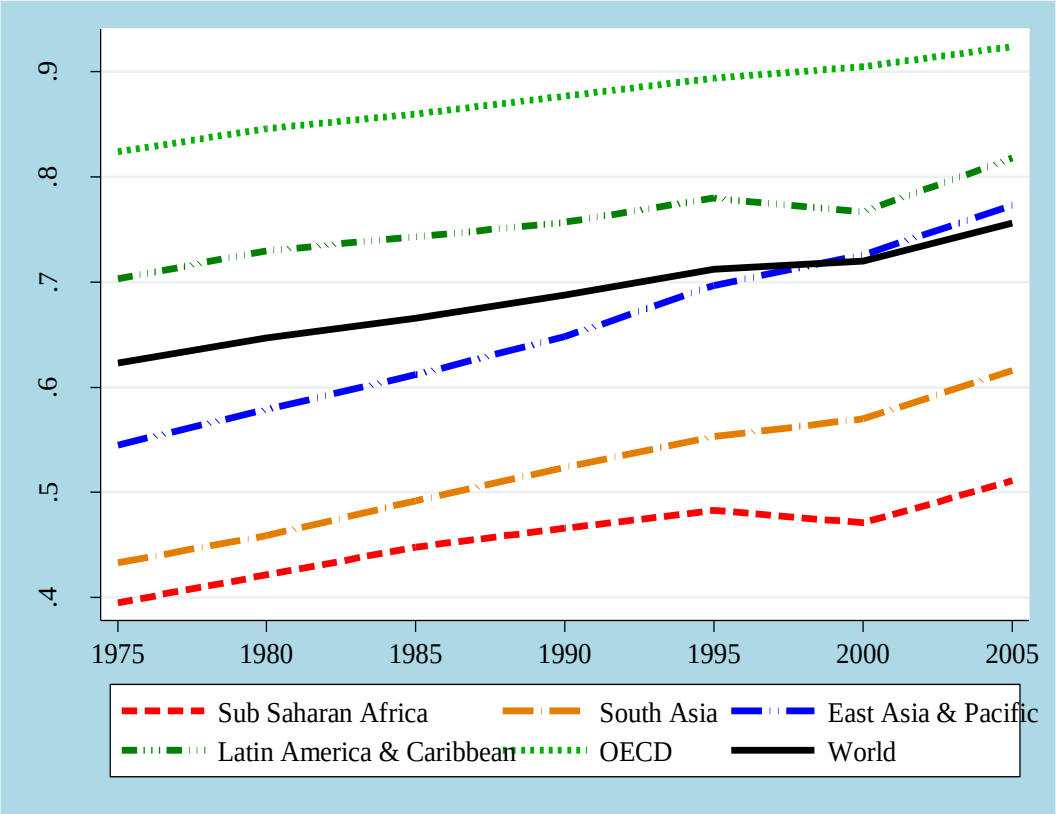

Figure 3.9 Regional Comparisons of Human Development Trends (1975-2005)

Source: Calculations done by the author based on UNDP (2009). Updated data also available at: http://hdr.undp.org/en/statistics/data/ (accessed in May 3, 2009).

In general, the HDI for highly globalized regions is much higher. However, HDI trends for less globalized region also seem to be catching up. This is more valid for the East Asia & Pacific (EAP) region, which saw an even more rapid pace of human development from the same period and exceeded the global average in 2000. This was due to the region's high and shared economic growth (World Bank, 1993).

As was observed by the general trends of globalization and human development, it is easy to predict their positive relationship. Although most literature agrees that globalization is a current reality (Guillen, 2001), the human consequences of globalization remain controversial. Two contradicting theories prevail in how globalization affects human welfare. First, neo-liberalists believe that globalization enhances productive efficiency and generates extraordinary prosperity. Although wages for unskilled workers fall, especially in developed nations, globalization helps workers manage these potential threats by acquiring additional skills, which benefits the whole of society (Grennes2003). Additionally, globalization has spread industrialization to developing countries, and has thus reduced global income inequality (Firebaugh and Goesling, 2004). Economic globalization, in terms of trade liberalization, was found to be effective in increasing productivity and institution-building in societies,

which leads to faster economic growth (Urata and Yokota 1994; Rodrik et al. 2004). However, many argue that some policy measures are essential to make globalization work for all. Mayer (2007) pointed out that globalization alone is not a sufficient condition for development. For example, trade liberalization without roads and ports would not lead to more trade or help the poor (Stiglitz 2004). Even though scholars point out the defects of the current form of globalization and suggest better options, they ultimately tend to favor globalization.

On the contrary, many others see globalization as a new hegemonic project that transnational capitals operate in a way that promises little betterment for most countries. This perspective claims that the current form of globalization is the creation of a new world order that facilitates capitalist accumulation in the so-called free market environment (Petras and Veltmeyer, 2001). Promoting private interests in a limitless free market ignores personal and social interests (Smart, 2003). As a result, benefits from globalization primarily go mainly to the already advantaged (Scholte, 2000).

Within the context of these controversies, this chapter attempts to answer how and which types of globalization generate the most favorable and unfavorable human consequences. Using the theoretical base provided by the Sirgy et al. (2004) and improving the empirical model offered by Tsai (2007), the chapter evaluates the impacts of globalization on human welfare.

3.3 Data and Methodology

Most empirical analyses use cross-country data at a certain point in time (Rodrik, 1997; Garret, 2001). Although this is useful to find differences between countries, such studies fail to observe changes in structural features and their correlates over time. These studies are also limited by fewer numbers of observations, which lead to weak results. Thus, this study builds a panel of 124 DCs, covering nine years of annual data of globalization and human development from 1997 to 2005. The selected countries are listed in Appendix 3.3. Data from 1997 onward is used because there is no HPI-1 data available for years prior to 1997.

Panel data are also called longitudinal data or cross-sectional time series data, where multiple cases (e. g., people, firms, countries, etc. – in this case, 124 DCs) are observed at multiple time periods (in this case, nine years on an annual basis). There are two kinds of information in cross-sectional time-series data. The first is cross-sectional information reflected in the differences between subjects. The second is the time-series or within-subject information reflected in the changes within subjects over time. Panel data allows us to control for variables that cannot be observed or measured, such as cultural factors (when comparing countries in this study or prefectures within a country – i.e. Tokyo vs. Kanagawa) or differences in business practices across companies. Panel data also help to control for unobservable variables that change over time but not across entities (i.e. national policies, federal regulations, international agreements, etc.). With panel data we can include variables at different levels of analysis (i.e. households, communities, districts, states) suitable for multilevel or hierarchical

modeling (Baltagi, 2009). Furthermore, panel data allows the assessment of dynamic causality in a time-series situation, close to natural experiment, that shows that a change in the level of QOL of a country can be attributed to changes of certain hypothesized factors (Wooldridge 2003). Thus, panel data drastically enhance regression results.

In another analysis, Tsai (2007) used a similar methodology on panel data of 112 developing countries. However, he had several methodological weaknesses. Firstly, the results were weak in capturing time effects as the data were in intervals of 10 years from 1980 to 2000. Secondly, Tsai uses economic, social and political globalization separately in the regression instead of regressing simultaneously, which can create the problem of biased, as Dreher (2006) argues, "The effects reported for one dimension of globalization might therefore appear only because other important aspects of globalization are omitted from the regressions" (p. 1092). The current study corrects these shortcomings by using the components of globalization simultaneously with annual data.

3.3.1 The Data and Its Sources

The HDI, the GDI and the HPI-1 are the dependent variables of this study. Data are from the 1998-2007/08 annual HDRs. Detailed definitions of these variables and summary statistics are given in Appendices 3.2 and 3.4, respectively.

The KOF index and some key elements of globalization, as defined in the previous section and detailed in Appendix 3.1, is this study's explanatory variable. The index is the most comprehensive indicator of globalization currently available. Contrary to the conventional approach of using proxies of globalization through specific factors such as trade and investment, this chapter adopts a more multidimensional and pluralistic approach. A multidimensional approach is far more effective in preventing the over-simplification of complexities involved in understanding globalization. This over-simplification is usually due to the omitting of important variable(s) in addition to problems of measurement and interpretation (Dreher et al. 2008: 121). In fact, assessing the extent to which any country is more (or less) globalized at any particular point in time requires much more than data on flows of trade, migration or foreign direct investment. In addition, in spite of the due importance of both political integration and social integration, most of the economic literature neglects these types of globalization (Ibid: 2-3).

In choosing the set of control variables, this chapter follows standard practice as much as possible. Firstly, a country's level of development is considered a critical element in improving human development (Ranis et al., 2000; Tsai, 2007). Thus, it includes per capita GDP to differentiate development levels across countries (World Bank 2004). Secondly, as this study focuses on developing countries, population growth is also included because the literature has long documented the harmful impacts of unchecked fertility against limited resources, such as attenuated health and educational expenditures, insufficient housing, sanitary and water, etc. (Goldthorpe, 1996). Finally, this study also

introduces a dummy variable to compare the effect of globalization across different income group of countries. The dummy for lower middle-income countries (LMCs) and upper middle-income countries (UMCs) are created for comparison. Regional divisions and other classifications are based on the World Bank's classification of countries and regions (World Bank, 2008). Then an interaction term is generated with multiplying each dummy variable and major elements of globalization and globalization related indexes that are used in each regression equation. Natural logarithms of all variables (except dummies) are taken to reduce the skewness of the data.

3.3.2 The Model

Throughout this chapter, the *fixed effect* (FE) estimation model is used to analyze the data. The FE model explores the relationship between predictor and outcome variables within an entity (country, person, company, etc.). When using the FE model, it is assumed that something within the individual may impact the predictor or outcome variables, so this needs to be controlled for. This is the rationale behind the assumption of the correlation between an entity's error term and predictor variables. The FE model removes the effect of these time-invariant characteristics from the predictor variables so the predictors' net effects can be assessed.

Another important assumption of the FE model is that time-invariant characteristics are unique to the individual and should not be correlated with other individual characteristics. Each entity is different, therefore the entity's error term and the constant (which captures individual characteristics) should not be correlated with the others. If the error terms are correlated, then FE is not suitable since inferences may not be correct and that relationship needs to be modeled (probably by using random-effects), which is the main rationale for the Hausman test. To decide between fixed or random effects, a Hausman test can be run where the null hypothesis is that the random effects model is preferable to the alternative FE model (see Baum, 2006: 230-31). The test basically determines whether the unique errors (*ui*) are correlated with the regressors; the null hypothesis is that they are not. Here, an FE model was run and the estimates saved, a random effect model was run and the estimates saved, and then finally the Hausman test was performed.

Another rationale for using the FE model is clearly explained by Kohler and Kreuter (2005:245) as follows:

> …The fixed-effects model controls for all time-invariant differences between the individuals, so the estimated coefficients of the fixed-effects models cannot be biased because of omitted time-invariant characteristics…(like culture, religion, gender, race, etc). One side effect of the features of fixed-effects models is that they cannot be used to investigate time-invariant causes of the dependent variables. Technically, time-invariant characteristics of the individuals are perfectly collinear with the person [or entity] dummies. Substantively, fixed-effects models are designed to study the causes of changes within a person (or entity). A time-invariant characteristic cannot cause such a change, because it is constant for each person.

Thus, the model is a good fit for the purpose of this study as it intends to observe the effect of globalization on QOL in DCs. Symbolically, the FE estimation model is described as follows.

$$log\ Y_{it} = \alpha + \beta_1\ logC_{it} + \beta_2\ logG_{it} + u_i + \in_{it}$$

Here, *Y* is the vector of dependent variables (i.e. HDI, GDI and HPI-1), *C* is the vector of control variables (i.e. GDP per capita and population growth) and *G* is the vector of explanatory variables (i.e. the indexes of globalization). α is the constant term.β is the coefficient of explanatory variable that explains the strength and direction of impact on QOL indicators. In addition, *i* represents the group identifier (i.e. 124 countries), and *t* represents the time identifier (i.e. 9 years from 1997 to 2005). Similarly, $u_i + \in_{it}$ is the composite error term, where u_i is the unobservable country effect fixed over time. To neutralize the different units of the variables used, all the variables were logged before running the regression. To capture the different effect of globalization in different income groups of countries, interaction terms with each globalization element or globalization index are also included in the equation reported in separate columns in the result tables.

As Stock and Watson (2003, p.289-290) explained, "The key insight of FE model is that if the unobserved variable does not change over time, then any changes in the dependent variable must be due to influences other than these fixed characteristics." The interpretation of the beta (β) coefficients would be "…for a given country, as *x* (explanatory variable) varies across time by one unit, *Y* (dependent variable) increases or decreases by β units" (Bartels, 2008).

A number of diagnostic tests are performed before and after running the regression. Before running the regression, a unit root test for panel data was performed. In a panel, where data also varies across the time series, a linear stochastic process may have a unit root if 1 is the root of the process characteristic equation. If a series has a unit root, it is non stationary, so the mean and variance are changing over time. It can induce a spurious correlation among time series (Granger and Newbold, 1974; Phillips, 1987). Thus, the panel data unit root test developed by Levin, Lin and Chu (2002) was used under the assumption that individual time series in the panel are independently distributed cross-sectionally. In another words, the assumption is that all series are independently and identically distributed (i.i.d.). Tests confirm that all the variables are free from the unit root problem.

After running the regression with Stata, several diagnostic tests were run. Firstly, a Pasaran CD (cross-sectional dependence) test was used to test whether the residuals are correlated across entities (Daniel, 2007). Cross-sectional dependence can lead to bias in test results (also called contemporaneous correlation). It also tests for heteroskedasticiy on the FE model. Homoskedasticity is the assumption that the standard deviations of the error terms are constant and do not depend on the value of the predictors. Consequently, each probability distribution for the dependant variable has the same standard deviation regardless of the predictors. Homoskedasticity is not required for estimates to be unbiased, consistent,

and asymptotically normal. The null hypothesis is that residuals are not correlated and the test accepts the null for all the regression results.

Another important test is needed for serial correlation. The presence of correlation on successive values in a time series is defined as serial correlation. To test for serial correlation, an autocorrelation test is available in Stata that implements for the idiosyncratic errors of a linear panel-data model, as discussed by Wooldridge (2002). Drukker (2003) presents simulation evidence that this test has good size and power properties with reasonable sample sizes.[39] As this study uses a sample of 124 DCs with nine years of annual data, this test fits our dataset well. The tests for all the regressions found no serial correlation.

3.4 Results

First, this study uses the key elements of globalization as a major explanatory variable as conventional globalization research does. Then, it uses the KOF indexes to capture the overall effects of globalization. The key components of globalization for this study are international trade, FDI inflow, access to ICT and international migration. Here, trade is measured by the total volume of exports and imports as a %age of GDP, FDI is measured by its inflows as a %age of GDP, access to ICT is measured by the number of mobile and land line phone subscriptions per 100 people, and finally, international migration is a proxy of workers' remittances and compensation employees received as a %age of GDP. The same control variables are used for each dependent variable: HDI, GDI and HPI-1. All the control variables and elements of globalization are sourced from the WDI online database of the World Bank. A dummy variable for countries' income group was created. Then, dummies were converted to interaction terms by multiplying them with the each globalization element to capture the variation of each element's effect across income groups of countries. Column 2 reports the results of regression including all the interaction terms, whereas Column 1 reports the results without the interaction terms. Such an analysis checks the consistency of the results and hence the model as well. All the diagnostic tests were performed after running the regressions and the results are consistent with the previous analysis. All the variables are logged to neutralize the skewness of data. The results from the key elements of globalization are presented in Tables 3.2 to 3.4.

Table 3.2 shows the impacts of the major elements of globalization on the HDI. The effects of trade and access to ICT were found to significantly increase human development at the 1 % level in both the columns. These results are consistent with much of the existing literature, theoretical as well as empirical, which argues that trade helps overall socio-economic development by increasing employment, productivity, government revenue, educational access and standards, among other things, all which lead to the overall improvement of human development (Sker, 2009; Bernard et al., 2007; Lopez, 2005,

[39]See Drukker (2003) and Wooldridge (2002) for details.

Keller, 2004; etc.). These results also support the arguments of many that emphasize the key role of access to ICT for enhancing the standard of living and overall development. For example, UNDP (2001) claims that using ICT in a development strategy allows DCs to achieve a wider diffusion of benefits, which ultimately leads to a broad-based economic growth.

Although the impact of FDI was found to be significant at 1% only in Column 2, it indicates that FDI also has a significant effect on HDI. The finding is consistent with the evidence drawn by Arnal and Hijzen (2008), which suggests that the OECD based MNEs tend to provide better pay than their domestic counterparts, especially when they operate in developing and emerging economies. The positive impact on wages also appears to spread to the employees of domestic firms that ultimately uplift the QOL of workers in DCs.

Table 3.2 Human Development and Four Major Elements of Globalization (1997-2005)

Dependent Variable: Human Development Index (HDI)

Explanatory Variables	[1]	[2]
GDP per capita	0.02** (0.01)	0.04*** (0.01)
Population Growth	-0.01 (0.01)	-0.01 (0.01)
Trade (% of GDP)	0.06*** (0.01)	0.05*** (0.02)
FDI Inflow (% of GDP)	0.00 (0.00)	0.02*** (0.01)
Log of ICT	0.02*** (0.01)	0.02*** (0.00)
Log of Remittances	0.00 (0.00)	0.003 (0.003)
LMC Dummy × Trade	--	0.03 (0.03)
UMC Dummy × Trade	--	0.06* (0.03)
LMC Dummy × FDI	--	-0.03*** (0.01)
UMC Dummy × FDI	--	-0.03*** (0.01)
LMC Dummy × ICT	--	0.004 (0.01)
UMC Dummy × ICT	--	-0.001 (0.01)
LMC Dummy × Remittances	--	0.003 (0.01)
UMC Dummy × Remittances	--	-0.01** (0.01)
Constant	-0.93*** (0.08)	-1.13*** (0.09)
R -Square (Number of Observations)	0.28 (913)	0.27 (913)

Notes: Fixed effect (FE) estimations are reported. Standard errors are in parentheses. * means the coefficient is significant at 10%, ** is significant at 5%, and *** is significant at 1%. LMC=lower-middle income countries and UMC=Upper-middle income countries. All the variables, dependent as well as explanatory, are logged to neutralize the skewness of data. The data covers 1997 to 2005 annually.

Sources: The data of GDP per capita, population growth rate, trade, FDI inflow, mobile/fixed line subscribers (as ICT) and remittances are taken from the WDI online database of the World Bank. HDI are taken from the HDRs from 1997 to 2007/08 of the UNDP.

As for the control variables, only GDP per capita has a positive impact on human development. The effect was significant at the 5 % level in Column 1 and the 1 % level in Column 2. This result is in

the line with the mainstream literature and the general intuition that income improves overall QOL. However, the effect of population growth was not significant.

The results in Column 2 are firmly consistent with Column 1. The main purpose of this column is to observe whether the above observed effects are different in different income groups of countries. As the model does not include the interaction term with the dummy low-income countries (LICs), the positive sign of the coefficient of the interaction term of the respective income group reveals a larger effect than LICs and vice versa. Thus, Column 2 reveals that the effect of FDI is significantly (at 1%) lower in lower-middle income countries (LMCs) and upper-middle income countries (UMCs) than LICs, as both have -0.3 coefficients. This is a welcoming result that the HDI promoting effect of FDI is higher in LICs, as many scholars worry that FDI works well only on those countries that have already reached a certain level of development. Regarding the trade issue, the effects on UMCs was significantly (at 10%) more than other groups of countries. However, the level of significance is weak.

In Table 3.3, the dependent variable is the GDI. The table reports that trade and ICT are significant at 1% in promoting gender development in both columns except for trade effects on Column 2, which is only significant at 5%. These results support other evidence that argues that international trade reduces the gender gap in DCs. For example, evidence shows that job creation for women in export sectors are growing rapidly (UNDP, 1999), and girls, who historically have low labor market participation rates and so have not benefited from the traditional network, take greater advantage of available opportunities when their society undergoes economic changes (Munshi and Rosenzweig, 2006). Similarly, the impact of ICT on gender development is consistent with the arguments that ICT brought some benefits to the developing world as women are empowered with ICT access and they negotiate gender relations in the household and community (Kelkar and Nathan ,2002; Jamie Lee, 2004).

The remaining two elements of globalization and control variables are found to be insignificant in affecting the GDI. The results after using the interaction term in Column 2 are quite consistent with Column 1. However, the effects are not found to be different across the income groups of countries except for the trade effect on LMCs, which is significantly higher (at 1%) than the other region.

Table 3.3 Gender-Related Development and Four Major Elements of Globalization (1997-2005)

Dependent Variable: Gender-Related Development Index (GDI)

Explanatory Variables	[1]	[2]
GDP per capita	0.00 (0.00)	0.00 (0.00)
Population Growth	0.01 (0.03)	-0.00 (0.03)
Trade (% of GDP)	0.19*** (0.07)	0.01** (0.001)
FDI Inflow (% of GDP)	0.002 (0.03)	0.01 (0.04)
Log of ICT	0.04*** (0.01)	0.05*** (0.02)
Log of Remittances	-0.01 (0.01)	0.05 (0.02)
LMC Dummy × Trade	--	0.67*** (0.14)
UMC Dummy × Trade	--	0.22 (0.16)
LMC Dummy × FDI	--	-0.02 (0.06)
UMC Dummy × FDI	--	-0.02 (0.06)
LMC Dummy × ICT	--	-0.01 (0.03)
UMC Dummy × ICT	--	-0.04 (0.05)
LMC Dummy × Remittances	--	-0.05 (0.04)
UMC Dummy × Remittances	--	-0.003 (0.04)
Constant	-1.45*** (0.28)	-1.75*** (0.27)
R -Square (Number of Observations)	0.41 (913)	0.26 (913)

Notes: Fixed effect (FE) estimations are reported. Standard errors are in parentheses. * means the coefficient is significant at 10%, ** is significant at 5%, and *** is significant at 1%. LMC=lower-middle income countries and UMC=Upper-middle income countries. All the variables, dependent as well as explanatory, are logged to neutralize the skewness of data. The data covers 1997 to 2005 annually.

Sources: The data of GDP per capita, population growth rate, trade, FDI inflow, mobile/fixed line subscribers (as ICT) and remittances are taken from the WDI online database of the World Bank. GDI are taken from the HDRs from 1997 to 2007/08 of the UNDP.

Table 3.4 presents the impacts of the major elements of globalization on human poverty in developing countries (HPI-1). The poverty effect of globalization elements is broader than the human and gender development effects because all the four elements of globalization (trade, FDI, access to ICT and remittances (except in Column 1)) are found to be significant in decreasing human poverty at 1 %. Trade and FDI inflows are significant at 1% in both cases with or without the interaction terms, whereas ICT was significant at 1% in Column 2 but not significant in Column 1. Migration was significant at 1 % in the case with and 10% without interaction terms.

These results are consistent with the positive arguments of Winters (2006) for trade effect and the World Economic Forum (2010) for ICT effect on economic growth and development.

Table 3.4 Human Poverty and Four Major Elements of Globalization (1997-2005)

Dependent variable: Human Poverty Index for Developing Countries (HPI-1)

Explanatory Variables	[1]	[2]
GDP per capita	-0.13*** (0.3)	-0.14*** (0.03)
Population Growth	0.06*** (0.02)	0.08*** (0.02)
Trade (% of GDP)	-0.11*** (0.4)	-0.17*** (0.05)
FDI Inflow (% of GDP)	-0.06*** (0.02)	-0.09*** (0.02)
Log of ICT	-0.00 (0.001)	-0.003*** (0.001)
Log of Remittances	-0.02* (0.01)	-0.03*** (0.01)
LMC Dummy × Trade	--	0.11 (0.09)
UMC Dummy × Trade	--	0.08 (0.10)
LMC Dummy × FDI	--	0.04 (0.03)
UMC Dummy × FDI	--	0.01 (0.05)
LMC Dummy × ICT	--	0.07*** (0.02)
UMC Dummy × ICT	--	0.16*** (0.04)
LMC Dummy × Remittances	--	0.02 (0.02)
UMC Dummy × Remittances	--	0.02 (0.02)
Constant	4.64*** (0.17)	4.58*** (0.28)
R -Square (Number of Observations)	0.12 (798)	0.17 (798)

Notes: Fixed effect (FE) estimations are reported. Standard errors are in parentheses. * means the coefficient is significant at 10%, ** is significant at 5%, and *** is significant at 1%. LMC=lower-middle income countries and UMC=Upper-middle income countries. All the variables, dependent as well as explanatory, are logged to neutralize the skewness of data. The data covers 1997 to 2005 annually.

Sources: The data of GDP per capita, population growth rate, trade, FDI inflow, mobile/fixed line subscribers (as ICT) and remittances are taken from the WDI online database of the World Bank. HPI-1 are taken from the HDRs from 1997 to 2007/08 of the UNDP.

As expected, population growth has a poverty increasing effect at a 1% level of significance. Similarly, GDP per capita was insignificant in reducing poverty.

Column 2 reveals that there is no difference on the effects of globalization elements across income groups of countries except for ICT. It has a larger effect on higher income group countries and the effect is significant at the 1% level.

To explain the overall poverty effect of globalization some theoretical as well as empirical findings are discussed briefly. Trade has both a direct (benefiting poor people directly) and indirect (through the economic growth channel) effects on poverty reduction. For example, Winter et al. (2004) argue that theoretically it can be expected that the effect of international trade or trade liberalization is poverty-reducing on average and in the long run. Empirically, evidence is broadly consistent with this theoretical assumption. More importantly, Winter et al. do not support the view that trade liberalization has an adverse impact on poverty. In detail, Badiane and Kherallah (1999) show that the domestic liberalization of food crop farming in Africa has had a strong effect on reducing poverty and argue that it brought about increased levels of investment by private traders, and an expansion in their activities.

This created employment for low skilled labor in itself, but, in addition, it reduced retail prices for food, and various transaction costs.

Even if the poor do not benefit directly from increased demand generated by trade liberalization, they may benefit indirectly because those who benefit directly increase their demand for inputs and consumption goods and services. For example, John Mellor and Sarah Gavian (1999) argue that one of the main advantages of stimulating agriculture is that it strongly increases the demand for goods and services produced by the poor. Furthermore, Cogneau and Robillard (2000) argue that an increase in the world price of export crops significantly reduces rural poverty but slightly increases urban poverty. The poor also benefit indirectly through the growth effect of trade. For instance, Ravallion (2001) finds a 1 % increase in mean income results, on average, and a 2.5 % decrease in the proportion of people in absolute poverty (or 2 % if the mean income measure is instrumented to allow for errors of observation). The positive and significant relationship between trade liberalization and total factor productivity (TFP) is another channel for benefiting the poor through growth (Urata and Yokota, 1994; David Coe, Elhanan Helpman, and Alexander Hoffmaister, 1997).

Foreign direct investment can have positive effects on poverty by creating employment, improving technology and human capital, and promoting competition. For example, Moran (2001:24) reviewed the evidence in the automotive, computer, and electronics sectors and concluded as follows:

> Foreign investors whose local operations comprise an integral part of the parent's global or regional sourcing network introduce state-of-the-art technology and business practices into the host economy both via the investment that the parent makes in the performance of its own subsidiary and via the supervision that the parent and subsidiary exercise over the performance of local suppliers.

In general, foreign MNEs tend to source inputs locally as they are usually cheaper and sometimes of higher quality. Thus, host countries can gain a number of important benefits from FDI. For example, the employment rate can increase because the sourced inputs represent new production, production technologies can be better adapted to local conditions because suppliers are more likely to employ labor-intensive processes, the MNEs can transfer state-of-the-art business practices and technologies to the local suppliers, and it is possible that local suppliers can combine into a spatial cluster that supports innovation and upgrading (Finger and Schuler 2000).

How about ICT? This study finds a strong significant impact of ICT on poverty reduction. What are the channels for such positive impacts? Although, there is a view that ICT is too expensive for the poor to take any benefit, ICT is a part of everyday life for millions of poor people in DCs. As Mohammed Yunus (2001), a Nobel Laureate, put:

> There is an on-going view that IT is totally irrelevant for the poor who are generally illiterate; IT is too expensive for them to reach out to; the poor don't need fancy IT, they need food. These are

> the voices of the skeptics... Now in three years there are more than 5000 Telephone Ladies in Bangladesh villages doing roaring business selling telephone service.

ICT plays a major role not only in all aspects of human development, but also in poverty reduction. ICT facilitates speedy, transparent, accountable, efficient and effective interactions between public citizens, businesses and other agencies. This not only promotes better administration and a better business environment, but also saves money in the cost of transactions in government operations (IICD 2001).The lack of systematic and transparent recording and public documentation of government data that the poor would need has a negative effect on development outcomes. For example, Hernando De Soto (2000) pointed out that even if the poor own land, without records the capital is dead. Without land records as collateral, they cannot apply for loans, nor can they often get assistance from government poverty alleviation programs intended for small farmers (Warschauer, 2003). According to the World Bank (2001) the experience with African internet service providers suggests that countries with a highly liberalized telecommunications network had costs of Internet access eight times lower than those with a completely closed market. From these and many other reasons, the results of this study are evidence that the significant poverty reducing impact of ICT access is quite rational.

Similarly, the effect of migration is also found to be significant in reducing poverty. This result generally supports the findings of several case studies of DCs. For example, remittances reduces rural poverty in Mexico; level, depth and severity of poverty in Guatemala; remittance recipient households' poverty in the Philippines; and in general, migration of poorer members' of the society leads to reduction in poverty and inequality elsewhere (Özden and Schiff, 2006: 6-7).

In the next step, this study uses the KOF indexes of globalization as major explanatory variables. The rationality of using the KOF indexes is discussed previously in Section 4.2. Briefly, it captures the overall effect of globalization, covering a comprehensive definition of globalization, and also corrects any problem of "omitted variable(s)" bias from the previous model. It also further checks the validity and reliability of the methodology used in this study.

Table 3.5 provides the relationship between human development and globalization in terms of the KOF indexes. Column [1.a] includes overall globalization with the control variables GDP per capita and population growth without the interaction terms with the income group dummy, whereas Column [1.b] includes the interaction term. In these columns in this and the next two result-tables, the suffix 'a' is given for the result-columns without interaction terms, and suffix 'b' is given for the result-columns with interaction terms.

The results from both the columns [1.a] and [1.b] show that the overall globalization is highly significant (at 1%) to increase human development. This result supports the theoretical proposition made by Sirgy et al. (2004) that globalization enhances human quality of life in many ways.

Table 3.5 Human Development and Globalization (1997-2005)

Dependent Variable: Human Development Index (HDI)

Explanatory Variables	[1.a]	[1.b]	[2.a]	[2.b]
GDP per capita	0.04*** (0.01)	0.04*** (0.01)	0.04*** (0.01)	0.04*** (0.01)
Population Growth	-0.01** (0.01)	-0.01** (0.01)	-0.01** (0.01)	-0.01* (0.01)
Overall Globalization (G.)	0.18*** (0.02)	0.16*** (0.03)	..	..
Economic G.	..	..	0.07***(0.02)	0.10***(0.03)
Social G.	..	..	0.06*** (0.02)	0.03* (0.02)
Political G.	..	..	0.08*** (0.02)	0.04* (0.02)
LMC × Overall G.	..	0.06 (0.04)	..	..
UMC × Overall G.	..	0.01 (0.07)	..	..
LMC × Economic G.	..	..	..	-0.08* (0.04)
UMC × Economic G.	..	..	..	0.03 (0.06)
LMC × Social G.	..	..	..	0.1** (0.04)
UMC × Social G.	..	..	..	0.07 (0.08)
LMC × Political G.	..	..	..	0.04 (0.03)
UMC × Political G.	..	..	..	-0.03 (0.05)
Constant	-1.51*** (0.08)	-1.52*** (0.09)	-1.45*** (0.11)	-1.61*** (0.10)
R-Square (No. of obs.)	0.16 (987)	0.16 (987)	0.20 (791)	0.21 (791)

Notes: Fixed effect (FE) estimations are reported. Standard errors are in parentheses. * means the coefficient is significant at 10%, ** is significant at 5%, and *** is significant at 1%. LMC=lower-middle income countries and UMC=Upper-middle income countries. All the variables, dependent as well as explanatory, are logged to neutralize the skewness of data. The data covers 1997 to 2005 annually. Column (2) has fewer observations because some particular types of globalization data are not reported for some countries.

Sources: Globalization indexes are taken from Dreher (2006), GDP per capita (current US$) and population growth rates are from the WDI online database of the World Bank, and HDI are from the HDR from 1997 to 2007/08 of the UNDP.

As expected, GDP per capita has a significant (at 1%) positive impact on HDI since GDP per capita itself is one of the three components of HDI, which generates a direct effect on it. Additionally, as richer countries generally have better health and educational status, GDP per capita also indirectly generates a positive effect on HDI. Similarly, it is quite natural to observe the negative impact of population growth on HDI. These impacts are significant at the 1% and 5% levels for Columns 1 and 2, respectively. This result is consistent with the theory and empirical findings because population growth is considered one of the major obstacles for human development in developing countries. Many scholars argue that higher population growth rates have negative correlations with economic growth, health and educational indicators, particularly in developing countries (e.g. Kelly and Schmitd, 1995; Kelly, 1994; Shaw, 1989). However, Column [1.b] reveals that these effects are not different across income groups of countries.

In Columns [2.a] and [2.b], instead of overall globalization, the three sub-indexes economic, social and political globalization, are included in the equation. Such disaggregated analyses not only demonstrate the independent effect of each dimension of globalization, but also cross-checks the

validity of the model based on the consistency of the results. Here, the result is highly consistent with Column [1.a] and Column [1.b]. All the three dimensions of globalization; economic, social and political, were found to be highly significant at the 1% level to increase human development in both the equations with or without the interaction term, except for the social and political globalization in Column 2.b in which the effect were found significant at 10%. Interestingly, the magnitude and direction of the effect of GDP per capita and population growth were also found to be exactly the same as in the previous columns [1.a] and [1.b]. These findings are similar with the outcomes of an empirical analysis by Tsai (2007), but the relationship that he found was rather poor; Tsai showed the significance level of the overall impact of globalization on human development at 10 % and also reported no significant impact of economic and social globalization.

Unlike the case of overall globalization, the results from the disaggregated analysis shows that the human development effect of economic globalization was significantly (at 10%) lower in LMCs than LICs. However, there is no difference in effects between LICs and UMCs. This indicates that a certain level of development helps to optimize the benefits from globalization. However, social globalization has a significantly (at 5%) larger effect on LMCs.

Similarly, Table 3.6presents the effects of globalization on GDI. Here, GDI is the dependent variable with the rest being the same as the previous table. Column [1.a] shows that the effect of overall globalization was positively significant (at 1%), which reveals that globalization also helps to reduce gender disparity in human development. The result with the interaction term in Column [1.b] also shows a significant (at 5%) effect. These results are consistent with recent findings by Munshi and Rosenzweig (2006), who argue that lower-caste girls in the Indian city of Bombay are taking full advantage of opportunities provided by the globalized economy switching rapidly to English schools, whereas working class boys in the lower caste, who already have a dominating role within their ethnic group tend to continue to go local language schools that lead to traditional occupations with lower incomes. Furthermore, these results also support the cross-country evidence of Oostendorp (2004) that shows the significant impact of trade and FDI net inflows on narrowing the occupational gender wage gap for low-skill occupations worldwide.

Regarding the control variables, GDP per capita has a significantly (at 1%) positive impact on GDI for both the columns. As expected, population growth was found significant (at 5%) to reduce gender development, although there was no significant effect observed in Column [1.a]. All the effects are found no different across the income group of countries.

Table 3.6 Gender-Related Development and Globalization (1997-2005)

Dependent Variable: Gender-Related Development Index (GDI)

Explanatory Variables	[1.a]	[1.b]	[2.a]	[2.b]
GDP per capita	0.10***(0.04)	0.10*** (0.04)	0.13***(0.05)	0.13*** (0.05)
Population Growth	-0.01 (0.03)	-0.01** (0.03)	-0.001 (0.04)	-0.001 (0.04)
Overall Globalization (G.)	0.33*** (0.11)	0.28** (0.14)	..	..
Economic G.	..	..	0.39*** (0.11)	0.11*(0.16)
Social G.	..	..	-0.05 (0.11)	0.09 (0.14)
Political G.	..	..	-0.01 (0.09)	0.05 (0.14)
LMC × Overall G.	..	0.23 (0.23)	..	..
UMC × Overall G.	..	-0.31 (0.38)	..	..
LMC × Economic G.	..	..	..	0.82*** (0.25)
UMC × Economic G.	..	..	..	-0.09 (0.34)
LMC × Social G.	..	..	..	-0.35 (0.24)
UMC × Social G.	..	..	..	-0.11 (0.48)
LMC × Political G.	..	..	..	-0.12 (0.18)
UMC × Political G.	..	..	..	-0.10 (0.28)
Constant	-2.5*** (0.43)	-2.33*** (0.49)	-2.76*** (0.50)	-2.73*** (0.60)
R-Square (No. of obs.)	0.60 (987)	0.03 (987)	0.57 (791)	0.05 (791)

Notes: Fixed effect (FE) estimations are reported. Standard errors are in parentheses. * means the coefficient is significant at 10%, ** is significant at 5%, and *** is significant at 1%. LMC=lower-middle income countries and UMC=Upper-middle income countries. All the variables, dependent as well as explanatory, are logged to neutralize the skewness of data. The data covers 1997 to 2005 annually. Column (2) has fewer observations because some particular types of globalization data are not reported for some countries.

Sources: Globalization indexes are taken from Dreher (2006), GDP per capita (current US$) and population growth rates are from the WDI online database of the World Bank, and GDI are from the HDR from 1997 to 2007/08 of the UNDP.

The gender impact of globalization mainly comes from the economic globalization. Because, in Column [2.a] and [2.b], when the three major components of globalization regressed replacing the overall globalization, only economic globalization found significant at 1% in Column [1.a] and 10% in Column [1.b].This might be due to the multicollinearity among the variables[40].Therefore, correlations of these three indexes of globalization are observed, and it was found that economic globalization is correlated with social globalization with a coefficient of 0.67 (see Appendix 3.5 for a correlation matrix). The correlation coefficient between economic and political globalization is just 0.07, and the coefficient between social and political globalization is 0.11. Thus, the multicollinearity should not be a problem in this model, which further revealed by the *vif* test.[41] Thus, this chapter argues that globalization helps to increase gender-related development as well. This finding complements earlier empirical evidence on

[40] Multicollinearity is a situation in which two or more explanatory variables in a regression model are highly correlated. A regression model with correlated predictors can indicate how well the entire bundle of predictors predicts the outcome variable, but it may not give valid results about any individual predictor, or about which predictors are redundant.

[41] The variance inflation factor *(vif)* test is a common test for collinearity. This study found the *vif* for the parameter estimates to be 3.34, which is below 10, the benchmark for the *vif* test.

the gender development effects of globalization by Seguino and Grown (2006), Munshi and Rosenzweig (2006) and Ostendorp (2004), as explained above. However, these effects are not significantly different across income groups of countries as the coefficient of the interaction term in Columns [1.b] and [2.b] show.

Table 3.7 shows the relationship between globalization and human poverty. It follows the same procedures as Tables 3.5 and 3.6, but using the HPI-1 as the dependent variable. As expected, all the indexes of globalization are found to be significant (mostly at 1%) in reducing poverty, as the coefficient of each indicator has a negative sign. Only in the case of Column [2.a] was the effect of political globalization observed at a 5% level of significance. These results are consistent with the findings by Dollar (2005) and many others that they found globalization has a positive impact on improving the lives of people in developing countries and areas.

Table 3.7 Human Poverty and Globalization (1997-2005)

Dependent Variable: Human Poverty Index for Developing Countries (HPI-1)

Explanatory Variables	[1.a]	[1.b]	[2.a]	[2.b]
GDP per capita	-0.03 (0.03)	0.04 (0.03)	-0.03 (0.03)	-0.03 (0.03)
Population Growth	0.04** (0.02)	0.05** (0.02)	0.05** (0.02)	0.04** (0.02)
Overall Globalization (G.)	-0.54*** (0.07)	-0.66*** (0.08)	..	..
Economic G.	..	..	-0.19*** (0.06)	-0.22***(0.09)
Social G.	..	..	-0.23*** (0.06)	-0.25*** (0.08)
Political G.	..	..	-0.11** (0.05)	-0.166*** (0.08)
LMC × Overall G.	..	0.45*** (0.14)	..	..
UMC × Overall G.	..	-0.28 (0.26)	..	..
LMC × Economic G.	..	..	..	0.23* (0.13)
UMC × Economic G.	..	..	..	-0.57*** (0.21)
LMC × Social G.	..	..	..	0.04 (0.13)
UMC × Social G.	..	..	..	-0.05 (0.26)
LMC × Political G.	..	..	..	0.12 (0.10)
UMC × Political G.	..	..	..	-0.08 (0.17)
Constant	5.42*** (0.27)	5.48*** (0.31)	5.35*** (0.35)	5.71*** (0.35)
R-Square (No. of obs.)	0.10 (863)	0.12 (863)	0.46 (734)	0.14 (734)

Notes: Fixed effect (FE) estimations are reported. Standard errors are in parentheses. * means the coefficient is significant at 10%, ** is significant at 5%, and *** is significant at 1%. LMC=lower-middle income countries and UMC=Upper-middle income countries. All the variables, dependent as well as explanatory, are logged to neutralize the skewness of data. The data covers 1997 to 2005 annually. Column (2) has fewer observations because some particular types of globalization data are not reported for some countries.

Sources: Globalization indexes are taken from Dreher (2006), GDP per capita (current US$) and population growth rates are from the WDI online database of the World Bank, and HDI are from the HDR from 1997 to 2007/08 of the UNDP.

Regarding the control variables, contrary to case of the GDI, GDP per capita was found to be insignificant, whereas population growth was found to increase poverty significantly at the 5% level. The results are consistent with all four columns. These findings demonstrate the fact that income growth

is highly concentrated on higher-income groups, thus doing little to help poor people. Population growth rates, being mostly higher among lower-income groups and in poorer countries, certainly add a burden to the poor and ultimately exacerbate poverty.

To compare the poverty effect of globalization across different groups of countries, overall globalization was found to have a significantly high impact on LMCs. This clearly shows that countries should reach a certain level of development to capture the poverty effect of globalization. The result is thus consistent with the argument of Sabi (2007) that globalization is important for human development only after certain level of income growth. This result actually comes from economic globalization as Column [2.b] shows that economic globalization has a significantly high impact on LMCs (at 10%) but a low impact on UMCs (at 1%), and the effect of social and political globalization are not different across income groups of countries.

Overall, this empirical study argues that globalization, in terms of the KOF index, is statistically significant not only in increasing human development and gender development, but also in reducing human poverty. Even for the segregated index of globalization (i.e. economic, social and political globalization), the results are generally robust. The results are consistent with the analysis using some of the key elements of globalization instead of globalization indexes at the beginning of this section, which further strengthen the reliability of the mode used in this study. Therefore, it is argued that the dataset used and model applied in this study is valid and appropriate.

3.5 Chapter Conclusion

In the context of disputing arguments among scholars, the empirical results of this study reveal that globalization enhances QOL by promoting human and gender-related development and significantly reducing human poverty. Not only the key elements of globalization, but the KOF indexes are highly significant regarding all three dependent variables of QOL (i.e. HDI, GDI and HPI-1) and have been shown to be quite robust in the FE regression model. Not surprisingly, all of the aspects of globalization (economic, social and political) contribute to the overall effect. Indeed, these three factors of globalization comprise a tripod of global integration and move along together rather than separately. Furthermore, the selected key elements of globalization were also found to significantly and positively affect the QOL indicators. This rather conventional approach gives further evidence of the validity and credibility of the data used and the methodology followed in this research. Therefore, it is argued that along with the results, the methodology applied in this study is also useful for similar research of this kind.

The major message of the findings is that there should not be any fear of globalization, in general. Based on the analysis, this chapter argues that globalization has mostly favorable effects for all. There might be questions about whether the richer or the poorer layers of global society gain more. Within

developing countries, the human and gender development effects of globalization were not different. However, the poverty effect was found mostly in LMCs. Thus, the international community should genuinely support LICs to empower them to raise their income level up to a certain level. The next chapter further examines globalization's effect covering data from both developed and developing countries in the Asia-Pacific. Up to this point, however, from a general perspective, it is interesting to see that globalization improves QOL, as people are far more concern about their own QOL rather than the economic growth of the country.

However, this chapter also observed some unexpected outcomes. Political and social globalization, FDI, and international migration (proxy by remittances) were all found to be insignificant factors of gender-related development. Thus, how can these variables be made to significantly promote gender aspects of development? This is a crucial question for policymakers and the right answers will enhance their capacity for successful globalization because there is no choice but for globalization to improve QOL and other kinds of development. However, better policies will matter in making every element significant in this process. The chapter suggests further research for such policy recommendations.

The next chapter analyzes QOL trends among both developed and developing countries to see whether the QOL indicators are converging or diverging, focusing the EAP since many claim that the benefits of globalization mostly go to the rich even though they do not hurt the poor. The chapter then analyzes the impacts of globalization on the convergence (or divergence) process.

Chapter Appendices

Appendix-3.1 Explanatory Variables

A. Components of the KOF index of Overall Globalization

1. Economic Globalization [38%]

i) Actual Flows (50%)
- Trade (% of GDP) (19%)
- Foreign Direct Investment, Flows (% of GDP) (20%)
- Foreign Direct Investment, Stocks (% of GDP) (23%)
- Portfolio Investment (% of GDP) (17%)
- Income Payments to Foreign Nationals (% of GDP) (21%)

ii) Restrictions (50%)
- Hidden Import Barriers (21%)
- Mean Tariff Rate (29%)
- Taxes on Int'l Trade (% of current revenue) (25%)
- Capital Account Restrictions (25%)

2. Social Globalization [39%]

i) Data on Personal Contact (34%)
- Telephone Traffic (26%)
- Transfers (% of GDP) (3%)
- International Tourism (26%)
- Foreign Population (% of Total Population) (20%)
- International letters (per capita) (26%)

ii) Data on Information Flows (34%)
- Internet Users (per 1000 People) (36%)
- Television (per 1000 People) (36%)
- Trade in Newspapers (% of GDP) (28%)

iii) Data on Cultural Proximity (32%)
- Number of McDonald's Restaurants (per capita) (37%)
- Number of Ikea (per capita) (39%)
- Trade in books (% of GDP) (24%)

3. Political Globalization [23%]

i) Embassies in Country (25%)
ii) Membership in International Organizations (28%)
iii) Participation in U.N. Security Council Missions (22%)
iv) International Treaties (25%)

Notes: The number in parentheses indicates the weight used to derive the indexes. Weights may not sum to 100 because of rounding. All indexes range between 0 (not globalized) and 10 (globalized). Source: Dreher, Axel (2006); updated in Dreher, Axel; Noel Gaston and Pim Martens (2008).

B. Selected Key Elements of Globalization:

1. *Trade (% of GDP):* Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product. Source: World Bank National Accounts data, and OECD National Accounts data files.
2. *Foreign direct investment, net inflows (% of GDP):* Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 % or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy and is divided by GDP. (Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, Global Development Finance, and World Bank and OECD GDP estimates. In the WDI online database.)
3. *Workers' remittances and compensation of employees, received (% of GDP):*Workers' remittances and compensation of employees comprise current transfers by migrant workers and wages and salaries earned by nonresident workers. Workers' remittances are classified as current private transfers from migrant workers who are residents of the host country to recipients in their country of origin. They include only transfers made by workers who have been living in the host country for more than a year, irrespective of their immigration status. Compensation of employees is the income of migrants who have lived in the host country for less than a year. Migrants' transfers are defined as the net worth of migrants who are expected to remain in the host country for more than one year that is transferred from one country to another at the time of migration. (Source: World Bank, Global Development Finance, and World Bank and OECD GDP estimates. In the WDI online database.)
4. *Telephone and/or mobile users per 100 people*.

C. Control Variables:

1. *GDP per capita, PPP (current international $):* GDP per capita based on purchasing power parity (PPP). PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current international dollars. (Source: World Bank, International Comparison Program database. In the WDI online database).
2. Population growth rate (annual)

Appendix-3.2 Definition of dependent variables

A. "Human development index (HDI) is a summary measure of human development. It measures the average achievements in a country in three basic dimensions of human development:

- A long and healthy life, as measured by life expectancy at birth.
- Knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary and tertiary gross enrolment ratio (with one-third weight).
- A decent standard of living, as measured by GDP per capita in purchasing power parity (PPP) terms in US dollars." UNDP (2008).

For details on how the index is calculated, see *Technical note 1*of Human Development Report 2007/08 (UNDP, 2009: 356).

B. Gender-related development index (GDI): GDI is a composite index measuring average achievement in the three basic dimensions captured in the human development index—a long and healthy life, knowledge and a decent standard of living—adjusted to account for inequalities between men and women. For details on how the index is calculated, see *Technical note 1* of Human Development Report 2007/08 (UNDP, 2009: 357).

C. Human poverty index for developing countries (HPI-1): HPI-1 is a composite index measuring deprivations in the three basic dimensions captured in the human development index—a long and healthy life, knowledge and a decent standard of living. For details on how the index is calculated, see *Technical note 1* of Human Development Report 2007/08 (UNDP, 2009: 358).

(*Source:* UNDP, 2009, Human Development Report 2007/08, pp. 366-67**)**

Appendix-3.3 List of developing countries included in the study (in alphabetical order)

1. Albania
2. Algeria
3. Angola
4. Argentina
5. Armenia
6. Azerbaijan
7. Bangladesh
8. Belarus
9. Belize
10. Benin
11. Bhutan
12. Bolivia
13. Botswana
14. Brazil
15. Bulgaria
16. Burkina Faso
17. Burundi
18. Cambodia
19. Cameroon
20. Cape Verde
21. Central African Republic
22. Chad
23. Chile
24. China
25. Colombia
26. Comoros
27. Congo
28. Congo Rep.
29. Costa Rica
30. Cote d'Ivoire
31. Croatia
32. Djibouti
33. Dominica
34. Dominican Republic
35. Ecuador
36. Egypt
37. El Salvador
38. Eritrea
39. Ethiopia
40. Fiji
41. Gabon
42. Gambia
43. Georgia
44. Ghana
45. Grenada
46. Guatemala
47. Guinea
48. Guinea-Bissau
49. Guyana
50. Haiti
51. Honduras
52. India
53. Indonesia
54. Iran
55. Jamaica
56. Jordan
57. Kazakhstan
58. Kenya
59. Kyrgyzstan
60. Lao PDR
61. Latvia
62. Lebanon
63. Lesotho
64. Libya
65. Lithuania
66. Macedonia
67. Madagascar
68. Malawi
69. Malaysia
70. Maldives
71. Mali
72. Mauritania
73. Mauritius
74. Mexico
75. Moldova
76. Mongolia
77. Morocco
78. Mozambique
79. Namibia
80. Nepal
81. Nicaragua
82. Niger
83. Nigeria
84. Pakistan
85. Panama
86. Papua New Guinea
87. Paraguay
88. Peru
89. Philippines
90. Poland
91. Romania
92. Russia
93. Rwanda
94. Saint Kitts
95. Saint Lucia
96. Saint Vincent
97. Senegal
98. Seychelles
99. Sierra Leone
100. Solomon Islands
101. South Africa
102. Sri-Lanka
103. Sudan
104. Suriname
105. Swaziland
106. Syria
107. Tajikistan
108. Tanzania
109. Thailand
110. Togo
111. Tonga
112. Tunisia
113. Turkey
114. Uganda
115. Ukraine
116. Uruguay
117. Uzbekistan
118. Vanuatu
119. Venezuela
120. Vietnam
121. West Samoa
122. Yemen
123. Zambia
124. Zimbabwe

Appendix-3.4 Summary Statistics

Variables	Obs.	Mean	Std. Dev.	Min	Max
Human Development Index (HDI)	1116	0.630986	0.156687	0.25	0.87
Gender-related Development Index (GDI)	1116	1.166219	17.94408	0.24	600
Human Poverty Index (HPI-1)	869	28.9441	15.40484	3.3	65.5
GDP per capita	1116	1810.893	1846.233	81.58	8931.87
Population Growth	1116	1.630654	1.241132	-2.76	9.76
Trade	1116	81.6509	38.33903	15.84	224.89
FDI	1116	31.18571	32.31529	-16.59	202.3
ICT	1116	19.93576	22.86311	0.04	150.97
Migration (remittances)	1053	4.391168	6.358951	0	44.3
Economic Globalization	909	52.25267	13.77251	17.64	84.6
Social Globalization	1116	45.58204	17.30288	8.56	89.69
Political Globalization	1116	57.10932	19.85124	19.1	93.6
Overall Globalization	1116	50.39887	12.60756	20.82	80.02

Appendix-3.5 Correlation Matrix

Variables	HDI	GDI	HPI-1	gdppc	pgrow	trade	fdi	ict	remit
HDI	1								
GDI	-0.0193	1							
HPI-1	-0.9518	0.0169	1						
GDP per capita (gdppc)	-0.1824	-0.0148	0.1932	1					
Population Growth (pgrow)	0.1352	-0.0297	-0.1413	-0.4296	1				
Trade	0.0815	-0.03	-0.118	0.0942	-0.2033	1			
FDI	-0.0811	-0.0318	0.0402	0.1023	-0.1903	0.5246	1		
ICT	-0.1265	-0.0019	0.1383	0.7641	-0.4592	0.1978	0.1772	1	
remittances	-0.1299	-0.0089	0.0868	-0.137	-0.1185	0.267	0.1416	0.0366	1
Economic G. (ecog)	-0.1351	-0.0161	0.1217	0.562	-0.4011	0.5077	0.5713	0.5689	0.1147
Social G. (socg)	-0.1128	-0.0237	0.0913	0.6426	-0.4293	0.4227	0.2998	0.6111	0.1649
Political G. (polg)	-0.125	0.0615	0.1382	0.2971	-0.2511	-0.3154	-0.2073	0.3546	-0.1369
Overall G. (ovlg)	-0.1725	0.0006	0.1564	0.7079	-0.5034	0.3607	0.3898	0.7136	0.1099

	ecog	socg	polg	ovlg
Economic G. (ecog)	1			
Social G. (socg)	0.6711	1		
Political G. (polg)	0.0663	0.1046	1	
Overall G. (ovlg)	0.8502	0.8543	0.4247	1

Chapter 4

Globalization and Quality of Life Convergence: Evidence from the Asia-Pacific

Chapter Synopsis

The impact of globalization on quality of life (QOL) is an issue highly debated by academics, policymakers, private sectors, social organizations and even by the general public in Asia and elsewhere in the world. There is no doubt that globalization has had a significant impact on the lives of millions of Asian people; however, it is unclear whether globalization has reduced or increased the gap in QOL between rich and poor countries. This chapter examines whether QOL in Asian countries is converging (or diverging), and assesses the impact of globalization on the converging (or diverging) process. Using panel data of 19 selected countries from the Asia-Pacific region covering 1975 to 2005 over five-year intervals, and applying the dynamic panel data model, the study finds that QOL of most countries in the region is moving closer to that in Japan (the benchmark country) and that globalization has a significant impact on this convergence. More specifically, overall indicators of QOL, measured by the human development index (HDI), is converging in Asia and the key elements of globalization, such as international trade, information and communication technology (ICT), and international migration as well as the comprehensive indicators of globalization, KOF indexes, are found to be highly significant in this convergence process. Similarly, a disaggregated analysis of the sub-constructs of HDI also shows that health and education indicators are converging and globalization elements and indexes have a significant impact on the convergence process. Although the income aspect of QOL, measured by GDP per capita, is found to be diverging sharply, globalization indicators are found to have a converging effect on the income gap. Thus, it is argued that globalization should be promoted further in poorer countries for any aspect of QOL convergence.

4.1 Introduction

Among the world's regions, Asia has been one of the most affected by the current wave of globalization, politically, economically and socially (Rondinelli and Heffron, 2007). Consequently, the impacts of globalization and its various dimensions have been widely debated and examined by academics, politicians, policymakers, the private sector, and even by the general public in Asia. However, there is no consensus regarding how the benefits of globalization are distributed among Asian countries and their populations. Although most of the theoretical and empirical literature on the convergence hypothesis claims that globalization should help reduce the gap between the rich and poor (Milanovic, 2006), the convergence effect of globalization on human quality of life (QOL) within Asia is still a matter of debate and rarely explored.

Nonetheless, there are a significant number of studies that assess the impact of globalization within Asia. For instance, a comprehensive study by the World Bank (1993) confirmed that the

sustained and rapid economic growth in East Asia is more equally distributed than in any other region. Furthermore, Yusuf (2001) claimed that the so-called "East Asian Miracle"[42] has helped global income convergence, as a number of economies from the region grew significantly faster than the average for the Organization for Economic Cooperation and Development (OECD). However, these studies mainly focused on income or materialistic achievements following the conventional wisdom of globalization research (Garrett, 2000; Nyahoho, 2001; Dreher, 2006). Of course, income is an important part of QOL, but health and education are important as well (Stieglitz, 2006); hence, these aspects should also receive similar research efforts. In this regard, recent works by Kenny (2007) assessed empirically the global convergence on QOL variables. Kenny (2008) also evaluated the case of East Asia. However, in both works, Kenny did not introduce any aspect of globalization as an explanatory variable. Nor did he assess the overall convergence of QOL, but instead measured the convergence of different elements separately and found that some are converging and some are not. The present study attempts to narrow the gap in this area of research by offering an analysis of the current situation of convergence of overall QOL in terms of the Human Development Index (HDI) and its components within the region and an exploration of the effect of globalization in this convergence (or divergence) process.

The chapter is organized as follows. As the previous chapter has defined and presented the global trend of the key variables (see Section 3.3 in Chapter 3), Section 4.2 of this chapter offers a theoretical discussion on the convergence hypothesis and existing empirical evidence on the impacts of globalization on QOL convergence. The section also highlights the current trend of these key indicators in Asian countries. This chapter also presents the trend of globalization and QOL for the Asia-Pacific region. In addition, it discusses the sub-constructs of HDI as we extend the analysis on each variable of QOL that is used to construct the HDI.

Section 4.3 examines convergence/divergence across countries of the Asia-Pacific region, particularly the East Asia and Pacific (EAP) and South Asia (SA), between 1975 and 2005. Convergence here is taken to imply not only economic convergence, but also convergence in QOL in terms of HDI and health and education indicators between countries in the region. Employing simple arithmetic by calculating the HDI and progress in health and educational gaps between Japan (the benchmark country) and each country, and analyzing the trend of these gaps over time, it finds clear evidence of the convergence of QOL, except for the income indicator. The respective methodology applied to observe the convergence is also discussed in the section in detail. It also briefly discusses the reasons behind each result.

Section 4.4 empirically tests the impacts of globalization on this convergence process. The

[42] After the publication of "East Asian Miracle" by the World Bank in 1993, the phrase became one of the most known in development studies. This is because of the region's fast growth over the past three decades. The economies of Japan and the Newly Industrializing Economies (NIEs) of Hong Kong, Singapore, Korea, and Taiwan are still considered as models of development for other countries.

section presents the methodology and the results simultaneously. The section also explains the possible channel of effects from globalization that leads to convergence or divergence.

Finally, Section 4.5 concludes the chapter. It offers a brief discussion on the findings and their implications for development policy. It also explores further research areas on the nexus between globalization and QOL. To the author's knowledge, this study represents the first attempt of this kind in the literature on convergence. It shows the significant effects of globalization on overall QOL convergence and the lack of effect on income divergence in the Asia-Pacific region.

4.2 Globalization and QOL Convergence: Theories and Evidence

4.2.1 Convergence Hypothesis: Theories and Empirics

The basic concept of convergence is defined simply as the expected narrowing of developmental gaps between richer and poorer countries. This convergence hypothesis can be tested for any aspect of development, such as economic growth, factor productivity, and various QOL indicators. There is a large literature that tests the convergence hypothesis on specific regions such as Europe, Asia, and Latin America, on organizations such as the OECD, on transition countries, and even on states or districts within a single country. However, most of the convergence literature focuses on growth convergence among countries using statistical techniques developed by many scholars over time. The methods for testing the convergence hypothesis are often questioned and the introduction of new approaches is still quite frequent. Before introducing the simple and transparent approach to evident the convergence or divergence situation, a brief review on testing the convergence hypothesis and its use in the literature is presented here.

Solow (1956) introduced the neoclassical growth model, which provides the basis for testing convergence among countries. The model assumes that countries with different economic parameters will, after a certain time, reach equivalent levels of income per capita and therefore converge to the same level of economic development. In other words, the output (and income) of different regions should tend to converge over time towards a steady state. Here “the steady state” means an equilibrium position, in which investment per unit of effective labor equals the substitute investment. In the steady state, capital intensity will not change because the level of the investment will be just sufficient to keep the capital intensity of labor at the same level. This neoclassical model of economic growth provides the bases for investigating income convergence among countries. Thus convergence simply means that countries with lower incomes will grow faster than those with the higher incomes since all countries move towards the same steady state. The model is based the assumptions of constant economies of scale and diminishing returns of capital. The returns of capital are higher in

poorer countries that have a lower than average stock of capital. Thus economic growth will be higher in poorer countries.

However, this model has been recently challenged by a number of new growth models (for details see Uzawa, 1965; Conlisk, 1969; and Romer, 1986). Firstly, steady state growth is determined exogenously, meaning outside of the model. Secondly, the assumption about the diminishing return of capital is mostly invalid. Indeed, Romer (1986) proved the presence of a growing return on capital, which gave foundation for the new growth models, or endogenous growth models.

Lucas (1988) emphasized that human capital, being one of the most important sources of economic growth, may result in divergence. The endogenous growth model assumes that savings rates are exogenous and constant, the level of technology is unchanged and returns on capital are constant, not diminishing (Van Den Berk, 2001). Some others have considered agglomeration and technological spillovers as factors that influence convergence. It is cheaper to imitate technology instead of developing it. Therefore, countries that are able to adapt the technology of developed countries will be able to converge because they can progress more rapidly, in terms of technology, than countries that develop the technology by themselves (Van Den Berk, 2001; Krugman, 1987).

Among the existing literature, one of the most important convergence studies was conducted by Barro (1999). Using panel data from 98 countries covering over period 1960 to 1985, he investigated the relation between economic growth and the initial level of GDP per capita and rejected the hypothesis about absolute beta convergence, which expects the value of GDP per capita over a period to be inversely correlated with its growth over that period. Baumol (1986) also tested the absolute convergence hypothesis and argued that there is no proof about the presence of absolute convergence when studying all countries around the world. However, he found convergence for a group of similar countries. His sample of 16 industrialized countries with data from 1870 to 1979 showed a regression coefficient of -0.995, which indicates nearly perfect beta convergence. This result from a certain group of countries suggests the existence of "convergence clubs," which means that countries with similar characteristics converge together to a certain level of income per capita. The recognition of convergence clubs represents a critique of the neoclassical growth model and points out the existence of conditional convergence.

In conditional convergence, it is assumed that the countries can be positioned in different steady states, which means that the parameters describing the steady state can differ among countries. Therefore, different countries will achieve different levels of income per capita in the steady state. Baumol (1986) discussed the convergence clubs that confirmed the existence of conditional convergence, arguing that convergence clubs are formed by countries with similar steady states and, as a result, their income per capita converge to the common average of a certain club (Barro, 1999; Sala-i-Martin, 1992).

Besides beta convergence, there are some other methods of measuring convergence. One of the main measurements is ‘‘sigma’’ convergence, which is a decline over time of the cross-sectional dispersion of a variable. It measures the dispersion of values around a certain average and can be observed by looking at the size of the standard deviation. Another measure of convergence is the coefficient of variation (standard deviation divided by the mean) which is suitable for the variables that trend upward (or downward) across the world over time.

The economic convergence literature is heavily dominated by “Barro-type regressions.” However, as Quah (1993), Nobel Laureate Milton Friedman (1992), and many others have criticized the methodology as such tests were plagued by Galton’s classical fallacy of regression toward the mean. In conventional studies, convergence is along a steady state path determined by a set of parameters defined in the neoclassical growth model. When convergence centers on the average steady state, countries sharing common parameters will converge along the same path. In reality, convergence can occur for reasons other than the ones described in the neoclassical growth model. When we consider social and other factors, countries can differ enormously. Even countries with similar characteristics may follow different paths of economic development. In this controversial and rigorous empirical assessment of convergence, most of the literature focuses on economic phenomena, neglecting social and QOL phenomena. However, comparisons of QOL between nations have received special attention in recent decades as income alone does not explain human achievement or human goals. The idea is that individual wellbeing depends upon QOL factors such as health and education among others.

On the other hand, most of the convergence literature focuses on testing the convergence hypothesis in terms of certain economic indicators, particularly GDP per capita growth. There are fewer efforts to observe the impact of certain external factors on the convergence or divergence process. As this study not only intends to observe QOL convergence in the Asia-Pacific, but also assesses the impact of globalization on the convergence process, the existing methodology is inappropriate. In the context of controversy and criticism regarding the conventional methodology of assessing convergence, this study follows the wisdom suggested by Quah (1993), who argues for a more transparent and direct method. Section 4.3 explains the simple method used to observe QOL convergence.

4.2.2 Globalization and QOL Trends in the Asia-Pacific

Since the end of the Cold War and the resurgence of a neoliberal economic policy, contemporary globalization has not only become a central concern to the donor community and policymakers but it also draws due attention from academics, nongovernmental organizations, and even the general public (Beynon and Dunkerley, 2000; Bircham and Charlton, 2001; DFID, 2000; Oxfam, 2002). Globalization is one of the most controversial issues and its many aspects are questioned and debated

(Wiarda, 2007), including its scope, structure, actual existence, and meaning (Croucher, 2009). Thus, it is very hard to define globalization in a way that satisfies all stakeholders. This study, however, tries to take the most comprehensive definition and indicator of globalization based on academic literature on the impact of globalization.

In most cases, the conventional globalization literature employs proxies, such as trade, capital flows and openness, as measures of globalization using cross-section data (e.g. Heinemann 2000, Vaubel, 1999; Rodrik, 1998; Dollar and Kraay, 2004; Greenaway et al., 1999; Edition et al., 2002, etc.). However, these detailed studies fail to consider the overall effect of globalization, as they focus on individual dimensions of globalization. Dreher (2006) claimed that as all the dimensions of globalization are strongly related to each other and are important in explaining the consequence of globalization, omitting important variables from the regression equation can generate severely biased coefficients. In addition, as mentioned earlier, most of these studies, motivated by conventional wisdom, focus solely on economic growth, income poverty and income inequality (Garrett, 2000; Nyahoho, 2001; Dreher, 2006).

To correct these shortcomings, this study uses the KOF index of globalization developed by Dreher (2006), which is considered the most comprehensive indicator of globalization available. Although there are a number of comprehensive indicators are developed by many scholars and institutions, they are not appropriate to the purpose of this study. For example, a measure of overall globalization developed by AT Kearney/Foreign Policy Magazine (2002) only ranks countries in terms of globalization, and the rank is only available for recent years. Therefore, the AT Kearney Index of Globalization cannot be used for the purpose of this study.

To define globalization by formulating the KOF index of globalization, Dreher (2006:1092) referred to the definition given by Keohane and Nye (2000: 4) among others, summarizing the definition of globalization into the following three dimensions:

- economic globalization, characterized as the long-distance flow of goods, capital and services as well as information and perceptions that accompany market exchanges;
- political globalization, characterized by a diffusion of government policies; and
- social globalization, expressed as the spread of ideas, information, images and people.

Dreher then considered all possible elements for each dimension of globalization and developed the indexes of economic, social and political globalization by employing appropriate weights systematically for each component following the methodology of Gwartney and Lawson (2001).[43]The components of each aspect of globalization were transformed on a zero-to-ten scale before the principle components technique was used to construct a weighted summary index for the individual dimensions of globalization. Then the indexes of economic, social and political globalization were combined into a single index of overall globalization, giving respective weights for each dimension.

[43] See Dreher, Axel (2006) for details.

Appendix 3.1 in previous chapter presented the elements considered and weight placed to calculate the KOF index of globalization, providing for the broad concepts and comprehensive methodology used to obtain the index (see Chapter 3.2.1 for detailed explanations of the KOF indexes and global trends of globalization). Recalling the Figure 3.1 from the previous chapter, the global trend of globalization is upward and has been rising rapidly since 1990 when the Cold War ended. Among the three types of globalization, political globalization fluctuates more than the others, representing the high turmoil in international security as well as an increasing role of global governance. However, economic globalization has a rather steady upward trend. Although social globalization has the lowest index value, its progress goes along with the pace of the other forms of globalization.

Globalization in the Asia Pacific: As this chapter focuses on the Asia-Pacific region, this sub section presents the trend of globalization in the region. Like other regions, the driving forces of globalization in the Asia-Pacific are the liberalization and deregulation of trade, investment, and financial flows, emphasizing the private sector as the engine of economic growth, and the technological revolution, particularly in information communication technology (ICT) and transportation. Similarly, multilateralism and regionalism both are mutually reinforcing trends driving and driven by globalization in the region.

Consequently, the Asia-Pacific region witnessed the world's largest GDP per capita growth rate since 1975. The growth rate is more than the world average in both the EAP and SA, the sub-regions covered in this study, although the growth rate of SA was relatively lower than the world average before 1990 (Figure 4.5). This rapid and consistent growth is supported by higher levels of export growth. Export growth is always far higher than GDP per capita growth but it has decreased several times in the EAP and SA regions.

These rising trade and investment flows, in addition to liberalization and other social political engagement in the region and around the world have made the Asia-Pacific region progress faster in the overall globalization trend in terms of the KOF index. Figure 4.1 shows the regional trend of globalization, which shows the Asian trend of globalization surpassing South America and Oceania and moving closer to the world average.

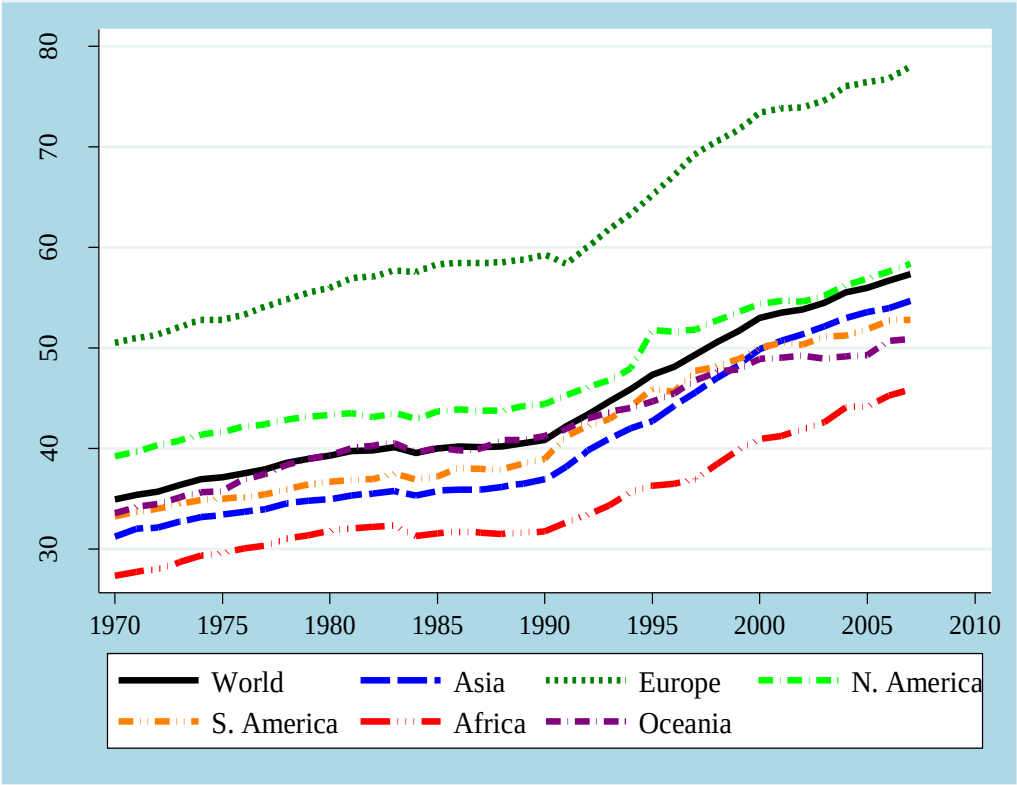

Figure 4.1 Regional Comparisons of Overall Globalization Trends (1970-2007)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 5, 2010).

How about the trends of different aspects of globalization in the Asia-Pacific? Figure 4.2 shows the trend of economic, social and political globalization in the region. The globalization trends in Asia are generally similar with the global trend. As shown in Figure 4.2, Asian globalization is also highly driven by economic factors. At the beginning of the study period, 1970, actual economic flows were quite higher in the region, together with low restrictions on the flows of goods and services. Political globalization was very weak before 1990, but it has gained significant momentum since then, reaching nearly the level of economic globalization. This means that countries in the region had fewer embassies and had signed fewer international treaties and conventions before 1990. However their engagement dramatically increased after the end of cold war. The trend of social globalization is similar to the trend at the global level, as it is the weakest among the three.

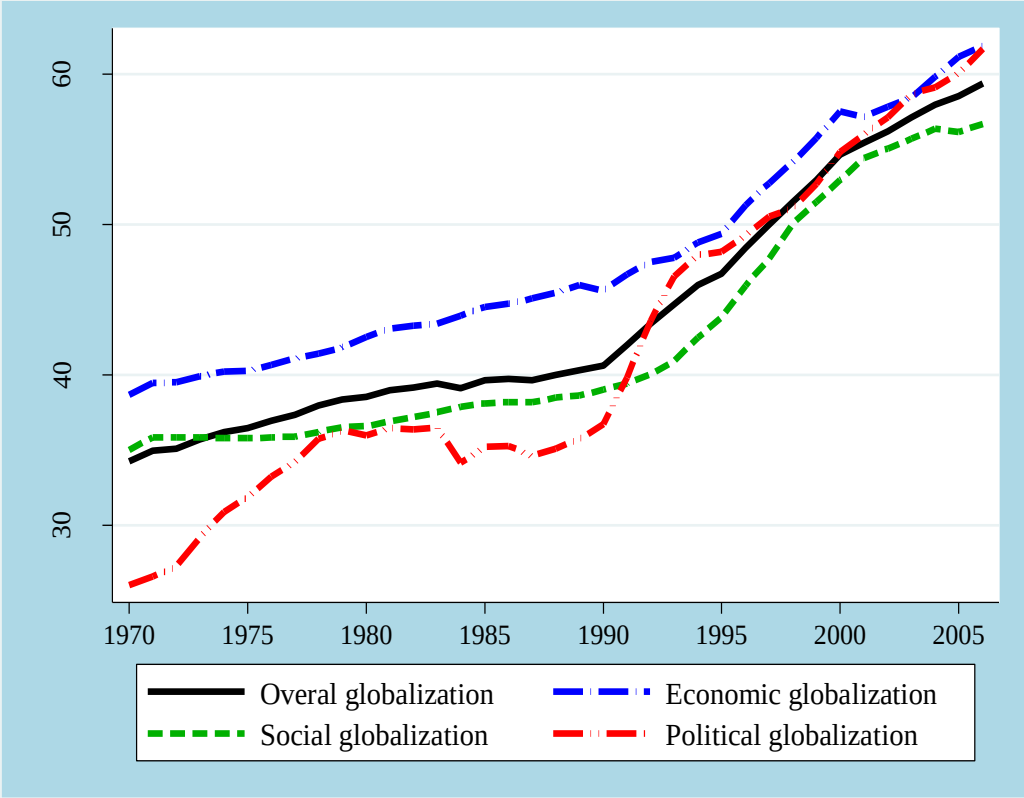

Figure 4.2 Asian Trend of Globalization per KOF indexes (1970-2006)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 5, 2010).

What do these trends suggest? Simply put, they tell us that globalization was the largest driving force toward achieving socioeconomic growth in Asia. In development literature, the phrase "East Asian Miracle" has been considered a well accepted development example that no developmental economist can reject. Asia's success on overall development and QOL will be discussed in detail later. However, it is worth noting here that the source of the success was and is the integration of the nation states, and the whole region, in the world economy and society. This seems to be continuing even into the future, as the region has already realized the benefits of globalization.

Figure 4.3 shows the Asian trend of economic globalization together with its sub-indexes from 1970 to 2007. Contrary to the world trend (Figure 3.2 from the previous chapter), removing barriers to restrictions was much higher than the actual flows in the early period. Consequently, such low levels of barriers to trade and investment has resulted in a sharp increase of actual economic flows, which ultimately reached the same level of restrictions. Around 2004, the actual flow crossed the level of restriction with a significant difference.

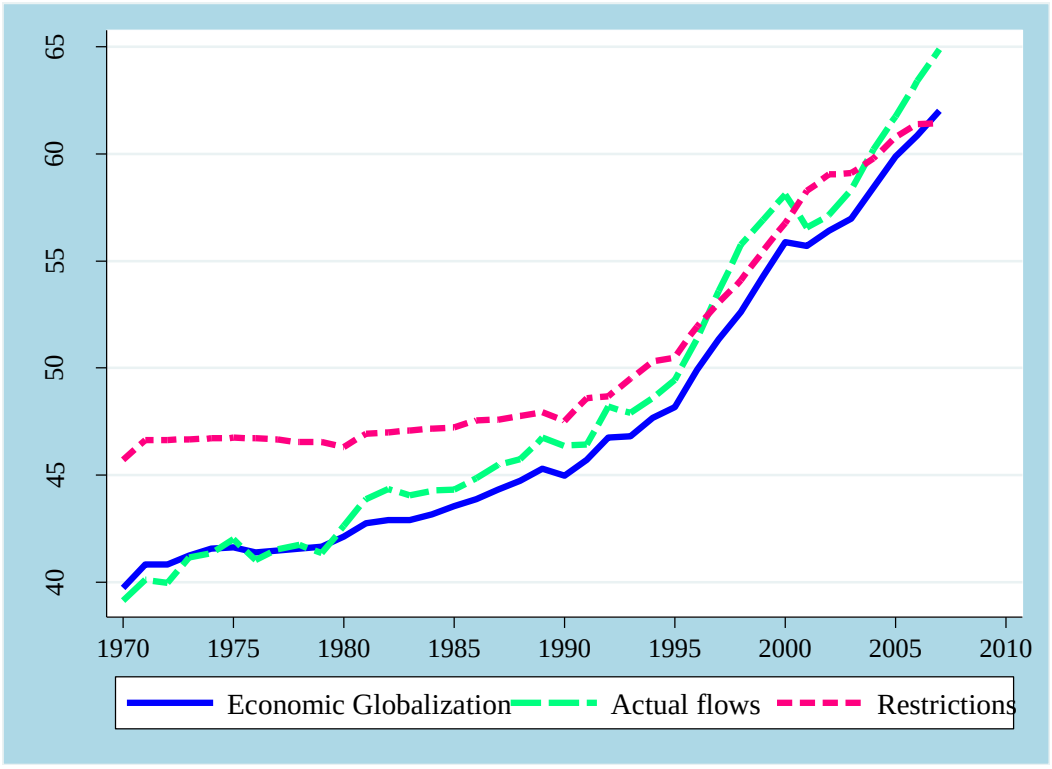

Figure4.3 Asian Trend of Economic Globalization and Its Sub-Indexes (1970-2007)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 27, 2010).

Similarly, it can be seen in the graph that restrictions to trade and investment were drastically removed after 1990, which resulted in the rapid increasing trend of both sub-indexes. In fact, after the cold war ended both indexes have moved nearly together, which shows a balanced and matured world economic system and flows. Noticeably, there is an unusual characteristic in the trend of economic globalization, which is below, rather than between, its sub-indexes. This unusual result is due to the unavailability of data for all countries and all years. Thus, the calculation techniques used to account for the missing values to construct the indexes created the unusual result.[44] However, this result does not significantly affect the overall interpretation of the trend.

Figure 4.4 shows the Asian trends of the sub-indexes of social globalization. Similar to the global trend (as in Figure 3.3), personal contacts that capture direct interaction among people living in different countries, and measured by international telecom traffic (traffic in minutes per person) and the degree of tourism (incoming and outgoing) a country's population is exposed to, among others, found negligible progress from 1970 to 2007 in Asia. Another sub-index of social globalization, *flows of information*, or the potential flow of ideas and images, which is measured by the number of internet users (per 100 people), the share of households with a television set, and international newspapers

[44] The calculation method of KOF Indexes and its sub-indexes are available at http://globalization.kof.ethz.ch/static/pdf/method_2010.pdf

traded (in % of GDP) has had a relatively increasing trend since the beginning of the 1990s. In fact, before the early 1990s, neither mobile phones nor the internet were widely available to Asian consumers like the rest of the world. Thus, the revolution of ICT since the 1990s is largely contributing to the social aspect of globalization, although its significant impact on economic globalization also cannot be ignored.

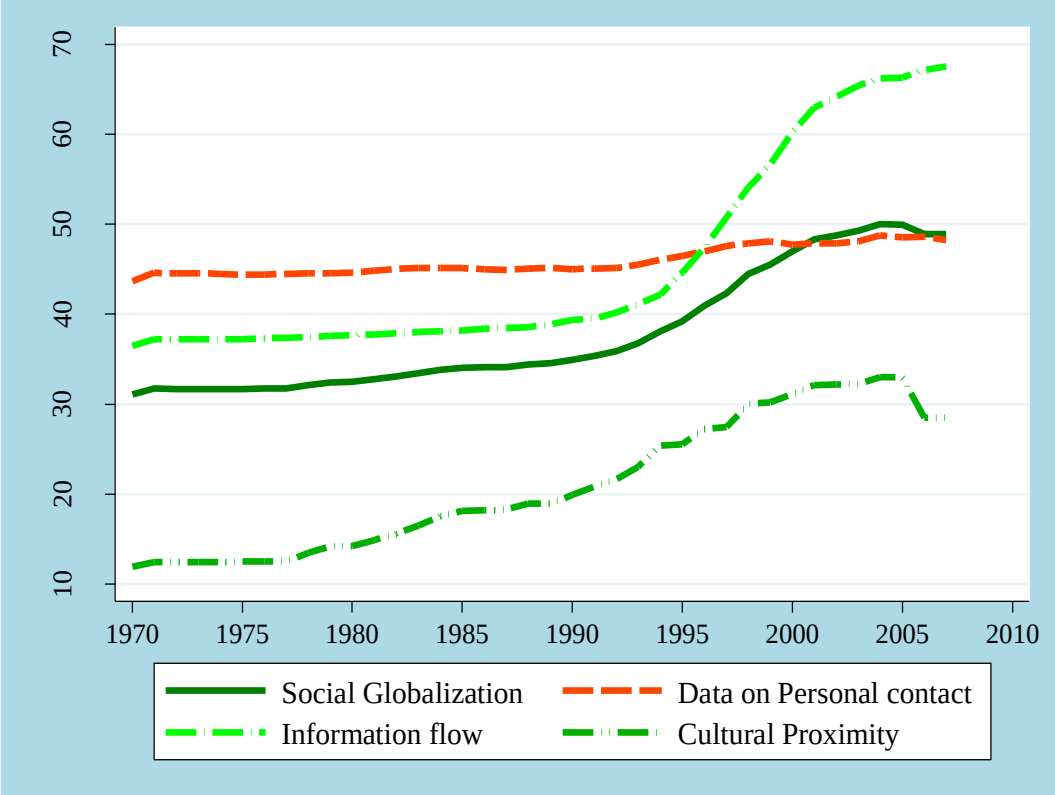

Figure 4.4 Asian Trend of Social Globalization and Its Sub-Indexes (1970-2007)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 27, 2010).

Similarly, the third aspect of social globalization, *cultural proximity*, also has an increasing trend and has become more rapid since the beginning of the 1990s. However, the cultural aspect of globalization is the weakest of the three. The reason could be poor data availability in developing countries (DCs), as the variables used to construct this sub-index are less relevant to many least developed countries (LDCs). For instance, the number of McDonald's restaurants located in a country and the number of IKEA stores per country cannot exactly capture the cultural proximity of LDCs.

How about the trend of real factors of globalization? Same as in the previous chapter, this measurement considers the four major elements of globalization: international trade, FDI, ICT and international migration (proxy by remittances). Before presenting the trend of globalization elements, two issues need to be clarified. First, as the Asia-Pacific is a huge region lacking a clear-cut common definition, this study considers two world regions as constituting the Asia-Pacific, namely the EAP

and SA, as per the World Bank classification of regions.[45] Thus, it includes some Pacific countries but excludes Central Asia and Arab regions as these regions are much more integrated with Europe and North Africa than with East and SA. EAP is considered the most successful region in terms of globalization and development in recent decades not only in the Asia-Pacific but also in the world. However, SA is lagging behind in the process of globalization and development and in some aspects the region is even behind Sub-Saharan Africa (SSA), the most underdeveloped region in the world. However, India, the biggest country in terms of population and geography in the sub-region, has been gaining momentum in globalization and development in recent years. Thus, it is interesting to compare these two sub-regions together with the world average. Second, the trends of the KOF indexes for Asia shown in the above graphs do not include Pacific countries. This is because Dreher categorized the region differently than the World Bank. He has categorized the Asia region as covering all Asian countries from East Asia, Southeast Asia, Northeast Asia, SA and Central Asia, and provided the data accordingly.

International trade is probably the most influencing element of globalization. It has great potential for improving QOL in DCs. Within trade, exports have been much discussed in the literature as a driver of economic growth. For example, Feder (1983), Ram (1985), and Salvatore and Hatcher (1995) argue that exports increase factor productivity because of better utilization of capacity and economies of scale. They further claim that because of reducing foreign-exchange constraints, exports facilitate acquiring better technologies and production methods. Some others argue that open-trade regimes go hand-in-hand with good investment climates, technology externalities, and learning effects (e.g. Grossman and Helpman, 1991). Dornbusch et al. (1998), Mullen (1993) and Thorbecke and Eigen-Zucchi (2002) also argue that exports of manufactured goods contribute to the increased purchasing power of the exporting country. Dornbusch et al. (1998) claims that exports increase job opportunities and disposable income that ultimately contributes to the increased QOL of people. Dunning (1994) also supports the view that exports enhance production efficiency through better capacity utilization, economies of scale in production, and the use of new technologies by the exporting country that ultimately boost economic growth.

In fact, export growth usually surpasses GDP per capita growth as most countries try to achieve the highest level of exporting possible. Figure 4.5 compares the GDP per capita growth and export growth between the EAP, SA, and the world. Although export growth is more volatile for the regions and the world, it shows that export growth is higher than the GDP per capita growth in general. The GDP per capita growth trend is highest in the EAP region, followed by the SA region and the world. Interestingly, export growth follows the same pattern in that the EAP region is the highest,

[45] As per the World Bank there are 6 regions in the world, namely, Africa, East Asia and the Pacific, Europe and Central Asia, Latin America & Caribbean, Middle East & North Africa, South Asia. The World Bank only classifies geographical regions for developing world. Thus, North America is not included in the list as it has no developing country (Mexico belongs to Latin America & Caribbean).

followed by SA and the world. These trends firmly support the existing theoretical literature and empirical findings that suggest exports promote economic growth and hence positively affect GDP per capita.

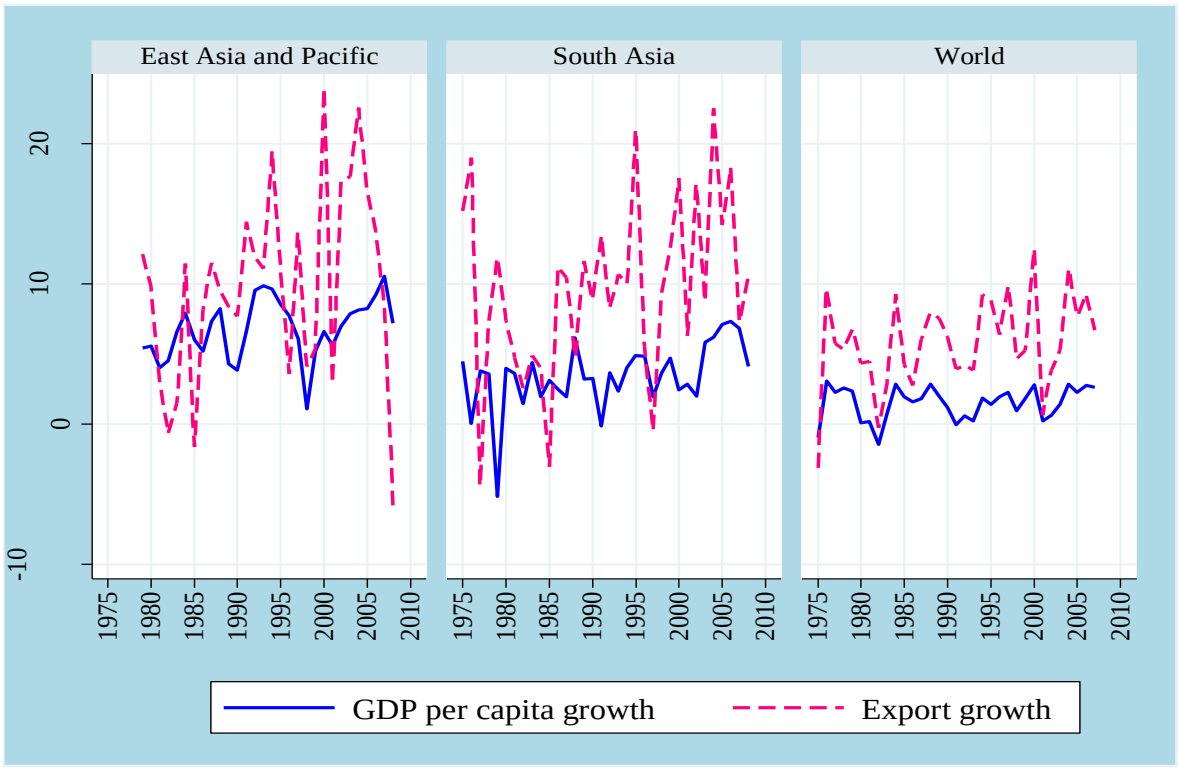

Figure 4.5Comparative Trend of GDP Per Capita Growth and Export Growth between the EAP, SA and the World (1975-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

If we consider total trade (both imports and exports), the empirical literature generally supports the view that open economies grow faster (e.g. Dollar 1992, Sachs and Werner 1995). Thus, trade can contribute to poverty alleviation and development by expanding markets, creating jobs, promoting competition, raising productivity, and providing new ideas and technologies, each of which has the potential to increase the real incomes of poor people. However, a number of socioeconomic challenges need to be addressed simultaneously from a more comprehensive approach, including improving poor people's health and education, improving the business climate and infrastructure, along with trade liberalization. Because of the importance of trade, and the availability of data, most scholars of globalization use trade volumes (sometimes exports) as a proxy for globalization. Thus, this chapter also considers international trade as a key element of globalization.

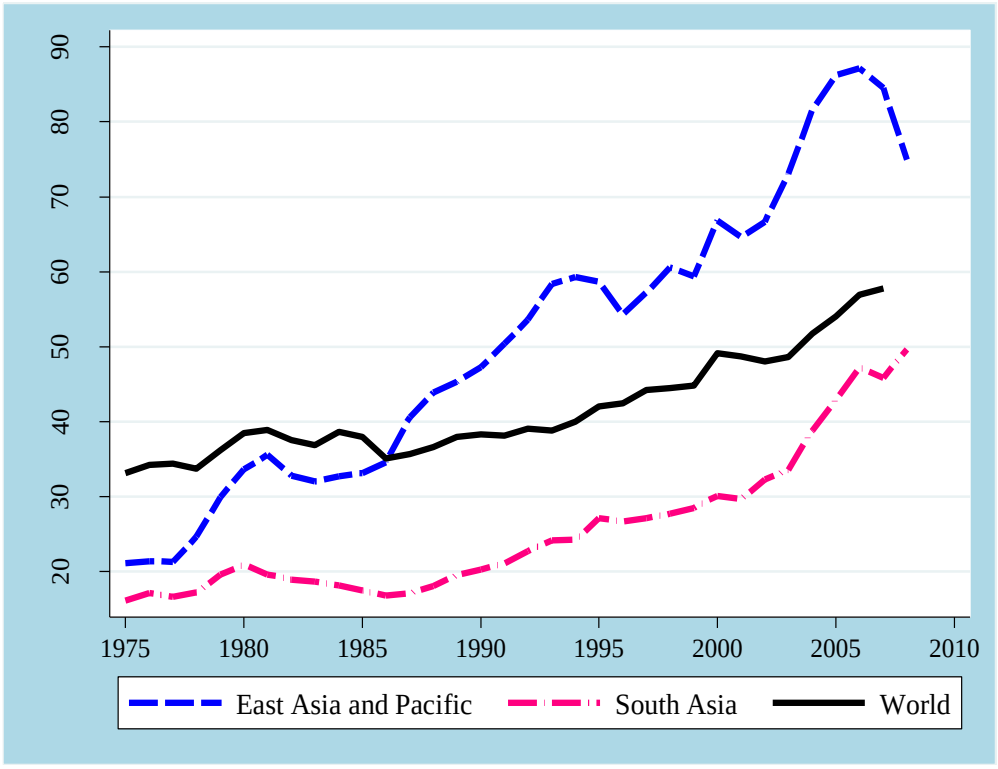

Figure 4.6 Comparative Trend of Trade between the EAP, SA and the World (1975-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

Figure 4.6 shows the comparative trend of international trade among the EAP, SA and the world from 1975 to 2007. Trade is the sum of exports and imports of goods and services measured as a share of GDP. The trend lines are drawn from the data on total trade taken from the World Development Indicators (WDI) online database. As expected, the trade share of GDP in the EAP region is much higher than the SA region and has been even higher than the world average since 1985.

Interestingly, the growth trend of the trade to GDP ratio is much faster in the EAP region than in the SA region and the world average. As Winters (2006) and many others argue that trade liberalization generally stimulates medium term economic growth, which generally alleviates poverty, EAP countries became very keen towards international trade and could take expected benefits from it, which can be observed from their relatively faster progress on QOL indicators in the following section.

In terms of value, foreign trade in the EAP region rose from about 21% of GDP in 1975 to nearly 87% in 2006. Although the ratio dropped to nearly 70% in 2007 due to the beginning of the world-wide financial crisis, the trend is expected to grow as the crisis is gradually settling down. Whereas, the world trade to GDP ratio rose from nearly 33% to 57% during the same period. The ratio was around 35% for both the EAP region and the world around 1987. In the case of the SA region, the trend of the trade to GDP ratio rose from nearly 17% in 1975 to 50% in 2007. The trend became

moderately rapid from 1985 to 2002 and has sharply increasing since then. This indicates that trade is the one of the major contributors to rapid overall globalization in the EAP region.

Another important driver of globalization, FDI, is considered a significant contributor to economic development and hence QOL enhancement. For instance, Urata and Kawai (2000:79) and Kiyota and Urata (2004:1501) argue that financial resources received from FDI could expand production, technology and managerial know-how, and promotes sales and employment in host countries. More specifically, in the short run, FDI increases aggregate demand within host economies. In the long run, the increase in the stock of capital raises the productivity of labor and leads to higher incomes, which further increase aggregate demand, and ultimately lead to economic growth. Furthermore, the transfer of technology from industrial to developing economies also positively affects growth in the long run. Many scholars, particularly economists, argue that the transfer of technology may be the primary benefit of FDI (French, 1998).Consequently, policy makers tend to encourage FDI. Furthermore, LICs consider FDI an important ingredient in their poverty reduction strategy. This issue is discussed in length in the next chapter, which assesses poverty reduction strategy papers (PRSPs) in terms of the key elements of globalization.

Because of policies that have removed restrictions on FDI in recent years, it can be observed as a dramatic expansion of FDI in the Asia-Pacific region. Figure 4.7, which shows the comparative trend of FDI inflows in % of GDP for both the world and DCs from 1975 to 2007, reveals that FDI inflows in the EAP region started to rise sharply around 1986 and in the SA region after 2000. The nature of the trend of the world average is similar to the trend of the EAP region, but the level of FDI to GDP ratio is far higher than the world average in general. This trend for the SA region is far below the world average. However, since the beginning of the last decade, FDI inflows in SA have increased dramatically, and met the EAP and world average in 2007. The FDI trend is more volatile than the trade trend.

As per the World Investment Report (WIR) 2001 of the United Nations Conference on Trade and Development (UNCTAD), FDI inflow reached its highest point at US$1.3 trillion in 2000, fuelled by cross border mergers and acquisitions.[46] On the other hand, the sharp decline of FDI by 51% in 2001 was due to the reversal after steady growth since 1991, together with sharp rises in 1999 and 2000 (WIR 2002:3) This decline, primarily in the developed world, indicates "the slowing of economic activity in major industrial economies and a sharp decrease in their stock market activity" (Ibid).

[46] For example, "due to the take-over of Mannesmann by VodafoneAirTouch – the largest cross-border merger deal so far – Germany became, for the first time, the largest recipient of FDI in Europe" (WIR 2001: xiii).

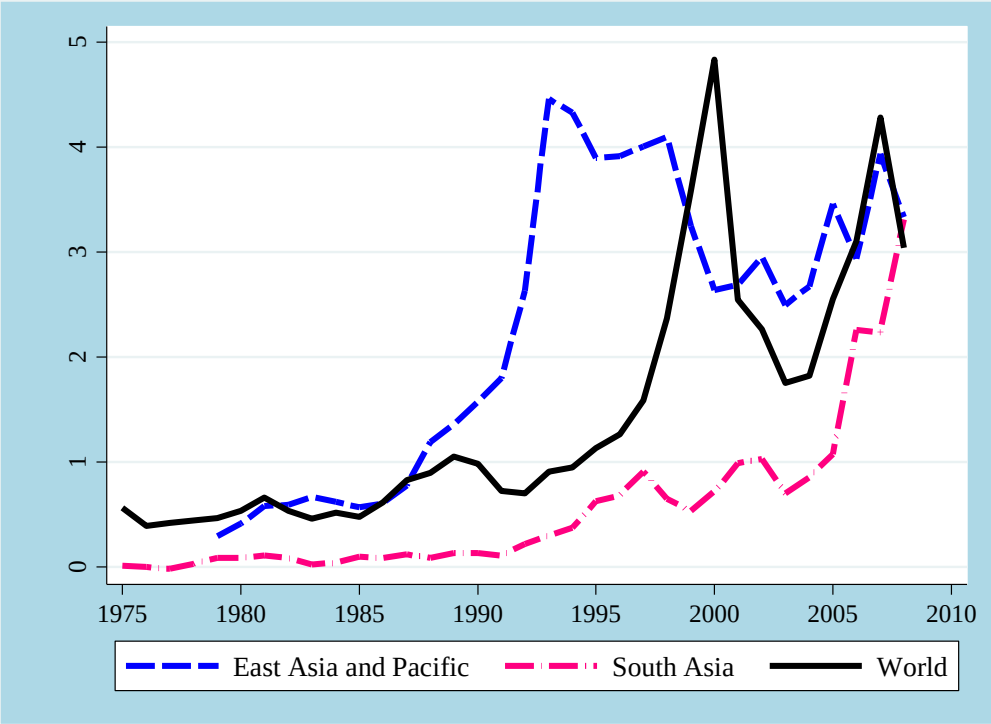

Figure 4.7 Comparative Trend of FDI between the EAP, SA and the World (1975-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

FDI flows declined for only three years, then started to surge again from 2004 until 2007, WIR 2008 revealed. Relatively high economic growth in the developing world rose the reinvested earnings that accounted for about 30% of total FDI inflows as a result of increased profits of foreign affiliates, cross-border mergers and acquisitions, which at their peak value amounted to $1,637 billion, 21% higher than the previous record in 2000, and to some extent, the significant depreciation of the dollar against other major currencies. In spite of the acute global financial crisis, the average growth rate of global FDI flows was still 23% in 2007 (Ibid, p. xv-xvi).

Technological development, particularly the development of ICT, has been always an important catalyst for globalization, and it has a direct impact on QOL. Thus, this study considers ICT another key element of globalization. The role of ICT in development and QOL is widely discussed in the literature (e.g., Heeks and Arun, 2006; Madon, 2005; Bhatnagar and Schware, 2000; Avgerou, 1998). It is generally argued that the dramatic spreading of ICT is rapidly transforming millions of people's lives, their way of doing business, their access to information and services, and how they communicate with each other and entertain themselves. It boosts the global economy and strengthens democracy and human rights. The World Economic Forum (2010) also acknowledges the role ICT is playing as a "critical enabler to sustainable socio-economic growth and also a vital ingredient for effective global

as well as regional co-ordination in the creation of larger markets." In fact, ICT itself is one of the most contributing factors for the recent rapid trend of each aspect of globalization.

Figure 4.8 shows the comparative trend of telephone and/or mobile users between the EAP, SA and the world. To capture the ICT trend, it uses the percent of people subscribing to mobile and/or telephone services. Like the FDI inflow trend, ICT growth in the SA region started rather late compared to the EAP and the world. Mobile and telephone subscribers went up dramatically in the EAP region around 1993, whereas SA started to grow in 2003.

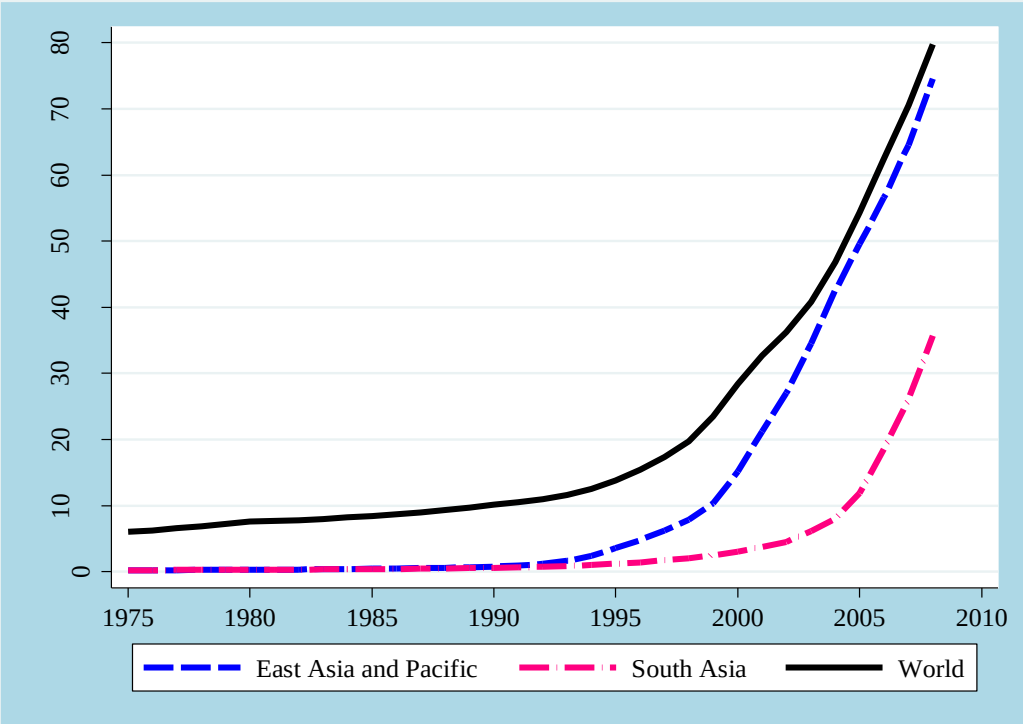

Figure 4.8 Comparative Trend of ICT between the EAP, SA and the World (1975-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

Interestingly, the nature of the growth trends is quite similar, as all had rather flat trends until they started to grow, and then increased dramatically. If we observe the most recent situation, almost 80% of world's population had either a mobile phone or telephone in 2007. The ratio for the EAP was almost 75%, and for the SA about 35% the same year. This percentage for the world, EAP and SA regions in 1995 was about 13%, 2% and less than 1%, respectively. As ICT infrastructure is expected to continue to grow, governments should also give due attention to utilize ICT to improve people's QOL.

Another important element of globalization is the movement of people, particularly international migration. This study considers the international movement of workers as another key element of globalization. There is a large amount of literature, particularly written in recent decades,

that argues that migration contributes to the economic wellbeing of countries in many ways. For example, the OECD (1998) argues that the transfer of expatriates from their home countries to host countries facilitates the transfer of management expertise, which in turn increases performance and the repatriation of income. Additionally, jobs acquired in foreign countries reduce unemployment rates at home. Migration also facilitates cultural interactions and diversity. Emigration can greatly affect those left behind. Entire communities can be lifted out of poverty by the steady flow of remittances from migrant Diasporas. They can build businesses and trade and investment networks, and facilitate the transfer of technology between destination and source countries, which can lead the community to progress and prosperity (Goldin and Reinert, 2007). In their empirical analysis using a new data set on international migration, remittances, inequality, and poverty from 71 developing countries, Adams and Page (2005) found that a 10% increase in the share of international migrants in a country's population will lead to a 2.1% decline in the share of people living on less than $1.00 per person per day. After instrumenting for the possible endogeneity of international remittances, they found that a similar 10% increase in per capita of official international remittances will lead to a 3.5% decline in the share of people living in poverty.

As remittance is the major benefit to lower income countries from international migration, this study uses the %age of GDP of workers' remittances and payments officially received by employees, hereafter *remittances*. According to the WDI online database, "Workers' remittances and compensation of employees" comprise of current transfers by migrant workers and wages and salaries earned by nonresident workers. These data combine the following items: workers' remittances, compensation of employees, and migrants' transfers, where remittances are classified as current private transfers from migrant workers resident in the host country for more than a year, irrespective of their immigration status, to recipients in their country of origin. Migrants' transfers are defined as the net worth of migrants who are expected to remain in the host country for more than one year that is transferred from one country to another at the time of migration. Finally, compensation of employees is the income of migrants who have lived in the host country for less than a year. Data, in % of GDP, are in current US dollars.[47]

[47] The definitions are summarized from the WDI online data base home page: http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT (accessed in May 9, 2010).

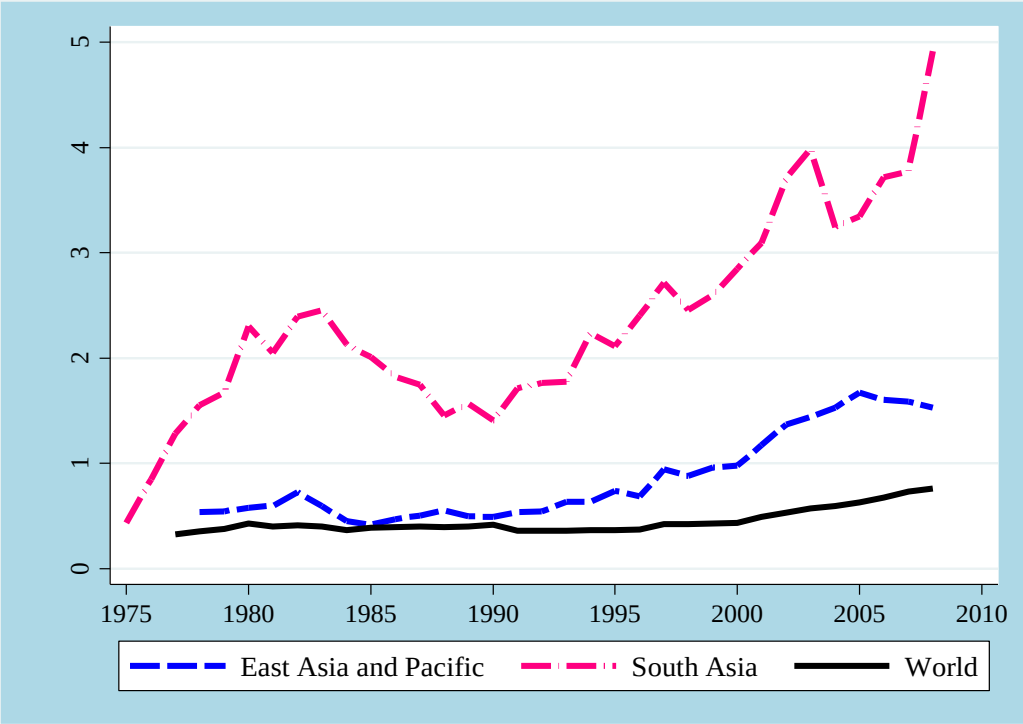

Figure 4.9 Comparative Trend of Remittances between the EAP, SA and the World (1975-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

Figure 4.9 shows the comparative trend of remittance in the EAP, SA and the world. It clearly shows that a remittance for the SA region is very important as its ratio to GDP is high for the region. The remittance to GDP ratio to SA was nearly 5% in 2007, whereas this ratio for the EAP and the world were about 1.5% and 0.8%, respectively. It is interesting to note that in the initial year the remittance level for SA was not different from the EAP and the world. Furthermore, the trend has been growing faster than that of the world and the EAP, even after 2005. If the unofficial flow of remittance were also included, the picture would be more interesting. The World Bank expects that unofficial remittances equal 40-50% of official remittances, so the amount could be very high.[48] This all reveals that remittance is increasingly important for people of lower income countries in the region for their development and improving QOL.

After comparing the key elements of globalization, the trend of overall globalization of selected countries in the world is examined. Although this study intended to cover all countries from the EAP and SA regions, some countries cannot be included because of limited data. According to the World Bank there are 27 countries from the EAP region: Australia, Cambodia, China, Fiji, Indonesia, Kiribati, South Korea, Japan, Laos, Malaysia, the Marshall Islands, FS Micronesia, Mongolia, Myanmar, New

[48] At the International Technical Meeting on Measuring Remittances of the World Bank in January 24-25, 2005, Richard H. Adams, Jr. reported the figure in his report, "Using Household Surveys to Study Remittance Flows in Developing Countries."

Zealand, the Pacific Islands, Papua New Guinea, the Philippines, Samoa, Singapore, the Solomon Islands, Thailand, East Timor, Tonga, Vanuatu and Vietnam. Similarly, there are eight countries belonging to the SA region: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Among these 35 countries, only 19 are included in the sample as others do not have sufficient data for the analysis. However, although Australia and New Zealand have sufficient data, both are excluded as they have had similar development levels as Japan, the benchmark country of this study, since 1975. The reason for taking Japan as the benchmark country for the study of convergence in the region is explained in the next section. A brief explanation of the globalization trend and background information of each selected country follows.

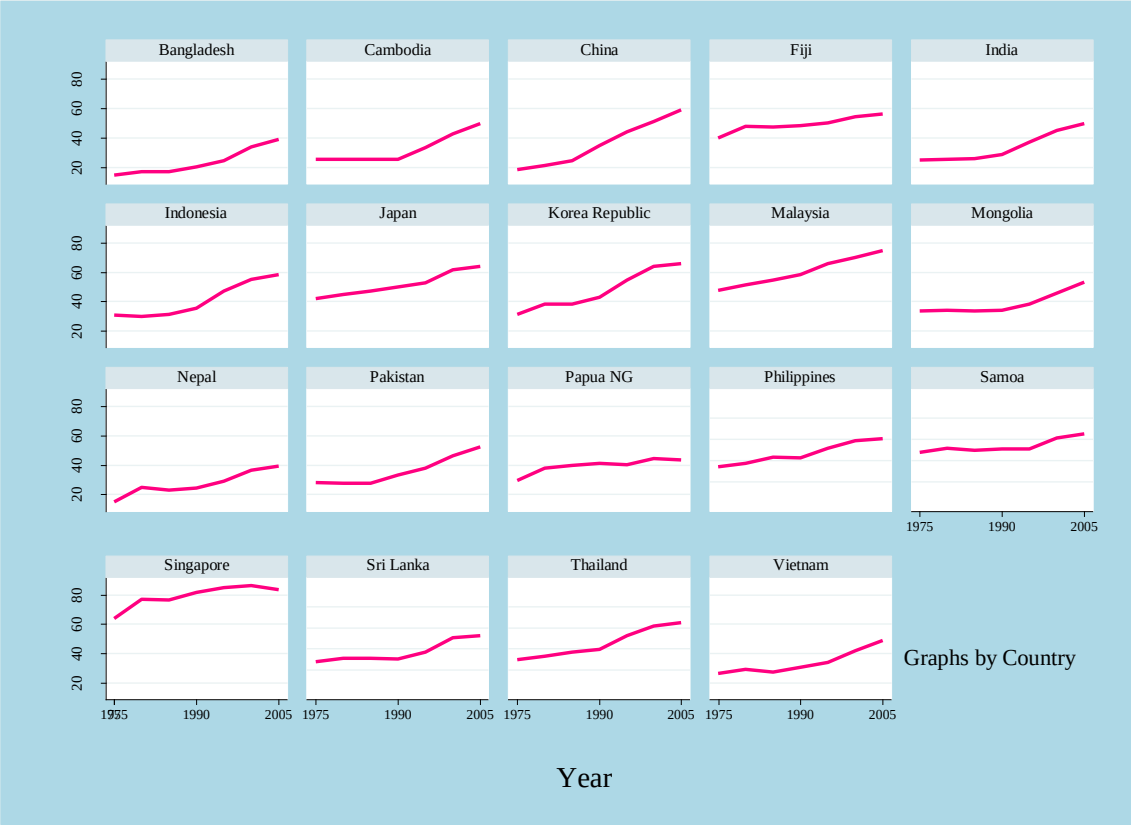

Figure 4.10 Globalization Trend of Selected Asian Countries (1975-2005)

Source: Calculations done by the author based on data from Dreher (2006).
Updated data can be found at: http://globalization.kof.ethz.ch/ (accessed in May 5, 2010).

Among the selected 19 countries, 14 are from the EAP region: Cambodia, China, Fiji, Indonesia, South Korea, Japan, Malaysia, Mongolia, Papua New Guinea, the Philippines, Samoa, Singapore, Thailand, and Vietnam. The remaining five countries are from the SA region: Bangladesh, India, Nepal, Pakistan and Sri Lanka. Figure 4.10 shows the trend of overall globalization in terms of the

KOF index in the selected 19 countries. As can be seen, globalization trends are not very different among Asian countries. However, poorer countries such as Nepal and Bangladesh appear to have low levels of globalization. As expected, newly industrialized countries such as Singapore and South Korea have higher levels of globalization. Surprisingly, these countries are marked by even higher levels of globalization than Japan, the 2nd largest economy in the world in terms of real GDP value.

QOL in the Asia-Pacific: The main dependent variable of this study is QOL. Like globalization QOL is also vague concept. There is no one accepted definition of QOL, although an extensive literature has emerged on this subject matter over the past thirty years. Generally, scholars tend to use human/social wellbeing, human/social welfare, and human development synonymously with QOL. Conceptually, however, QOL is considered the outcome of the interaction of social, health, economic, and environmental factors that jointly affect both human and social development in many ways. QOL is "the notion of human welfare (wellbeing) measured by social indicators rather than by "quantitative" measures of income and production" (United Nations Glossary 2009).

When people talk about QOL, happiness is generally considered the most aggregate measure even though happiness is a far more subjective term that cannot be measured well. However, in 1972, Bhutan's King Jigme Singye Wangchuck introduced the concept of Gross National Happiness (GNH) as the main index for defining QOL in more holistic and psychological terms that, he claimed, can replace the Gross National Product (GNP), the primary measure of national development. While all other countries focused on economic growth as the ultimate objective, GNH based on the premise that human society's true development would take place when material and spiritual development occur side by side, complementing and reinforcing each other. Bhutan's four pillars of GNH are (1) good governance and democratization (2) the promotion of sustainable development (3) the preservation and promotion of cultural values (4) the conservation of the natural environment.[49]

There are two types of QOL measures, or indicators, namely, subjective and objective. Subjective indicators reflect subjective evaluations of people's lives. They represent an individual's perception of one's wellbeing and responses obtained in sociological surveys and investigations (Shin and Johnson 1978), whereas objective QOL measures are based on easily measurable variables. The approach aims to investigate society as a whole by looking a set of macroeconomic, social, demographic indicators which determine the conditions of life and the way people live (Campwell, Converse and Rodgers 1976). Hence, for this study objective indicators are more appropriate as the objective is to compare the progress of countries rather than individuals.

In QOL research, the United Nation's HDI is often used to measure QOL. Considering its popularity as well as its availability of data, this study uses the HDI, which is developed by the United

[49] Details on the GNH are available at: http://www.grossnationalhappiness.com/default.aspx (Retrieved in June 12, 2010).

Nations Development Program (UNDP), as the overall QOL indicator. Although HDI does not include all aspects of QOL, it broadly summarizes the level of QOL in a single indicator (Sen, 2000). According to the Human Development Report 2007/08 (UNDP, 2008), HDI involves three key sub-constructs with corresponding measures: health or longevity (measured by life expectancy at birth indicators), knowledge or education (measured by adult literacy rates and combined enrollment ratios), and an adequate standard of living or income (measured by adjusted per capita income in dollar PPP). See Section 3.2.2 of the previous chapter for a detailed explanation of the index.

Figure 4.11 presents the trend of HDI across world regions from 1975 to 2005. The general observation is that Sub-Saharan Africa has the lowest HDI, followed by SA; this fact is consistent with globalization trends. Notably, the EAP region took a more rapid pace of human development from the beginning of the 90s and surpassed the global average around the beginning of the 21st century. This was because of its high and shared economic growth as per the World Bank (2002).

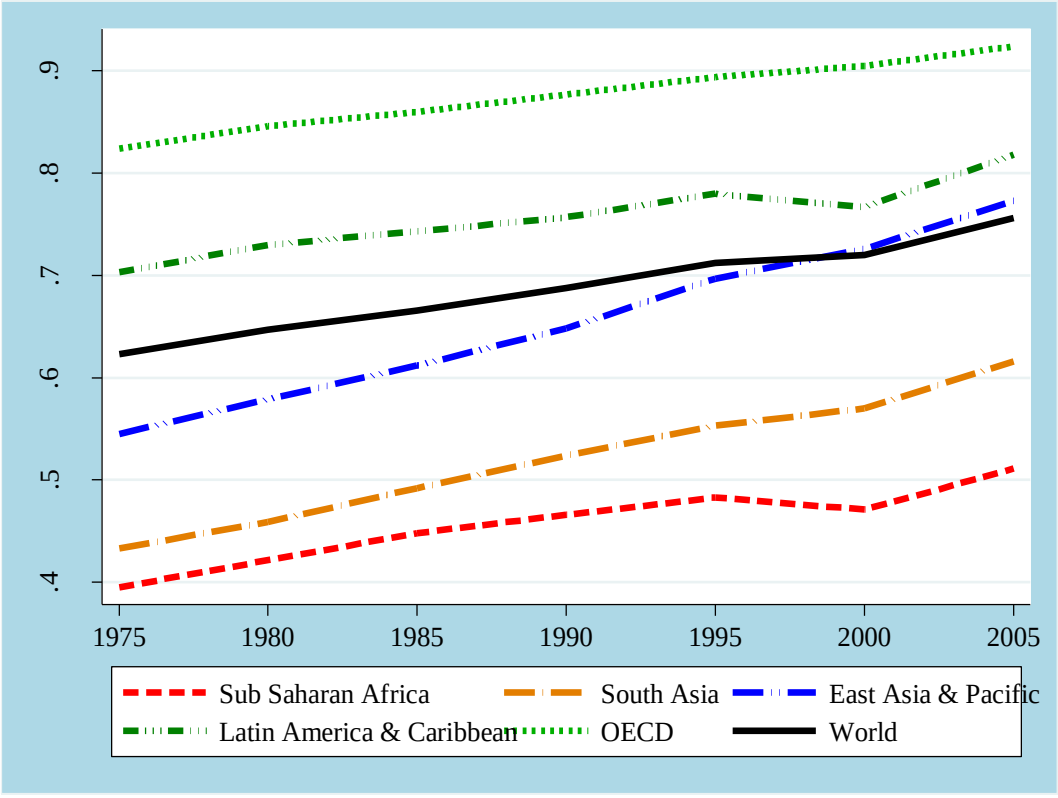

Figure 4.11 Human Development Trend across World Regions (1975-2005)

Source: Calculations done by the author based on UNDP (2009). Updated data also available at: http://hdr.undp.org/en/statistics/data/ (accessed in May 3, 2009).

Figure 4.12 shows the HDI trend of each selected county. Generally, every country has an upward trend of HDI. However, some countries have steeper trends while others have flat trends. Japan has had the highest level of HDI since the beginning of the study period. Other high QOL countries are South Korea and Singapore. Some of the low level QOL countries are Nepal, Cambodia,

Papua New Guinea, Pakistan, India, and Vietnam. These low HDI countries, however, have rather steep trends of HDI.

HDI is the overall indicator of QOL, but how about each component of HDI? The following figures compare the trends of each component of HDI across the EAP, SA and the world. Figure 13 shows the life expectancy at birth trends. Life expectancy represents the health aspect of QOL. Generally, the trend goes upward for the regions and the world. However, the trend is rapid for both the EAP and SA compared to the world average. This indicates that both regions from the Asia Pacific are progressing faster than elsewhere in the world.

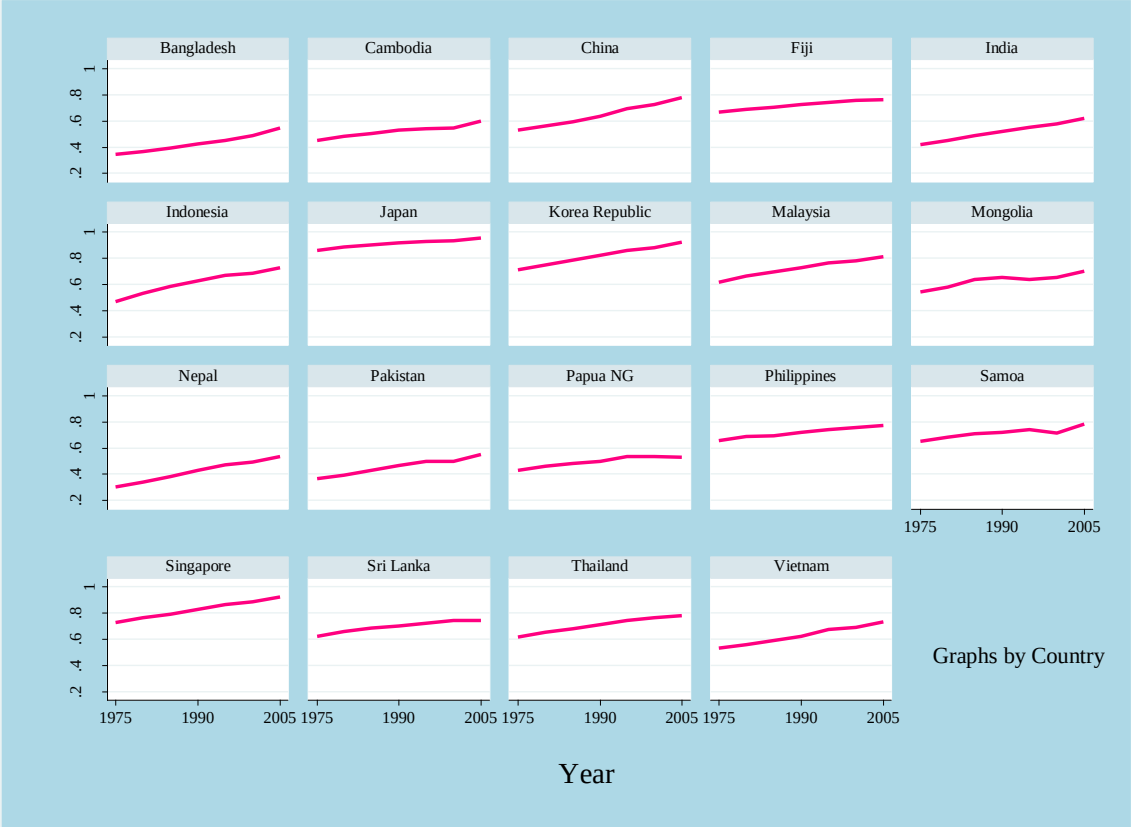

Figure 4.12 Human Development Trend of Selected Asia-Pacific Countries (1975-2005)

Source: Calculations done by the author based on UNDP (2009). Updated data also available at: http://hdr.undp.org/en/statistics/data/ (accessed in May 3, 2009).

Similar trends can be observed for adult literacy (Figure 4.14). However, the trends have become rather flat since 2000 for the world and both regions. One possible reason for the slower progress since 2000 could be the launch of the Millennium Development Goals (MDGs) by the UN, which emphasize primary school enrollment. As a result, governments in developing countries, particularly in LICs, put more effort on universal access to primary education.

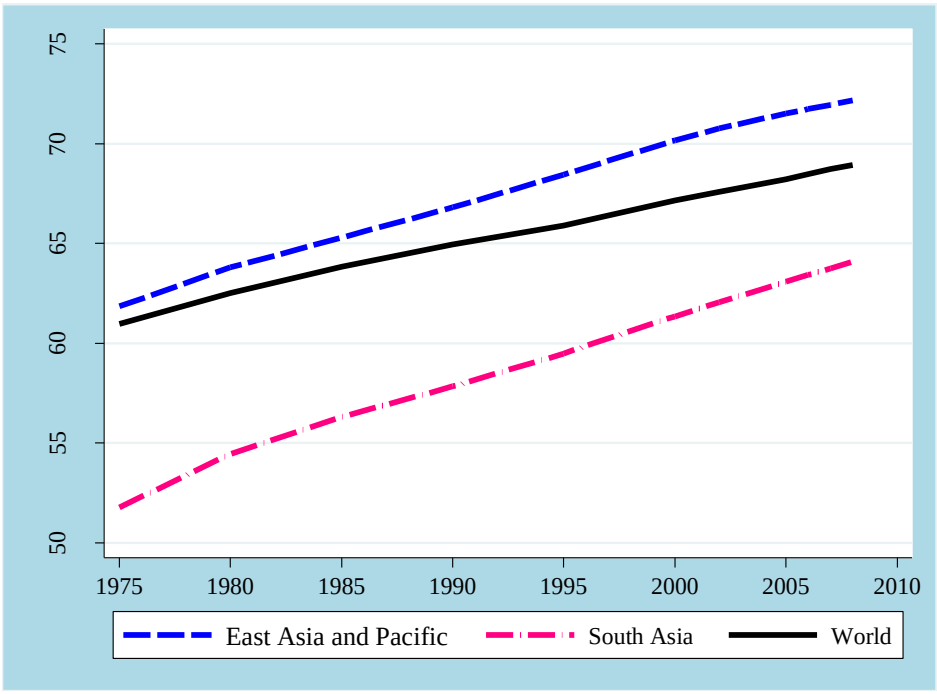

Figure 4.13 Life Expectancy Trends of EAP, SA and the World (1975-2005)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

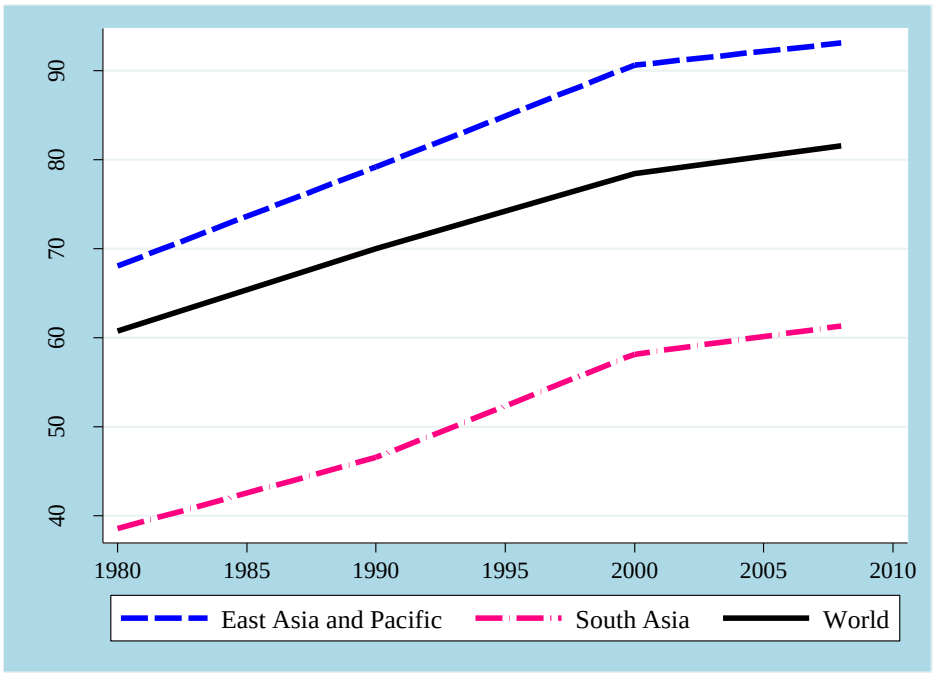

Figure 4.14 Adult Literacy Trends of EAP, SA and the World (1980-2005)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

School enrollment is another component of HDI. Figure 4.15 shows the trends for gross secondary school enrollment. An interesting feature can be seen in the figure, whereby the EAP region has been progressing rapidly. While its secondary enrollment was below (at 42%) the world average (50%) in 1991, the rate crossed the world average around 1999 and reached nearly 73%, above the world average (67%), in 2007. SA trends follow the world trend but with big gap. SA secondary enrollment was about 37% in 1991 and reached 52% in 2007.

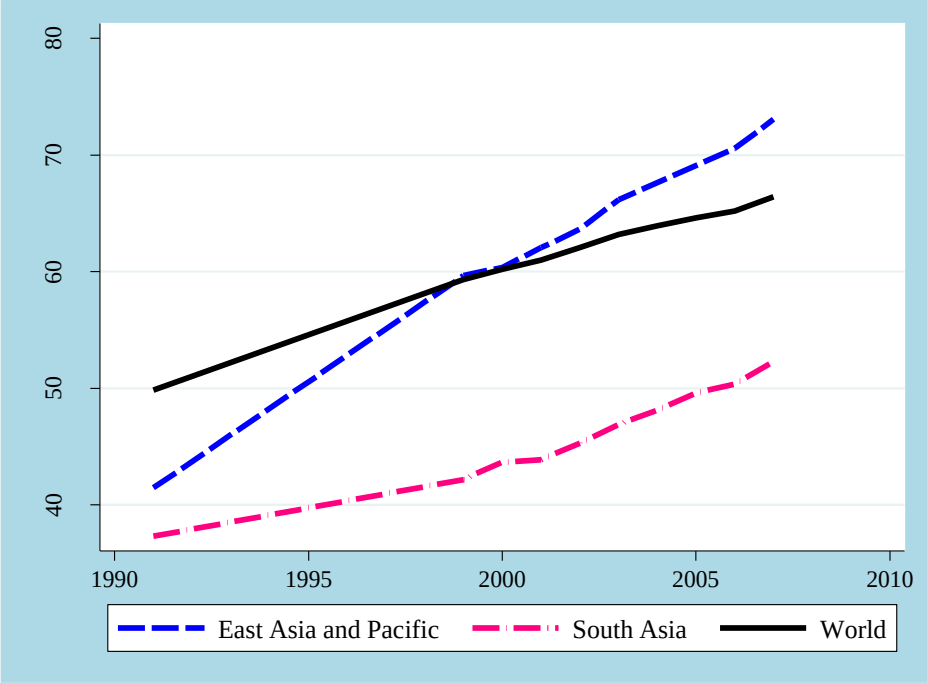

Figure 4.15 Secondary School Enrollment Trends of EAP, SA and the World (1990-2007)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

Finally, GDP per capita is another component of HDI used to capture the income aspect of QOL. This is the most used indicator in QOL and other economic research, which primarily measures the development level of a country or region. The graph for both the level and growth of GDP per capita is presented in the following tables. Figure 4.16 reveals that the GDP per capita of the EAP and SA were almost the same in 1980. However, the EAP rose so rapidly that it nearly followed the world trend. Noticeably, the EAP trend has become more rapid since 1999.

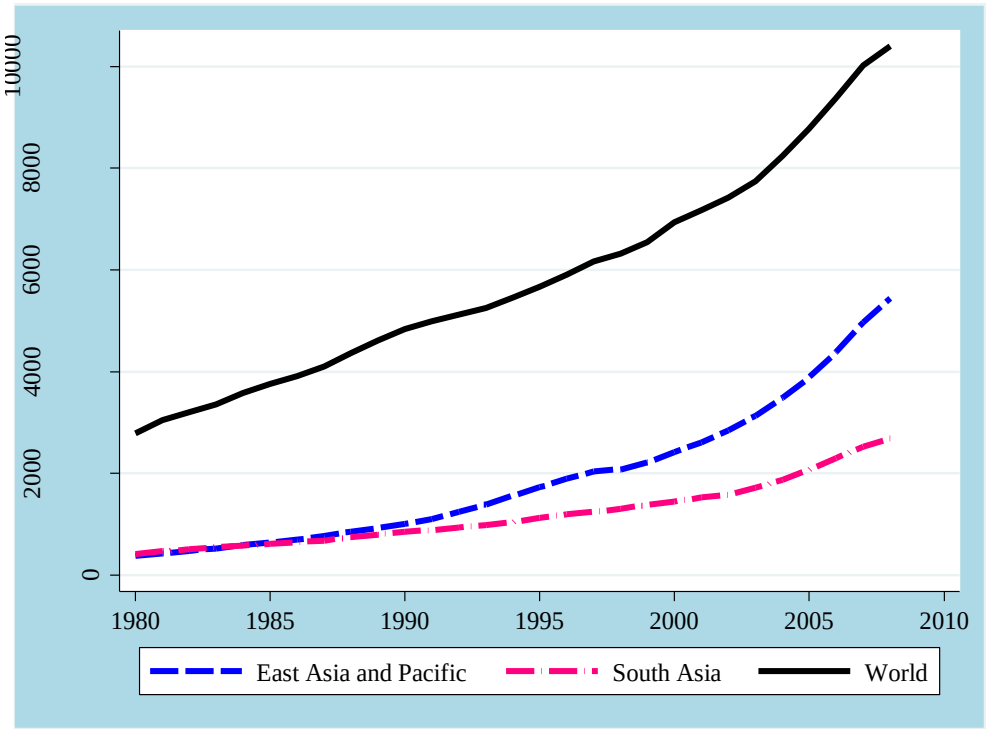

Figure 4.16 GDP per Capita Trends of the EAP, SA and the World (1975-2005)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

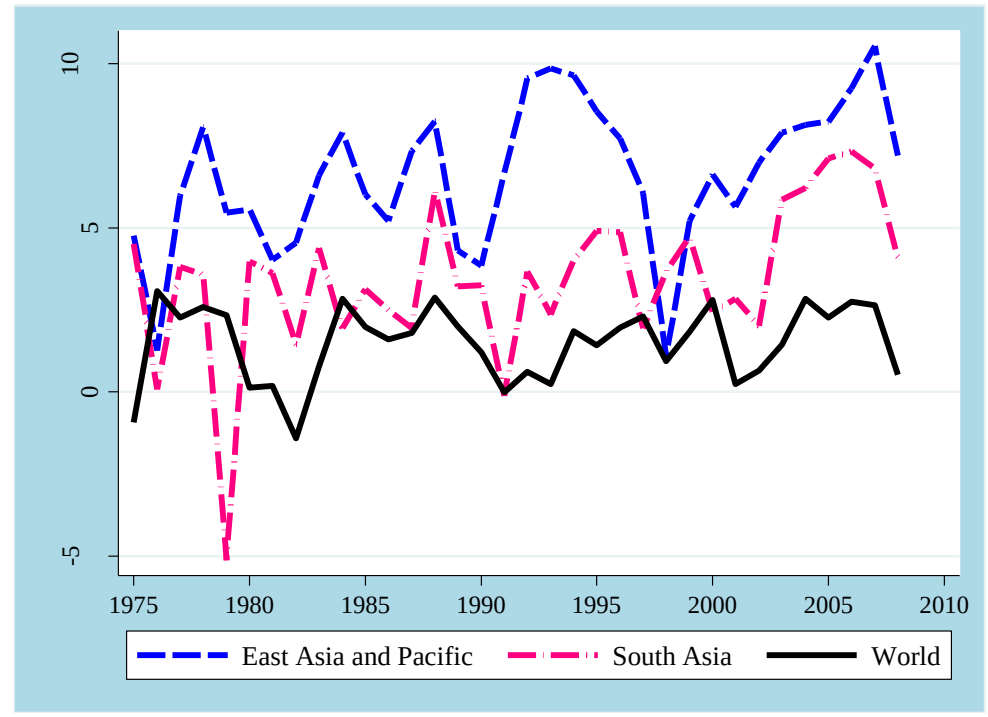

Figure 4.17 GDP per Capita Growth Trend of the EAP, SA and the World (1975-2005)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

GDP per capita growth is widely used to measure the success of economic development. Thus, Figure 4.16b shows the growth trends for GDP per capita. Growth trends show the progress rates of each region and the world. As can be seen in Figure 4.17, the EAP has the strongest growth rate, SA is in the middle, and the world average is the lowest over the period. Therefore, it is evident that the Asia Pacific region has progressed more in economic development than other regions of the world. The SA region has sharply fallen, and even reached negative growth in 1979. The EAP fell drastically in 1998 but did not go below the world average. The next section demonstrates the trend of convergence more concretely.

Brief Introduction of Selected Countries: Although this study do not intend to focuses on each country in its empirical analysis, it is worthwhile to understand general feature of each selected country. Thus, countries are introduced in terms of their globalization and development experiences, focusing on their QOL indicators. The countries are discussed in alphabetical order, starting from the EAP countries. The entire data presented in this section are taken from the WDI online data base of the World Bank unless otherwise specified. However, HDI, GDI and HPI-1 are taken from *HDR 2009* of the UNDP (2010) and globalization indexes from KOF Swiss Economic Institute.[50]

Cambodia is one of the world's poorest nations, with a total population and GDP of about 14.5 million and $10.3 billion, respectively, in 2008. While GDP per capita in purchasing power parity (PPP) terms is $1950, life expectancy at birth was nearly 61 years and secondary school enrollment (gross) was 41% that same year. The county has a relatively high degree of poverty and inequality, 25.84% (% of population living below the poverty line) when measured by the poverty headcount ratio at $1.25 a day in PPP terms. The Gini Index, a measure of income inequality of a country was 44.2 in 2007. Civil unrest, started in the 1970s, disrupted Cambodia's fledgling manufacturing industry and severely damaged road and rail networks. Even before the civil conflict, Cambodia lacked significant industrial development, with most of the labor force engaged in agriculture. However, the country was self-sufficient in food, and even could export significant amounts of rice and corn. The civil war that started in 1970 and ended in 1975 placed the Khmer Rouge regime in power from 1975 to 1979. In 1975 the newly installed Khmer Rouge government nationalized all means of production in Cambodia. Money and private property were abolished, and agriculture was collectivized (ownership was transferred to the people as a group, represented by the state). Between 1976 and 1978, hundreds of thousands of people died from malnutrition, overwork, and mistreated or misdiagnosed diseases. The regime executed hundreds of thousands more people whom they judged to be enemies of the regime. The atrocities of the Khmer Rouge period decimated Cambodia's labor force. Furthermore, the Cambodia-Vietnam War lasted from 1978 to 1979. Collectively, these factors almost destroyed the

[50] Web site of KOF Swiss Economic Institute for KOF indexes is: http://globalization.kof.ethz.ch/

country's economy. It also disrupted the manufacturing industry, road and rail networks. After the end of Khmer Rouge regime in early 1979, the government's grip on agricultural production loosened, and millions of Cambodians attempted to resume their lives as subsistence farmers. By opening up its economy to the regional as well as global economy, Cambodia once again achieved self-sufficiency in rice production and began to export small quantities of rice by the mid-1990s. The country's infrastructure improved gradually after the 1990s, largely due to massive infusions of foreign assistance and globalization.

According to the HDR 2009 of the UNDP (2010), Cambodia belongs to the group of Middle Human Development countries.[51] The country's HDI is 0.593, the GDI is O.588 and the HPI-1 is 27.7 in 2007. Cambodia's KOF indexes of overall, economic, social and political globalization are 49.08, 66.84, 24.34 and 61.65 respectively for the same year.

China is the most populous country in the world. The population of China is over 1.3 billion, accounting for 20 % of the world's population. China's GDP was $4.3 trillion, standing in third place after the US and Japan, in 2008. However, China stood as the second-largest economy in the world after the US in 2009 in PPP price. The GDP per capita is still $6,600, which places the country in the lower middle-income group. Although the country's poverty headcount rate dropped to nearly 16% in 2005, the inequality also raised to 41.53 in terms of the Gini Index. China's progress on life expectancy, adult literacy and secondary school enrollment is impressive, reaching 73 years, 93.7% (in 2008), and 74% (in 2007), respectively. The country's economy during the past 30 years has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. Annual inflows of foreign direct investment rose to nearly $108 billion in 2008. Economic development has been more rapid in coastal provinces than in the interior, and approximately 200 million rural laborers and their dependents have relocated to urban areas to find work. One demographic consequence of the "one child" policy is that China is now one of the most rapidly aging countries in the world. Deterioration in the environment - notably air pollution, soil erosion, and the steady fall of the water table, especially in the north - is another long-term problem. As a consequence of the recent global economic crisis, demand for Chinese exports declined in 2009 for the first time in many years. The government, however, promised to continue reforming the economy. To reduce the export dependency it emphasized increasing domestic consumption.

China also belongs to the group of Middle Human Development countries. The country's HDI is 0.772, the GDI is O.77 and the HPI-1 is 7.7 in 2007. The country's KOF indexes of overall, economic, social and political globalization are 62.68, 56.82, 53.1 and 86.6 respectively for the same year.

[51] UNDP's HDR classifies countries as Lower Human Development countries whose HDI value is less than 0.499, Middle Human Development for whose HDI is from 0.5 to 0.799 and High Human Development Countries for countries having HDI more than 0.8.

Fiji, the Republic of the Fiji Islands, became independent in 1970 after nearly a century as a British colony. In 2008, the total population and GDP of this small country were about 0.84 million and $3.6 billion, respectively. While GDP per capita in PPP terms is $4,358, life expectancy at birth was nearly 68.9 years and secondary school enrollment (gross) was 80.9% that same year. Repeated political conflict has been obstructing the country's economic progress. Two military coups in 1987 and 2006 not only stalled the globalization process but also undermined the democracy. However, because of its rich natural resources such as forest, mineral, and fish resources, Fiji remained one of the most developed among the Pacific island economies. Sugar exports, remittances and a growing tourist industry (with 400,000 to 500,000 tourists annually) are the major sources of foreign exchange. Fiji's tourism industry was damaged by the December 2006 coup and is facing an uncertain recovery time. The coup has created a difficult business climate. The EU has suspended all aid until the interim government takes steps toward new elections. Long-term problems include low investment, uncertain land ownership rights, and the government's inability to manage its budget.

Fiji also belongs to the group of Middle Human Development countries. The country's HDI is 0.741, the GDI is O.732 and the HPI-1 is 21.2 in 2007. The country's KOF indexes of overall, economic, social and political globalization are 62.68, 56.82, 53.1 and 86.6 respectively for the same year.

Indonesia is the most populous Southeast Asian tropical country consisting of 17,000 islands (6,000 inhabited). In 2008, its total population was 227.34 million and GDP at current price PPP was about 510.73 billion. While GDP per capita in PPP terms was $3,993, life expectancy at birth was nearly 71 years in 2008 and secondary school enrollment (gross) was 75.8% in 2007. Indonesia also has high degree of poverty and inequality, 29.4% when measured by the poverty headcount ratio at $1.25 a day. The Gini Index was 37.58 in 2007. Although the Indonesian economy slowed significantly from the 6% plus growth rates recorded in 2007 and 2008 to 4% in the first half of 2009, Indonesia outperformed its regional neighbors. Including China and India, Indonesia is the only G20 member posting growth during the recent economic crisis. The government made economic advances under the first administration of President Susilo Bambang Yudhoyono, introducing significant reforms in the financial sector, including tax and customs reforms, the use of Treasury bills, and capital market development and supervision. Indonesia's debt-to-GDP ratio in recent years has declined steadily because of increasingly robust GDP growth and sound fiscal management. However, as explained earlier, Indonesia still struggles with poverty and unemployment, inadequate infrastructure, corruption, a complex regulatory environment, and unequal resource distribution among regions.

Indonesia belongs to the group of Middle Human Development countries. The country's HDI is 0.726, the GDI is O.77 and the HPI-1 is 17 in 2007. The country's KOF indexes of overall, economic, social and political globalization are 57.8, 65.13, 33.05 and 85.97 respectively for the same year.

Japan is the first OECD member country from Asia. Japan's total population is 127.7 million and GDP was $4.9 trillion, remaining the second largest economy after the US in real dollar terms, in 2008. Japan's GDP per capita in PPP terms is $34,129. Life expectancy at birth was nearly 83 years and secondary school enrollment (gross) was 100 % that same year. Japan is considered a model economy of the Asian continent. After World War II, Japan became an economic power and an ally of the US. While the emperor retains his throne as a symbol of national unity, elected politicians hold actual decision-making power. Following three decades of unprecedented growth, Japan's economy experienced a major slowdown starting in the 1990s, but the country remains a major economic power. Government-industry cooperation, a strong work ethic, mastery of high technology, and a comparatively small defense allocation (1% of GDP) all helped Japan develop a technologically advanced economy. Today, measured on a PPP basis, Japan is the third-largest economy in the world after the US and China; measured by official exchange rates, however, Japan is the second largest economy in the world behind the US. Japan's industrial sector is heavily dependent on imported raw materials and fuels. A tiny agricultural sector is highly subsidized and protected, with crop yields among the highest in the world. Usually self sufficient in rice, Japan imports about 60% of its food on a caloric basis. Japan's economic growth is considered a surprise that accounted for a 10% average in the 1960s, a 5% average in the 1970s, and a 4% average in the 1980s. Growth slowed markedly in the 1990s, averaging just 1.7%, largely because of inefficient investment and an asset price bubble in the late 1980s that required a protracted period of time for firms to reduce excess debt, capital, and labor. In 2007, Japan's longest post-war period of economic expansion ended and Japan entered into a recession in 2008. However, since 2009 Japan has been recovering gradually and is expected to grow in 2010. In January 2009, Japan assumed a nonpermanent seat on the UN Security Council for 2009-10.

Japan belongs to the group of High Human Development countries in the region. The country's HDI is 0.96in 2007, which is the highest among all the selected countries. Japan's GDI is O.945. As Japan is developed country, there is no HPI-1 for Japan. The country's KOF indexes of overall, economic, social and political globalization are 68.16, 54.44, 67.56 and 89.63 respectively for the same year.

The Republic of **Korea**, also known as South Korea, is one of the most successful countries in East Asia and recently became a member of the OECD. The total population of Korea was 48.6 million and GDP was $929.12 billion in 2008. GDP per capita was $27,657 in PPP terms, life expectancy at birth was nearly 80 years and secondary school enrollment (gross) was 98% that same year. The Korean achievement of economic growth and global integration since the 1960s lead the country to a high-tech industrialized economy. Just four decades ago, GDP per capita was comparable with levels in the poorer countries of Africa and Asia. Currently, Korea is among the world's twenty largest economies. Initially, a system of close government and business ties, including directed credit

and import restrictions, made this success possible. The government promoted the import of raw materials and technology at the expense of consumer goods, and encouraged savings and investment over consumption. The Asian financial crisis of 1997-98 exposed longstanding weaknesses in Korea's development model including high debt/equity ratios and massive short-term foreign borrowing. However, Korea adopted numerous economic reforms following the crisis, including greater openness to foreign investment and imports. Growth moderated to about 4-5% annually between 2003 and 2007. With the global economic downturn in late 2008, South Korean GDP growth slowed to 2.2% in 2008 and 0.2% in 2009. In the third quarter of 2009, the economy began to recover, in large part due to export growth, low interest rates, and an expansionary fiscal policy. The South Korean economy's long term challenges include a rapidly aging population, inflexible labor market, and overdependence on manufacturing exports to drive economic growth.

Republic of Korea is also belongs to the group of High Human Development countries. The country's HDI is 0.937, the GDI is O.926in 2007. The country's KOF indexes of overall, economic, social and political globalization are 64.73, 62.3, 52.18 and 88.23 respectively for the same year.

Malaysia became independent in 1957. The first several years of the country's history included a Communist insurgency and confrontation with the Philippines and Singapore. During the 22-year term of Prime Minister Mahathir bin Mohamad (1981-2003), Malaysia was successful in diversifying its economy from dependence on exports of raw materials to expansion in manufacturing, services, and tourism. In 2008, the total population and GDP were about 27.01 million and $221.8 billion, respectively. GDP per capita in PPP terms was $2,701 and life expectancy at birth was nearly 74 years that same year. Malaysia is a middle-income country in Southeast Asia. After coming to office in 2003, former Prime Minister Abdullah tried to move the economy farther up the value-added production chain by attracting investments in high technology, and introduced several reforms in the services sector in a bid to attract direct foreign investment, which has stagnated in recent years. As an oil and gas exporter, Malaysia has profited from higher world energy prices, although the rising cost of domestic gasoline and diesel fuel, combined with strained government finances, has forced the government to reduce government subsidies. The government is also trying to lessen its dependence on the state oil producer Petron as, which supplies 40% of government revenue. The central bank maintains healthy foreign exchange reserves, and its well-developed regulatory regime has limited Malaysia's exposure to riskier financial instruments and the global financial crisis. Nevertheless, decreasing worldwide demand for consumer goods hurt Malaysia's exports and economic growth in 2009, although both began showing signs of recovery late in the year.

Malaysia also belongs to the group of High Human Development countries. The country's HDI is 0.829, the GDI is O.823 and the HPI-1 is 6.1 in 2007. The country's KOF indexes of overall, economic, social and political globalization are 73.69, 77.89, 62.9 and 84.52 respectively for the same year.

Mongolia, located in northern Asia between China and Russia, had a total population of 2.64 million and a GDP of $5.26 billion in 2008. GDP per capita in PPP terms was $3,557, life expectancy at birth was nearly 66 years, adult literacy was 97 % and secondary school enrollment (gross) was 95 % that same year. The county had a very low poverty headcount rate of 2.24% and a moderate inequality rate, as measured by the Gini Index, of 36.57 in 2008. Although the Mongolian economy is based on traditional herding and agriculture, extensive mineral deposits have attracted foreign investors. The country holds copper, gold, coal, molybdenum, fluorspar, uranium, tin, and tungsten deposits, which account for a large part of foreign direct investment and government revenues. To account for the recent economic trend, growth averaged nearly 9% per year from 2004 to 2008 largely because of high copper prices and new gold production. By late 2008, as the country began to feel the effects of the global financial crisis, falling commodity prices helped lower inflation, but also reduced government revenues and forced cuts in spending. Mongolia's economy continues to be heavily influenced by its neighbors. Mongolia purchases 95% of its petroleum products and a substantial amount of electric power from Russia, leaving it vulnerable to price increases. Trade with China represents more than half of Mongolia's total external trade - China receives about two-thirds of Mongolia's exports. Remittances from Mongolians working abroad are extensive, but have fallen due to the economic crisis. Mongolia joined the World Trade Organization in 1997 and seeks to expand its participation in regional economic and trade regimes.

Mongolia belongs to the group of Middle Human Development countries. The country's HDI is 0.727, the GDI is O.727 and the HPI-1 is 12.7 in 2007. The country's KOF indexes of overall, economic, social and political globalization are 51.92, 67.16, 26.79 and 68.88 respectively for the same year.

Papua New Guinea, a Pacific island country, became independent in 1970. The population of the country was about 6.6 million and GDP was $8.24 billion in 2008. GDP per capita in PPP terms was $2,180, life expectancy at birth was nearly 61 years, and adult literacy was 49.6% that same year. Papua New Guinea is rich in natural resources, but exploitation has been hampered by a rugged terrain and the high cost of developing infrastructure. Eighty-five percent of its population lives as subsistence farmers. Mineral deposits including copper, gold, and oil account for nearly two-thirds of total exports. Numerous challenges, however, still face the government, including providing physical security for foreign investors, regaining investor confidence, restoring integrity to state institutions, promoting economic efficiency by privatizing moribund state institutions, and balancing relations with Australia, its former colonial ruler. Other socio-cultural challenges could upend the economy, including an HIV/AIDS epidemic, as the country has the highest infection rate in all of the EAP, and chronic law and order and land tenure issues.

Papua New Guinea also belongs to Middle Human Development country. The country's HDI is 0.541 and the HPI-1 is 39.6 in 2007. The country's KOF indexes of overall, economic, social and

political globalization are 46.8, 69.01, 24.91 and 45.3 respectively for the same year.

The **Philippines** is Southeast Asian country with a total population of 90.85 million and a GDP of 166.9 billion in 2008. GDP per capita in PPP terms was $3,512, life expectancy at birth was nearly 72 years, adult literacy was 93.6, and secondary school enrollment (gross) was 81.36% that same year. The county had 22.62% of its population under the poverty line, and its Gini Index was very high at 44.04 in 2006. The Philippine's economy is largely supported by remittances from four-to five-million overseas Filipino workers in addition to a growing business process outsourcing industry. Economic growth in the Philippines has averaged 4.5% per year since 2001, when President Macapagal-Arroyo came to the power. Despite this growth, poverty has worsened because of a high population growth rate and an inequitable distribution of income. The economy faces several long term challenges. The country must maintain the reform momentum in order to catch up with regional competitors, boost trade, alleviate poverty, and improve employment opportunities and infrastructure.

The Philippines also belongs to the group of Middle Human Development countries. The country's HDI is 0.751, the GDI is O.748 and the HPI-1 is 12.4 in 2007. The country's KOF indexes of overall, economic, social and political globalization are 58.58, 59.9, 40.92 and 84.56 respectively for the same year.

Samoa is a group of islands located in South Pacific Ocean about half way between Hawaii and New Zealand. The country's total population and GDP were about 0.18 million and $523 million, respectively, in 2008. GDP per capita in PPP terms was $4,554, life expectancy at birth was nearly 71 years and adult literacy was 98% that same year. Samoa has traditionally been dependent on development aid, family remittances from overseas, agriculture, and fishing. The country is vulnerable to devastating storms. Agriculture employs two-thirds of the labor force and furnishes 90% of exports, mainly coconut cream, coconut oil, and copra. The manufacturing sector mainly processes agricultural products. Tourism is an expanding sector accounting for 25% of GDP; 122,000 tourists visited the islands in 2007. Responding to the globalization trend, the government has called for deregulation of the financial sector, encouragement of investment, and continued fiscal discipline, while at the same time protecting the environment. Observers point to the flexibility of the labor market as a basic strength for future economic advances.

Samoa also belongs to the group of Middle Human Development countries. The country's HDI is 0.771, the GDI is O.763 and the HPI-1 is not reported in 2007. The country's KOF indexes of overall, social and political globalization are58.32, 64.08, 49.2 and 72.8 respectively for the same year. Economic globalization is not reported in 2007 for Samoa.

Singapore was founded as a British trading colony in 1819. It joined the Malaysian Federation in 1963 but became independent two years later in 1965. With strong external trade links and a high level of globalization, Singapore became one of the world's most prosperous countries with per capita GDP equal to $49,321 in 2008, rivaling that of the leading nations of Western Europe. The population

of the country was 4.84 million, life expectancy at birth was nearly 81 years, and adult literacy was 95% that same year. Singapore has a highly developed successful free-market economy. It enjoys a remarkably open and corruption-free environment and stable prices. The economy depends heavily on exports, particularly in consumer electronics, information technology products, pharmaceuticals, and a growing financial services sector. Real GDP growth averaged 6.8% between 2004 and 2008, but contracted 2.1% in 2009 as a result of the global financial crisis. The economy has begun to rebound in 2010 and the government predicts growth of 3-5% for the year. Over the longer term, the government hopes to establish a new growth path that focuses on raising productivity growth, which has sunk to 1% per year in the last decade. Singapore has attracted major investments in pharmaceuticals and medical technology production and will continue efforts to establish itself as Southeast Asia's financial and high-tech hub.

Singapore belongs to the group of High Human Development countries. The country's HDI is 0.944in 2007.The GDI is not reported and the HPI-1 is not applicable for Singapore. The country's KOF indexes of overall, economic, social and political globalization are 84.58, 97.48, 79.84 and 72.8respectively for the same year.

Thailand is a Southeast Asian country with a total population and GDP of about 67.38 million and $272.4 billion, respectively, in 2008. GDP per capita in PPP terms was $8,086, life expectancy at birth was nearly 68 years that same year, and adult literacy was 90.50% in 2005. Thailand has a well-developed infrastructure, a free-enterprise economy, generally pro-investment policies, and strong export industries that all resulted in high growth from 2000 to 2008 - averaging more than 4% per year - as it recovered from the Asian financial crisis of 1997-98. Thai exports - mostly machinery and electronic components, agricultural commodities, and jewelry - continue to drive the economy, accounting for more than half of GDP. The global financial crisis of 2008-09 severely cut Thailand's exports, with most sectors experiencing double-digit drops. In 2009, the economy contracted 2.8%. The Thai government is focusing on financing domestic infrastructure projects and stimulus programs to revive the economy. However, continuous internal political tension threatens to damage the investment climate and its popular tourism sector.

Thailand belongs to upper bound of the group of Middle Human Development countries. The country's HDI is 0.783, the GDI is O.782 and the HPI-1 is 8.5 in 2007. The country's KOF indexes of overall, social and political globalization are64.13, 69.2, 48.99 and 80.48 respectively for the same year.

Vietnam is a densely-populated developing country in Southeast Asia with atotal population of 86.2 million and GDP of about $90.65 billion in 2008. GDP per capita in PPP terms was $2,787, life expectancy at birth was nearly 74 years, adult literacy was 92.5% that same year, and secondary school enrollment (gross) was 66.9% in 2001. The poverty headcount ratio of the country was 21.45, and Gini Index was 37.77 in 2006. Thirty years ago, Vietnam was aclosed and centrally-planned

economy. It has moved to implement the structural reforms needed to modernize the economy and to produce more competitive export-driven industries. Vietnam joined the WTO in January 2007, following more than a decade-long negotiation process. WTO membership has provided Vietnam an anchor to the global market and reinforced the domestic economic reform process. Deep poverty has declined significantly and Vietnam is working to create jobs to meet the challenge of a labor force that is growing by more than one million people every year. The global recession has hurt Vietnam's export-oriented economy with GDP growing less than the 7% per annum average achieved during the last decade.

Vietnam belongs to the group of Middle Human Development countries. The country's HDI is 0.725, GDI is O.723 and HPI-1 is 12.4 in 2007. The country's KOF indexes of overall, social and political globalization are47.78, 60.39, 30.92 and 55.6 respectively for the same year.

There are five countries selected from the SA region. Most of the countries from the region are relatively poor with low levels of globalization and development indicators. A brief description of the selected countries is presented below in alphabetical order.

Bangladesh is one of the world's poorest nations, located in SA with a total population and GDP of about 160 million and $79.5 billion, respectively, in 2008. GDP per capita in PPP terms was $1,335, life expectancy at birth was nearly 66 years, and adult literacy was 55 years in 2008, while secondary school enrollment (gross) was 44.12% in 2007. The county had a very high poverty headcount rate of 49.64% and a moderate Gini Index of 31.02 in 2005. Despite political instability, poor infrastructure, corruption, insufficient power supplies, and slow implementation of economic reforms, Bangladesh's economy has grown 5-6% per year since 1996. However, the country remains a poor, overpopulated, and inefficiently-governed nation. Although more than half of GDP is generated through the service sector, about 45% of Bangladeshis are employed in the agriculture sector, with rice as the single-most-important product. Garment exports, totaling $12.3 billion and remittances from overseas Bangladeshis totaling $9.7 billion in 2009 accounted for almost 25% of GDP.

Bangladesh also belongs to lower bound of the group of Middle Human Development countries. The country's HDI is 0.543, the GDI is O.536 and the HPI-1 is 36.1 in 2007. The country's KOF indexes of overall, social and political globalization are39.74, 36.48, 19.95 and 75.94 respectively for the same year.

India is the largest and most populated country in SA, with a total population and GDP of about 1.14 billion (second largest in the world after China) and $1.16 trillion, respectively, in 2008. GDP per capita in PPP terms was $2,946, life expectancy at birth was nearly 63 years and secondary school enrollment (gross) was 57% that same year. 44.64% of its population was under the $1.25 a day poverty line and the Gini Index was 36.8 in 2005. India has been developing into an open-market economy with economic liberalization, including reduced controls on foreign trade and investment, since the early 1990s. Consequently, the country's growth rate has averaged more than 7% per year

since 1997. India has capitalized on its large, educated, English-speaking population to become a major exporter of information technology services and software workers. An industrial slowdown early in 2008, followed by the global financial crisis, led annual GDP growth to slow to 6.5% in 2009, still the second highest growth in the world among major economies. Domestic demand, driven by purchases of consumer durables and automobiles, has re-emerged as a key driver of growth, as exports have fallen since the global crisis started. India's long term challenges include widespread poverty, inadequate physical and social infrastructure, limited employment opportunities, and insufficient access to basic and higher education. Over the long-term, a growing population and changing demographics will exacerbate social, economic, and environmental problems.

India also belongs to the group of Middle Human Development countries. The country's HDI is 0.612, the GDI is O.594 and the HPI-1 is 28 in 2007. The country's KOF indexes of overall, social and political globalization are51.26, 44.68, 31.28 and 92.69 respectively for the same year.

Nepal, a small Himalayan nation, is among the poorest and least developed countries in SA and had a total population and GDP of about 28.8 million and $12.62 billion, respectively, in 2008. While GDP per capita in PPP terms was $1,104, life expectancy at birth was nearly 67 years and adult literacy was 58% in 2008, while secondary school enrollment (gross) was 43.5% in 2006. The county has extremely high rates of poverty and inequality: the poverty headcount ratio at $1.25 a day was 55.12% and the Gini Index was 47.3 in 2004. Agriculture is the mainstay of the Nepalese economy, providing a livelihood for three-fourths of the population and accounting for about one-third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain. During the global recession of 2009, remittances from foreign workers abroad increased 47% to $2.8 billion while tourist arrivals decreased by 1% compared to the previous year. Nepal has considerable scope for exploiting its potential in hydropower, with an estimated 42,000 MW of feasible capacity, but political instability hampers foreign investment. Additional challenges to Nepal's growth include its technological backwardness, landlocked geographic location, civil unrest, and its susceptibility to natural disasters.

Nepal belongs to lower bound of the group of Middle Human Development countries. The country's the HDI is 0.553, the GDI is O.545 and HPI-1 is 32.1 in 2007. The country's KOF indexes of overall, social and political globalization are37.22, 30.66, 22.94 and 69.65 respectively for the same year.

Pakistan is another impoverished and underdeveloped country from the SA region, which had a total population and GDP of about 166.1 million and $164.54 billion, respectively, in 2008. GDP per capita in PPP terms was $2,538, life expectancy at birth was nearly 66.5 years, adult literacy was 53.7%, and secondary school enrollment (gross) was 32.9% that same year. The county has relatively high rates of poverty and inequality: the poverty headcount ratio at $1.25 a day was 22.59% and the Gini Index was 31.18 in 2005. Between 2004 and 2007, GDP growth in the 5-8% range was spurred by gains in the industrial and service sectors - despite severe electricity shortfalls - but growth slowed

in 2008-09 and unemployment rose. Inflation remains the top concern among the public, jumping from 7.7% in 2007 to 20.3% in 2008, and 14.2% in 2009. Textiles account for most of Pakistan's export earnings, but Pakistan's failure to expand a viable export base for other manufacturers have left the country vulnerable to shifts in world demand. Other long term challenges include expanding investment in education, healthcare, and electricity production, and reducing dependence on foreign donors.

Pakistan also belongs to lower bound of the group of Middle Human Development countries. The country's the HDI is 0.572, the GDI is O.532 and HPI-1 is 33.4 in 2007. The country's KOF indexes of overall, social and political globalization are52.69, 46.81, 35.22 and 89.1 respectively for the same year.

Sri Lanka has had relatively better progress among SA countries, with a total population and GDP of about 20.15 million and $40.6 billion, respectively, in 2008. GDP per capita in PPP terms was $4,563, life expectancy at birth was nearly 74.1 years, and adult literacy was 90.6% in 2008, while secondary school enrollment (gross) was 87% in 2004. The poverty headcount ratio was 13.95% and the Gini Index was 41.06 in 2002. The Sri Lankan Government abandoned its import substitution and export-oriented policies, including the encouragement of foreign investment in 1977. In spite of a severe civil war from 1983 to 2009, Sri Lanka had a GDP growth average of nearly 5% over the last 10 years. Despite the global economic crisis, GDP growth was around 3.5% in 2009. Sri Lanka's most dynamic sectors are now food processing, textiles and apparel, food and beverages, port construction, telecommunications, and insurance and banking. About 1.5 million Sri Lankans work abroad, particularly in the Middle East. The remittances from them account for more than $3 billion a year. The end of the 26-year conflict has opened the door for reconstruction and development in the north and east. The Sri Lankan stock market gained over 100% in 2009, one of the best performing markets in the world.

Sri Lanka has relatively better performance in QOL indicators in South Asia. The country belongs to the upper bound of the group of Middle Human Development countries, whose HDI is 0.759, the GDI is O.756 and the HPI-1 is 16.8 in 2007. The country's KOF indexes of overall, social and political globalization are52.53, 48.05, 42 and 75.87 respectively for the same year.

Overall, there are high degree of heterogeneity both in terms of globalization level and QOL performance among the selected countries in the Asia-Pacific region. Next section examines the situation of QOL convergence or divergence in the region.

4.3 Is QOL Converging in Asia?

The mainstream literature on globalization argues that it raises the living standard of all participants in the globalization process. Theoretically, increased international trade raises the real incomes of all participating countries. Nevertheless, accessing the superior technology embodied in goods or capital,

or simply through intellectual exchange allows greater productivity gains in poorer countries. Similarly, international capital flows bring new technology and allow countries to tap into a larger savings pool, which also helps the poor more. Finally, the free flow of labor force also contributes to convergence, as people from poor countries migrate to richer nations. A number of empirical papers on convergence support this view. For example, Baumol (1986) and Baumol and Wolff (1988) tested convergence among industrialized countries over the period of a century beginning in 1870. Other notable papers are on convergence among OECD countries (Barro and Sala-i-Martin, 1992), among European Community members (Ben-David, 1993), among individual US states (Barro and Sala-i-Martin, 1992), among European regions (Cannon & Duck, 2000, p. 418), among Spanish provinces (Goerlich and Mas, 2001), and so forth. As economic theory suggests, all these papers have shown income convergence.

However, many other scholars show a diverging trend of income and QOL. For example, Maddison (1995, 2001) and Pritchett (1997) demonstrated the historical process of income divergence. However, they did not fully contradict the mainstream belief of a strong causal link between globalization and income convergence because a major diversion was created by the discrete technological breakthroughs of the Industrial Revolution. Furthermore, the recent income divergence among countries over the last 20 years (see Milanovic, 2005, chapter 4; Kanbur and Lustig, 1999) was explained by the fact that globalized countries were attempting to reach the same industrial standards and those who did not globalize were being left behind (World Bank, 2002). Nevertheless, there are also strong counterarguments that question the convergence hypothesis as the world is becoming more unequal in terms of per capita income. Indeed, looking back over the last 100 years or so, initially poorer countries have tended to experience lower subsequent growth rates (Pritchett, 1997). Poor countries are not catching up with rich ones; rather it seems the opposite has been happening. For example, Ravalian (2004) showed that the average income of the richest countries in the world was about 10 times that of the poorest around the end of the 19th century but is closer to 60 times higher today. Furthermore, Milanovic (2004) argued that inequality between countries had increased sharply since the beginning of the 1980s.

The convergence literature does not focus on the Asian region. Instead, the focus is generally on groups of countries that have similar characteristics, such as OECD countries, European countries, or American states. In addition, the literature concentrates heavily on the income aspect. Although there are several papers that deal with the convergence of QOL (for example Kenny, 2005, 2008; Bakhtiari, 2006; and Ram 1992, Ingram 1992, and so on), most of them tend to use disaggregated factors of QOL, which cannot give an overall picture of QOL. For instance, Kenney, (2008) analyzed the convergence of income, health and education separately for East Asian countries. Ram (1992) studied the cross-country inequality of calorie supply, life expectancy and adult literacy, and found that the inequality of these indicators across the world was minimal compared to income inequality. Ingram (1992) found

that there was strong evidence of convergence in life expectancy, caloric intake, primary enrollment ratios and urbanization – fairly strong evidence of convergence. All of the studies, however, fail to consider the overall QOL as a dependent variable, even though the single index of human development has been available since 1990.

The conventional methodology for testing the "convergence hypothesis" has also been critically questioned. Ravallian (2004) pointed out that methodological differences, as well as data type and quality variation, are the main causes of different findings and arguments on convergence. More importantly, Quah (1993) theoretically rejected using the so-called sigma coefficient of variation and beta convergence. Sigma convergence is defined as the decline over time of the cross-sectional dispersion of a variable, which can be measured by looking at the size of its standard deviation. For variables that trend upward (or downward) across the world over time, it is argued that the coefficient of variation (standard deviation divided by the mean) might provide a better reflection of convergence or divergence. A third conventional approach is beta convergence, which is used frequently in the literature on cross-country economic growth. Beta convergence is present if the variable displays a mean reversion, meaning that the value of a variable at the start is inversely correlated with its growth over the whole period. Quah's point is valid as he showed how results were misleading because of the famous Galton's fallacy of regression towards the mean.[52]

In spite of such criticism, we first follow the conventional approach of testing the convergence hypothesis by checking the "beta (β)" and "sigma (σ)" convergence. However, as Quah suggests, this study follows an alternative method later, which is more transparent about whether convergence occurs or does not occur.

β- convergence, which is mostly used in the economic growth literature, is defined as the negative correlation between initial income and its growth rates over a given period. In other words, convergence is a situation where countries with lower initial incomes grow faster than others. As explained earlier, σ- convergence is refers to a decline over time of the cross-sectional dispersion of a variable, which can be measured by its standard deviation. In this section, we first test the convergence hypothesis on the QOL variables following these approaches. As these methods are criticized heavily in the literature, we also test the consistency of these results with a more transparent and direct way of presenting the gaps of each variable between each country and Japan, the benchmark country of this study.

Table 1 reports the results on convergence of QOL indicators. It reports on averages and standard deviations for HDI and its sub-constructs at 1975 and 2005. HDI data are taken from the updated database of the Human Development Report 2007/08 of UNDP (2009). However, HDI sub-

[52] In fact, many phenomena tend to be attributed to erroneous causes when regression to the mean is not taken into account. Indeed, *conclusion of Galton's (1886) famous work, which actually led to the popularity of regression analysis itself, was erroneous in that he could not understand the nature of regression towards the mean.*

constructs, life expectancy at birth, adult literacy, school enrollment and GDP per capita are taken from the WDI online database of the World Bank. In terms of σ- convergence, which is defined as a decline in the standard deviation, it evident that not only the overall QOL indicator, HDI, is converging, but also its components variables are converging, except for GDP per capita. It shows that GDP per capita is diverging as the standard deviation is increasing sharply.

Table 1 also reports the β- convergence, which is defined as a negative correlation between the start value at 1975 and growth over the period in each QOL indicator. Thus, the basic model is as follows:

$$(Y_{it}-Y_{io})/T = \alpha + \beta Y_{io} + u_{i0} \quad (t = 1, \ldots., T) \; (i = 1, \ldots, N)$$

where Y_{it} and $Y_{i0}$are QOL indicators of a country i at initial year (here, 1975) and final year t (here, 2005) respectively, and u_{io} is a disturbance term. QOL indicators include HDI as the overall indicator, life expectancy at birth as health indicator, adult literacy and school enrollment as educational indicators, and GDP per capita as income indicator. α is the constant term and the β coefficient is our parameter of interest. The sign of the β coefficient is very important here because a negative sign indicates QOL converge and vice versa.

The results are mostly consistent with the σ- convergence as most of the QOL variables are found to be significantly converging at the 1% level. However, in spite of the sharp increase of standard deviation of GDP per capita, which shows the income divergence, the β coefficient shows a negative sign (i.e. convergence), but the coefficient is not significant.

Table 4.1 Sigma (σ) and Beta (β) Convergence of Selected QOL Indicators (1975-2005)

	1975	2005	Convergence
Human development Index (HDI)			
Mean	0.553263	0.7245263	
Standard Deviation (σ)	0.147	0.132	**Yes**
Beta (β)		-1.506*** (0.251)	**Yes**
Constant		-0.923*** (0.171)	
R^2 (No. of Observation)		0.680 (19)	
Life expectancy at birth, total (years)			
Mean	56.84516	69.41731	
Standard Deviation (σ)	9.259	6.776	**Yes**
Beta (β)		-2.606*** (0.384)	**Yes**
Constant		10.14*** (1.550)	
R^2 (No. of Observation)		0.730 (19)	
Literacy rate, adult total (% of people ages 15 and above)			
Mean	63.63158	82.08421	
Standard Deviation (σ)	25.467	19.067	**Yes**
Beta (β)		-1.663*** (0.176)	**Yes**
Constant		6.716*** (0.713)	
R^2 (No. of Observation)		0.848 (18)	
School enrollment, primary-tertiary (% gross)			
Mean	46.88889	68.64211	
Standard Deviation (σ)	14.64	14.447	**Yes**
Beta (β)		-1.294*** (0.318)	**Yes**
Constant		5.307*** (1.216)	
R^2 (No. of Observation)		0.494 (19)	
GDP per capita, PPP (current international $)			
Mean	1410.211	7910.473	
Standard Deviation (σ)	1909.217	11454.41	**No** (Divergence)
Beta (β)		-0.0981 (0.149)	**No**
Constant		3.247*** (1.003)	
R^2 (No. of Observation)		0.0250 (19)	

Notes: Ordinary least square (OLS) estimations are reported. Standard errors are in parentheses. All variables are logged only while estimating β- coefficient. *** p<0.01, ** p<0.05, * p<0.1

Sources: HDI data is taken from the Human Development Report 2007/08 of the United Nations Development Program (UNDP, 2009).The rest are taken from WDI online database of the World Bank.

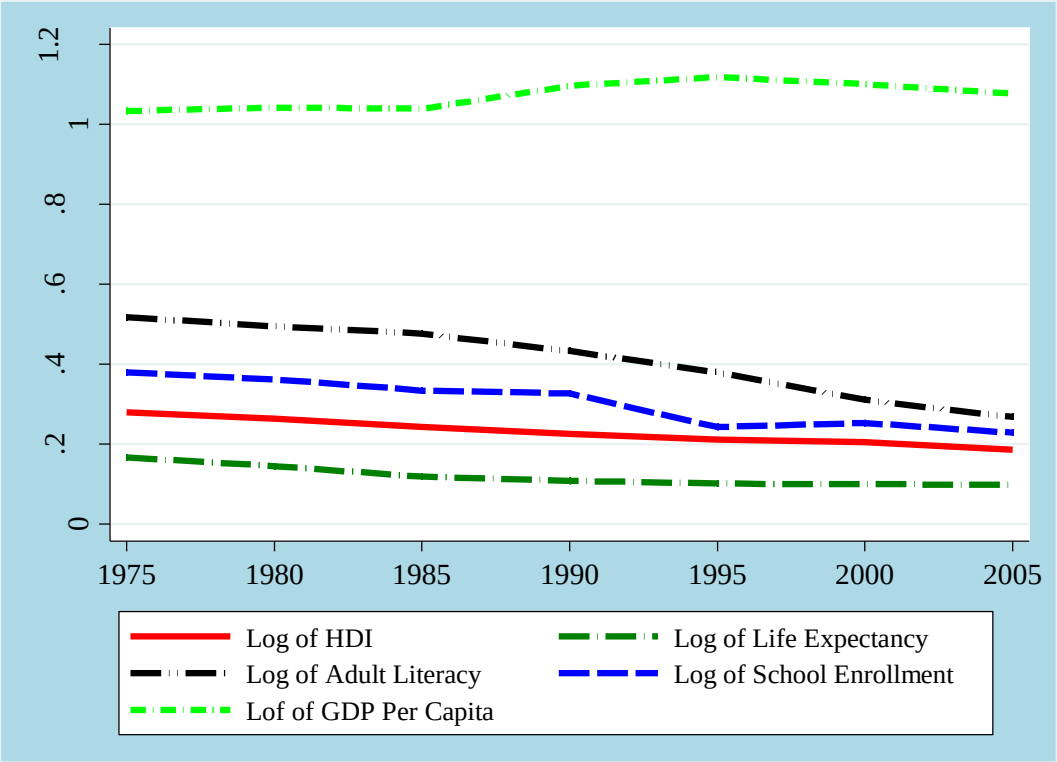

Figure 4.18 Sigma (σ) Convergence of Selected QOL Indicators in the Asia-Pacific (1975-2005)

Source: Author's calculations using data from UNDP (2009) for HDI, and WDI online database of the World Bank for rest of the variables.

Figure 18 presents the movement of the standard deviation of each variable in five year intervals, which demonstrates the σ- convergence more precisely. It is clearly evident that the standard deviations of HDI, life expectancy, adult literacy, and school enrollment have downward slopes indicating σ- convergence. The case of GDP per capita is somehow diverging, but the slope of the line is almost flat, which supports the results of insignificant β- convergence in Table 4.1.

The above results from the conventional approach need to be further tested with a more transparent method, because Friedman (1992) and Quah (1993) and many others have criticized cross-country growth regression on the basis of Galton's fallacy.[53] Quah (1996) further claimed that the cross-sectional result of speed of convergence is a statistical illusion, and suggests a more direct approach. Thus, this study directly calculates the QOL indicator gap between each country and the benchmark country over time. Due to securing the highest QOL indicators in the Asia-Pacific region,

[53] There is a statistical phenomenon in which a variable that is extreme on its first measurement will tend to be closer to the center of the distribution on a later measurement, which is referred to *regression toward the mean*. Because of this phenomenon there is high chance to reach false conclusion in regression analysis. In fact, Galton (1886) made such false conclusion which is popular as Galton's fallacy of regression toward the mean (for detail explanation of Galton's fallacy, see Quah, 1993: 429-33).

Japan is taken as the benchmark country to calculate the QOL gaps, which are also taken as dependent variables for regression analyses in the next section. The QOL gap between Japan (j) and a country i in year t (Y_{jct}) is calculated simply as:

$$Y_{jit} = Y_{jt} - Y_{it}$$

where Y_{jt} and Y_{it} are QOL indicators of Japan and country i at year t respectively.

The calculated *QOL indicator* gaps between Japan and each country for each five-year interval are plotted as lines-graphs to observe convergence (or divergence). First, the HDI gaps are calculated as the overall measure of QOL, and then the gaps on individual elements of HDI are assessed. As can be seen in Figure 4.19, most countries are catching up with Japan in terms of human development. The trend line for Japan is a constant 0 value because the line represents the difference of HDI value between Japan and itself. For almost every other country, trend lines of this HDI gap are downward sloping, meaning that the gap with Japan is closing. Clearly, QOL in Asia-Pacific is converging.

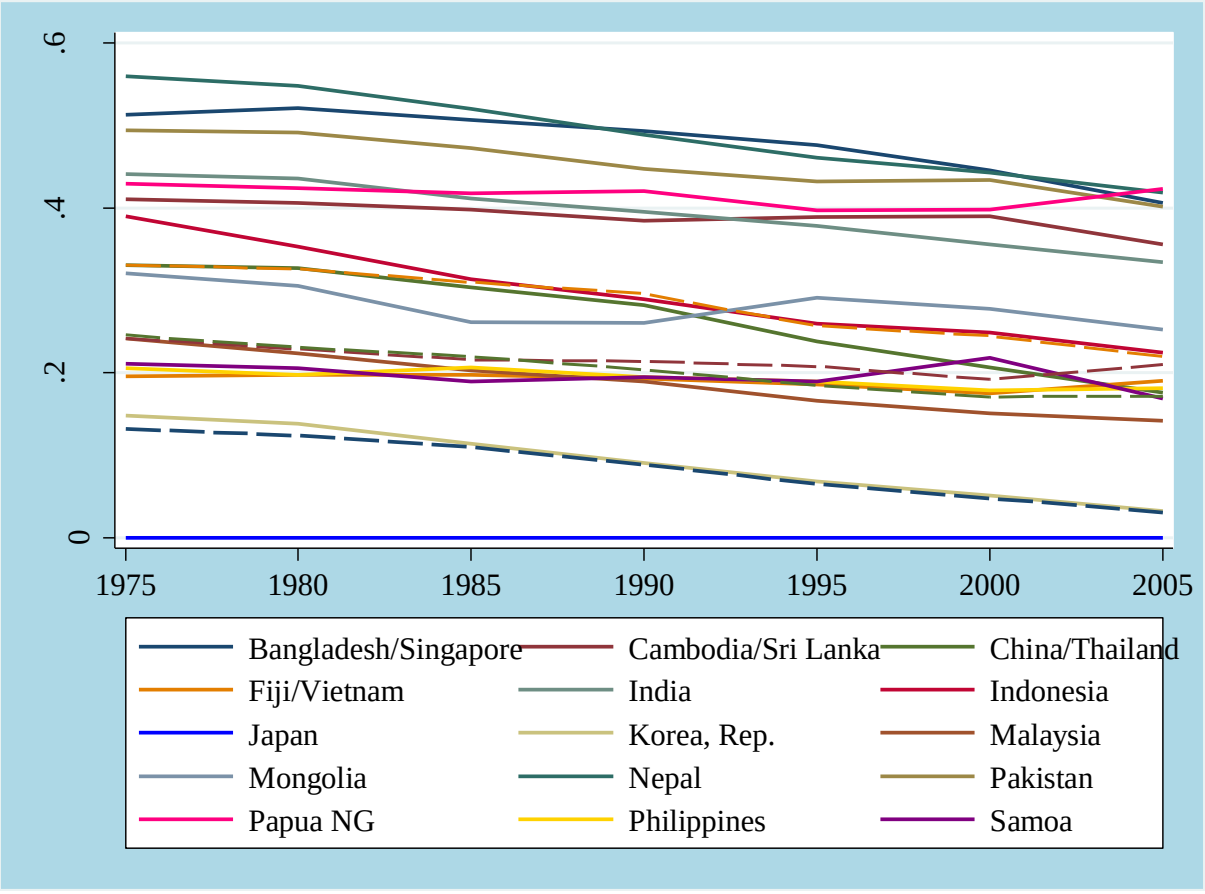

Figure 4.19 Trends of HDI Gaps between Asia Pacific Countries and Japan (1975-2005)

Source: Calculations done by the author based on UNDP (2009). Updated data also available at: http://hdr.undp.org/en/statistics/data/ (accessed in May 3, 2009).

If we look at the trend of each individual country, the pace of catching up with Japan is rapid for many countries. For instance, Singapore and South Korea are catching up quickly and have nearly reached full convergence with Japan. This can be explained by their very high level of globalization (see Figure 4.12 for respective globalization trends). Similarly, countries with a higher initial gap also tend to have a rapid pace of catching up. Nepal and Bangladesh fall in this category. However, in spite of having a higher initial HDI gap, Cambodia and Papua New Guinea are slow to catch up. On the other hand, the Philippines and Samoa also have very slow trends, despite having relatively low initial HDI gaps with Japan. Thus, based on this analysis, it is argued that Asia-Pacific countries are catching up with the benchmark country, Japan, as far as HDI is concerned.

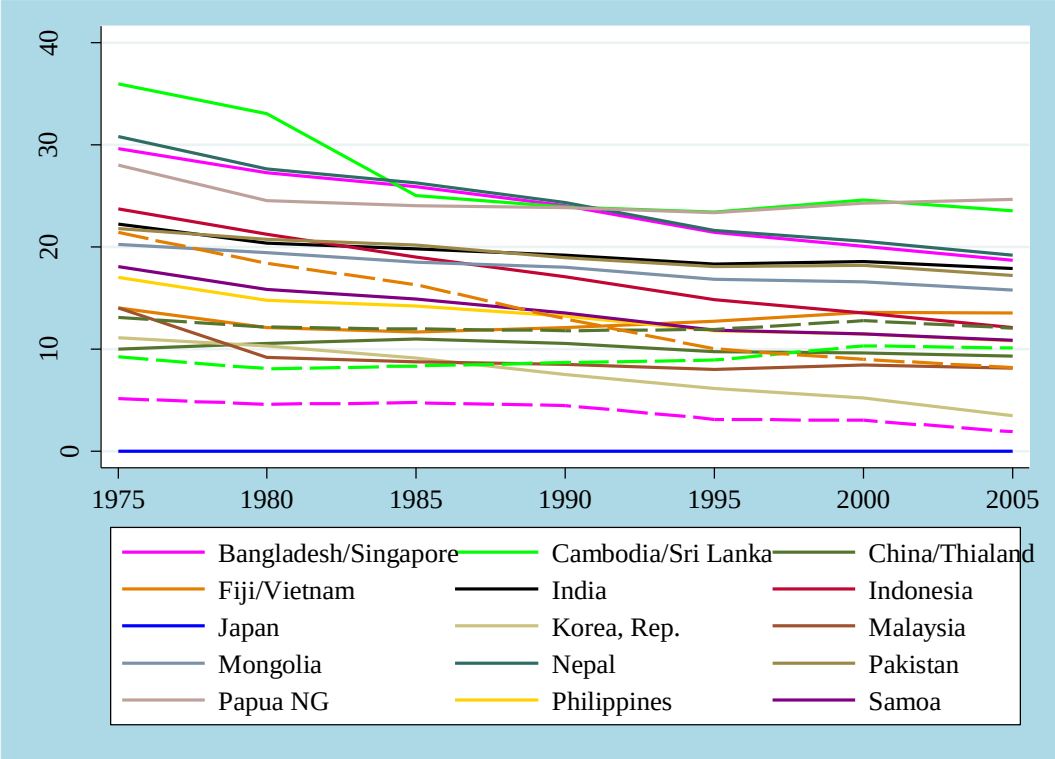

Figure 4.20 Trends of "Life Expectancy at Birth" Gaps with Japan (1975-2005)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

The remaining part of this section presents the convergence (or divergence) of individual components of HDI. Although there is a clear convergence of HDI, some individual variables are converging while others are not. For example, the health indicator, measured by *life expectancy at birth*, is converging as shown in Figure 4.20. Similarly, one of the major education indicators used to construct HDI, *adult literacy*, is also found to be converging (Figure 4.21). As in the case of HDI, the speed of convergence is higher for some countries, such as Nepal, Bangladesh and Vietnam.

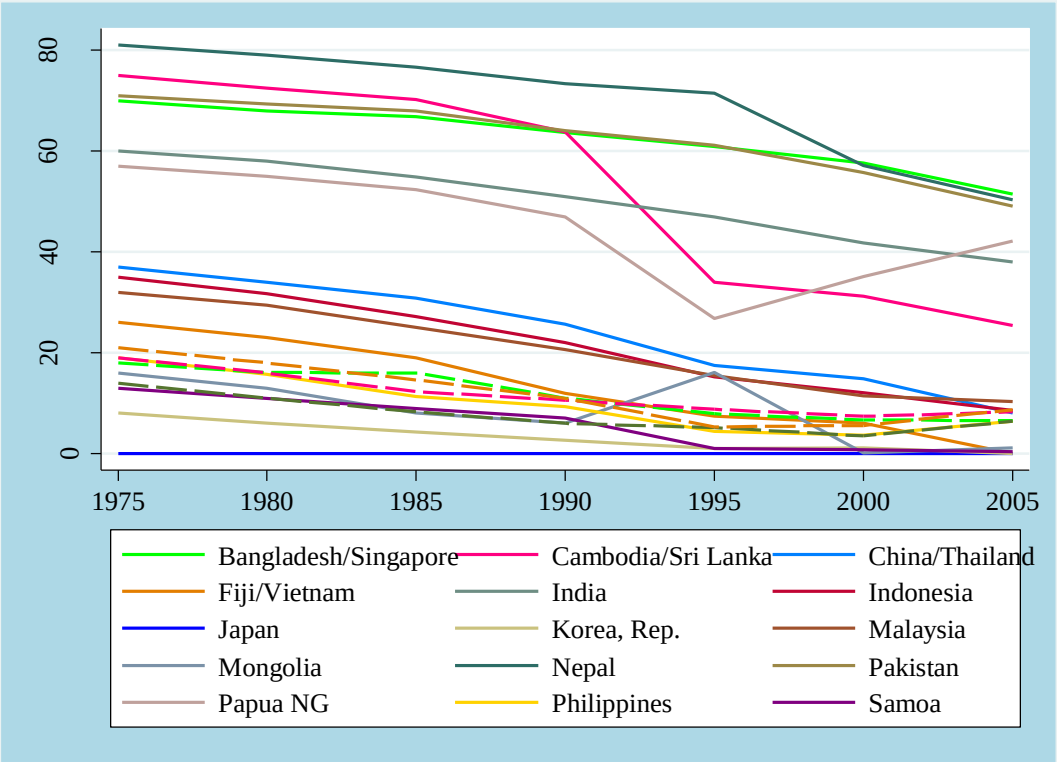

Figure 4.21 Trends of "Adult Literacy" Gaps with Japan (1975-2005)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

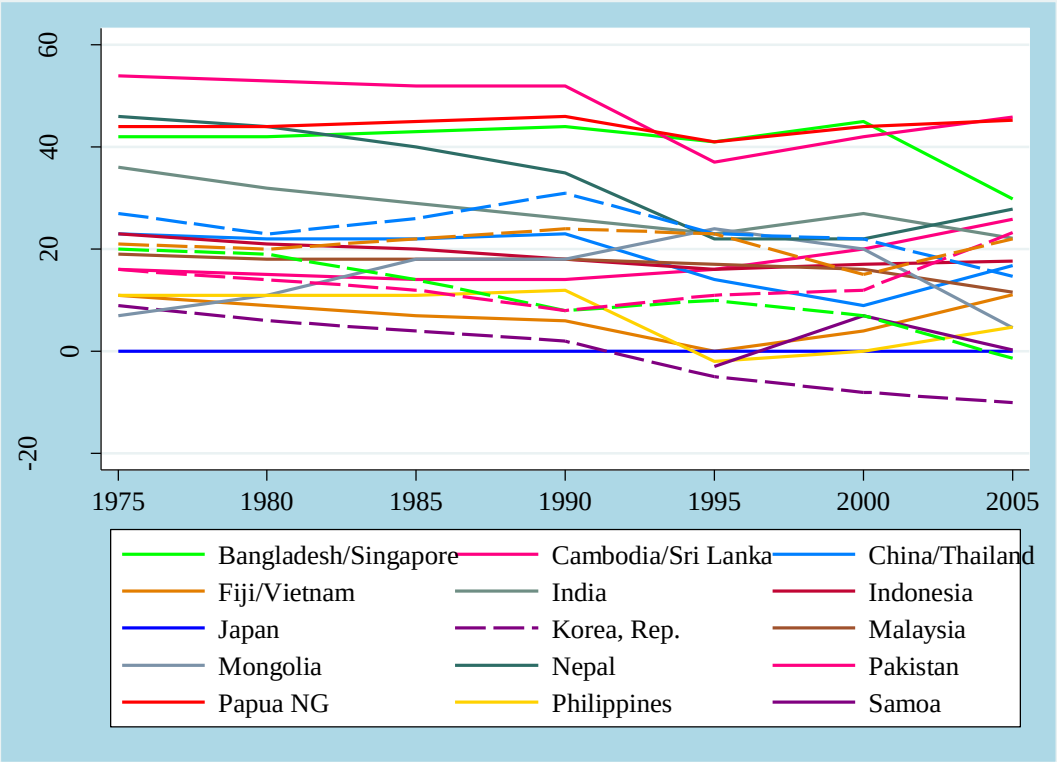

Figure 4.22 Trends of "Gross School Enrollment" Gaps with Japan (1975-2005)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

On the contrary, another indicator of education, *gross school enrollment* from primary to tertiary level, is neither converging nor diverging (Figure 4.22). Some countries, such as Singapore, the Philippines, Bangladesh and Nepal, were able to reduce their gaps with Japan, whereas Papua New Guinea, Cambodia and Mongolia, among others, increased their gaps. Interestingly, South Korea fully converged with the benchmark country - Japan - around 1992 and crossed over the benchmark in terms of gross school enrollment.

Supporting the existing literature, Figure 4.23 shows that the income aspect of QOL is diverging. The gap between the benchmark country, Japan, and the rest of the countries is increasing sharply. Only Singapore was able to converge (fully) with Japan (around 1992), and the rapid growth continued so that the gap increased sharply, leaving Japan far behind. Overall, the gap increased sharply between 1980 and 1990. Since then, the gap increased continuously for all countries except South Korea.

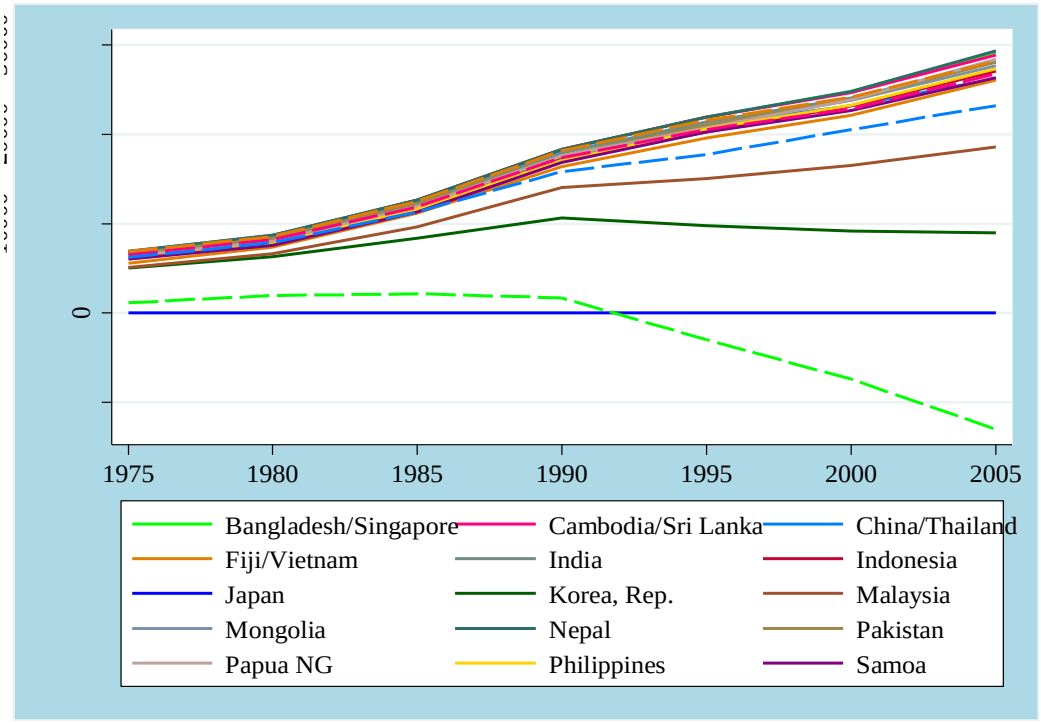

Figure 4.23 Trends of "GDP Per Capita" Gaps with Japan (1975-2005)

Source: Calculations done by the author using data from WDI online database of the World Bank (accessed in May 5, 2010).

Based on this simple and transparent assessment, the overall measure of QOL in terms of HDI in Asia was found to be converging. The health aspect of QOL was also converging. However, education aspects of QOL showed mixed results with adult literacy converging and the gross school enrollment neither converging nor diverging. On the contrary, the income aspect of QOL measured by GDP per capita was sharply diverging.

The following section assesses the impact of globalization on these convergence and divergence trends, which is the main question of interest in this study.

4.4 Has Globalization Affected QOL Convergence?

This section addresses the main question of this chapter. It estimates combined cross-section time-series regressions using the QOL gaps of each country with Japan for each period (as reported in the previous section) as the dependent variables. These variables are calculated using the HDI values and the individual components of HDI as reported in the Human Development Reports, which is publicly available on the UNDP home page. HDI is based on the achievement of three basic aspects of QOL: health, education and income. A detailed explanation of HDI and its components is presented in Chapter 2. All data are taken over five-year intervals from 1975 to 2005. Similarly, the KOF index of globalization is the main explanatory variable, which is taken from Dreher (2006). A detailed explanation of the KOF index is given in Appendix 3.1.

As some of the data are not available for all countries in the region, only 19 countries have been selected, and the panel is strongly balanced, meaning that most of the data are available for the selected countries for each period. However, as the value of each dependent variable (QOL gap) for Japan is 0 over the period, Japan is excluded from the regression analysis. Column [1] reports the results when economic, social and political globalization are regressed separately, whereas Column [2] reports the results using a single indicator of overall globalization. All the control variables and their precise definitions and data sources are listed in Appendix 4.1. The descriptive statistics and the correlation matrix are reported in Appendix 4.2 and Appendix 4.3, respectively.

The estimation model is as follows:

$$Y_{jit} = \alpha + \beta_1 Y_{jit-1} + \beta_2 G_{it} + \beta_3 C_{it} + \eta_i + \eta_t + \varepsilon_{it}$$

where Y_{jit} represents the QOL gap between Japan and country i at year t, Y_{jit-1} is lag of the dependent variable, G_{it} represents the measures of globalization, C_{it} represents the vector of control variables, η_i is the country fixed effect, η_t is the time varying effect, and ε_{it} is an error term. α is the constant term. β_1, β_2 and β_3 are the coefficient of each explanatory, which are the parameters of interest. Here, the negative sign of β explains the converging effect and vice versa.

The lagged dependent variable is included in the set of explanatory variables because QOL-inequality tends to change slowly over time. However, this creates dynamic structure of the model and need to control for possible biases arising from it (Kurita and Kurosaki, 2007). Because, given the inclusion of the lagged dependent variable and fixed country effects, the OLS estimator is biased and inconsistent in short panels (Nickell, 1981). To deal with this problem, a dynamic panel data method is used, particularly the system generalized method of moments (GMM) estimator, as suggested by

Arellano and Bover (1995) and Blundell and Bond (1998). Results are based on the one-step estimator implemented by Roodman (2005), which is explained in detail by Roodman (2006) in Stata, including Windmeijer's (2005) finite sample correction.[54]

In choosing the set of control variables, this study follows standard practice as much as possible. All the control variables and their precise definitions and data sources are listed in Appendix 4.1. First, it includes *Gross National Income* (*GNI) per capita* at the initial point of each 5-year period to capture the effect of the initial level of development on convergence. It also includes the share of the under-15 year-olds and the over-64 year-olds relative to the total population (referred to as the "*age-dependency ratio*"). This ratio controls for demographic factors and is expected to vary positively with the HDI gap with richer countries. Similarly, overall and urban *population growth rates* are taken as they affect QOL significantly. It is expected that the overall population growth rate correlates positively, and urban population growth rate, negatively, to the QOL gaps.

Similarly, *irrigated land* in percent of total cropland, *electricity consumption* per capita, and the annual growth rate of *manufacturing sector value added* are also included as control variables. Irrigated land captures the effect of agricultural infrastructure, which is assumed to be an important factor in uplifting millions out of poverty, who mostly depend on subsistent agriculture. Electricity consumption per capita is expected to affect QOL positively as it is one of the key elements in making human life easier and more efficient. Manufacturing value added is one of the main indicators of industrialization, and is supposed to be crucial in improving people's lives by creating employment and producing cheaper goods in poorer countries. Data on these variables were taken from the WDI online database of the World Bank.

Finally, *democracy index* is used to gauge the effect of political as well as social liberty on QOL and is expected to have a converging impact on QOL. Indeed, there is a positive relationship between democracy and QOL (Frey and Al-Roumi, 1999). The measures of democracy are taken from Freedom House (2009) and are available from 1972 to 2008. The democracy index consists of two key rights. Firstly, the political rights measure is a subjective indicator that annually ranks each country on a scale from one (the highest level of political rights) to seven (the lowest level of political rights). Secondly, the civil liberties measure is used to capture personal rights, such as those to free expression and to organize or demonstrate, and is placed on the same scale from one to seven. These two Freedom House measures of democracy are averaged and normalized to range from zero to 100, with 100 representing full democracy. The time dummies are included in the equation, and it is revealed that time and country fixed effects are jointly significant, but the results are excluded from the result tables. The variables are logged if they have absolute values. The percentage and index numbers are not logged.

[54]This also accounts for the potential endogeneity of globalization, e.g., HDI and other QOL gaps may induce poorer countries to pursue more inward-oriented policies. However, the Sargan test indicates that endogeneity is not an issue.

This chapter follows the same sequence of presenting the results as the previous chapter. First, elements of globalization are regressed along with all the control variables for each dependent variable and presented in Tables 4.2 through 4.6, one table for each dependent variable. Tables 4.7 through 4.11 are presented for each dependent variable using the KOF indexes of globalization as major explanatory variables. The key elements of globalization in this chapter are the same as the previous chapter: international trade (sum of exports and imports) as a percentage of GDP, FDI inflow as a % of GDP, ICT as measured by mobile and fixed-line telephone subscribers per 100 people, and finally international migration as a proxy by workers' remittances and compensation of employees received in percent of GDP. As usual, the magnitude and the sign of the coefficients explain the strength and the direction of the effect of the regressors. Thus, the negative sign of a coefficient indicates a convergence effect and vice versa.

Table 4.2 presents the results of the impact of the key elements of globalization on HDI. Thus, the dependent variable is HDI, which measures the overall QOL. The results show that the HDI gap has been closed with trade, ICT and migration, with the coefficient being significant at 5% for trade and migration and 1% for ICT. These results support the findings of significant positive effects of trade (Davies and Quinlivan, 2006), migration (Jongwanich, 2007) and ICT (Haux et al., 2008) on human development in the developing world. As FDI is found to be insignificant, further research is needed to identify the reasons behind this unexpected result and policies to make FDI significant to reduce the QOL gap between rich and poor countries.

As for the control variables, electricity per capita has a diverging effect on the HDI gap. If the cost of electricity is very high, which is quite common for poorer countries in general, it is less likely to benefit the poor. Thus, the result is natural. The rest of the control variables are found insignificant.

Table 4.2 Key Elements of Globalization and Human Development Gaps (1975-2005)

Dependent variable: HDI gap with Japan

Independent Variables	GMM Coefficients
Lagged dependent variable	0.000 (0.000)
Log of GNI per capita	0.098** (0.042)
Trade (% of GDP)	-0.002** (0.001)
Foreign direct investment net inflow (% of GDP)	0.008 (0.012)
Mobile and fixed-line telephone subscribers (per 100 people)	-0.003*** (0.001)
Workers' remittances and compensation of employees received (% of GDP)	-0.012** (0.006)
Population growth rate	0.030 (0.052)
Urban-population growth rate	-0.005 (0.013)
Age dependency ration	0.002 (0.003)
Irrigated land (% of cropland)	0.001 (0.001)
Manufacturing value-added (annual growth rate)	-0.001 (0.002)
Log of electricity consumption (kWh per capita)	0.074*** (0.030)
Democracy index	-0.001(0.001)
Number of Observation	106

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Trade, FDI, ICT, remittances, GNI per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/); and HDI is taken from HDR 2007/08updated data of the UNDP. The data cover the period from 1975 to 2005 in five-year intervals.

Disaggregated analyses of QOL are presented in Tables 4.3 through 4.6. Each variable -- health, education and income -- is a dependent variable in each Table. In Table 4.3, the log of life expectancy at birth is taken as a dependent variable. The impact of trade and ICT on the convergence of life expectancy at birth has been found to be significant at 5% and 1%, respectively, whereas the effect of FDI is found to be diverging at a 10% level of significance. Migration has no significant effect on this convergence process. These results also support the findings of significant positive effects of trade (Davies and Quinlivan, 2006) and ICT (Haux et al., 2008) on health outcomes in the developing world. The effect of FDI is not expected. However, if gains from FDI go to richer countries, it does not improve conditions in the poor host country.

Regarding the control variables, only age dependency ration is found to have a converging effect on the life expectancy gap.

Table 4.3 Key Elements of Globalization and Life Expectancy gaps (1975-2005)

Dependent variable: Log of "life expectancy at birth" gap with Japan

Independent Variables	GMM Coefficients
Lagged dependent variable	0.000 (0.000)
Log of GNI per capita	0.311** (0.128)
Trade (% of GDP)	-0.009** (0.005)
Foreign direct investment net inflow (% of GDP)	0.103* (0.064)
Mobile and fixed-line telephone subscribers (per 100 people)	-0.013*** (0.003)
Workers' remittances and compensation of employees received (% of GDP)	-0.022 (0.025)
Population growth rate	0.000 (0.000)
Urban-population growth rate	0.043 (0.038)
Age dependency ration	0.016*** (0.006)
Irrigated land (% of cropland)	0.006 (0.007)
Manufacturing value-added (annual growth rate)	-0.001 (0.008)
Log of electricity consumption (kWh per capita)	-0.116 (0.103)
Democracy index	-0.001(0.003)
Number of Observation	106

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Trade, FDI, ICT, remittances, GNI per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/); and GDI is taken from HDR 2007/08updated database of the UNDP. The data cover the period from 1975 to 2005 in five-year intervals.

Table 4.4 reports the impact of the key elements of globalization on the adult literacy gap. The main results are consistent with the previous Tables. Trade and ICT have a converging effect at 10% and 1% levels of significance, respectively. The results further support the arguments of Davies and Quinlivan (2006) that trade promotes educational outcomes, together with health and income, more in the developing world. Similarly, the result is also consistent with the findings of Jager and Lokman (1999) as they showed a significant impact of ICT on teachers' training and ultimately on educational outcome.

As for the control variables, GDP per capita and population growth are found to be significant, at 5% and 1%, with a diverging effect as expected. However, manufacturing value added is also found to have a diverging effect at a 1% level of significance. It might be because of the gains of rich countries from industrialization. However, as expected, the age dependency ratio, electricity consumption, and democracy have a converging effect at a 5% level of significance.

Table 4.4 Key Elements of Globalization and the Adult Literacy Gap (1975-2005)

Dependent variable: Log of "Adult literacy" gap with Japan

Independent Variables	GMM Coefficients
Lagged dependent variable	0.000 (0.000)
Log of GNI per capita	1.042** (0.476)
Trade (% of GDP)	-0.019* (0.011)
Foreign direct investment net inflow (% of GDP)	-0.076 (0.119)
Mobile and fixed-line telephone subscribers (per 100 people)	-0.034*** (0.009)
Workers' remittances and compensation of employees received (% of GDP)	0.009 (0.064)
Population growth rate	2.338*** (0.559)
Urban-population growth rate	-0.203 (0.141)
Age dependency ration	-0.055** (0.028)
Irrigated land (% of cropland)	-0.000 (0.022)
Manufacturing value-added (annual growth rate)	0.058*** (0.023)
Log of electricity consumption (kWh per capita)	-0.603** (0.293)
Democracy index	-0.016** (0.009)
Number of Observation	104

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Adult literacy, Trade, FDI, ICT, remittances, GNI per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; and Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/). The data cover the period from 1975 to 2005 in five-year intervals.

Table 4.5 presents the results on the impact of the key elements of globalization on the gross school enrollment gap. The results show that only ICT has a converging effect at a 1% level of significance. The rest of the globalization elements are found to be insignificant. As for the control variables, only irrigated land is found to be significant at 5% with a diverging effect. These weak results are attributed due to the unclear trend of the dependent variable itself, as it is observed that the gross school enrollment gap is neither converging nor diverging in the previous section (Figure 4.22).

Table 4.5 Key Elements of Globalization and Gross School Enrollment Gap (1975-2005)

Dependent variable: Log of "gross school enrollment" gap with Japan

Independent Variables	GMM Coefficients
Lagged dependent variable	0.000 (0.000)
Log of GNI per capita	0.123 (0.401)
Trade (% of GDP)	0.109 (0.011)
Foreign direct investment net inflow (% of GDP)	0.056 (0.096)
Mobile and fixed-line telephone subscribers (per 100 people)	-0.082*** (0.023)
Workers' remittances and compensation of employees received (% of GDP)	-0.081 (0.068)
Population growth rate	0.535 (0.454)
Urban-population growth rate	0.096 (0.119)
Age dependency ration	-0.009 (0.023)
Irrigated land (% of cropland)	0.045** (0.021)
Manufacturing value-added (annual growth rate)	-0.001 (0.018)
Log of electricity consumption (kWh per capita)	-0.105 (0.247)
Democracy index	0.009 (0.007)
Number of Observation	97

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Gross school Enrollment, trade, FDI, ICT, remittances, GNI per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; and Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/). The data cover the period from 1975 to 2005 in five-year intervals.

Table 4.6 presents the results of the impact of the key elements of globalization on GDP per capita. GDP per capita measures the income aspect of QOL, which is the dependent variable in this regression equation. The results show that only ICT is found to have a significant converging effect at 1%. Interestingly, although the rest of the control variables are found to be insignificant, the lagged dependent variable is found to be very significant at the 1% level. Interpretation of the coefficient of the lagged dependent variable is different than the other variables here. In this case, the convergence or divergence effect is indicated by magnitude of the coefficient rather than its sign. A coefficient of less than 1 indicates convergence, and a coefficient of more than 1 indicates divergence. Therefore, it clearly shows that a country's own level of income mostly impacts its progress in income, as the coefficient of the lagged dependent variable is more than 1 and is significant at the 1% level. Thus, the sharp income divergence is mainly fueled by the country's own level of income itself rather than other variables.

Table 4.6 Key Elements of Globalization and GDP Per Capita Gap (1975-2005)

Dependent variable: Log of "GDP per capita" gap with Japan

Independent Variables	GMM Coefficients
Lagged dependent variable	1.002*** (0.012)
Trade (% of GDP)	0.000 (0.000)
Foreign direct investment net inflow (% of GDP)	-0.00 (0.004)
Mobile and fixed-line telephone subscribers (per 100 people)	-0.002*** (0.000)
Workers' remittances and compensation of employees received (% of GDP)	-0.000 (0.002)
Population growth rate	-0.002 (0.024)
Urban-population growth rate	-0.006 (0.005)
Age dependency ration	0.002 (0.002)
Irrigated land (% of cropland)	0.000 (0.001)
Manufacturing value-added (annual growth rate)	-0.001 (0.001)
Log of electricity consumption (kWh per capita)	0.004 (0.007)
Democracy index	-0.001 (0.000)
Number of Observation	103

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

*Sources:*GDP per capita (current PPP, US$), trade, FDI, ICT, remittances, population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; and Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/). The data cover the period from 1975 to 2005 in five-year intervals.

The remaining part of this section presents the results from the KOF indexes of Globalization. Tables 4.7 through 4.11 report the results, one table for each dependent variable. In these result tables, Column [1] presents the results that come from regressing all the three indexes of globalization (economic, social and political) including the control and lagged dependent variable. In Column [2], a single index of overall globalization is regressed instead of the three separate indexes.

In Table 4.7, the dependent variable is HDI, which measures the overall QOL. The results show that the HDI gap closes with globalization, with the coefficient being significant at a 1% level for economic, social as well as overall globalization, and just at 10% for political globalization. This supports the argument that globalization helps to increase the QOL more in poorer countries than in richer ones, resulting in HDI convergence. The result is consistent with the theoretical arguments by Sirgy et al. (2004) and empirical evidence of Tsai (2007), who argued for the positive impacts of globalization on QOL. The results in Column [2] are consistent with Column [1] as the effect of overall globalization is converging at a 1% level of significance.

The impacts of the control variables are mixed and consistent for both columns. The lagged dependent variable is found not significant. The HDI gap with Japan rises with higher GDP per capita and the coefficient is significant at 1%. This result is due to the increasing income inequality trend, as shown in Figure 4.21. Other results are also as expected. Population growth has a diverging effect on QOL with the coefficients significant at 1% for both Columns. Similarly, although the significance level is weak (at 10%), irrigated land has a converging effect on QOL. However, the significance appears only in Column [2]. The rest of the control variables were found insignificant in their affect on QOL gap.

Table 4.7 Globalization and Human Development Gaps (1975-2005)

Dependent variable: HDI gap with Japan

Independent Variables	**[1]**	**[2]**
Lagged dependent variable	0.000 (0.000)	0.000 (0.000)
Log of GNI per capita	0.151 *** (0.038)	0.187 *** (0.055)
Overall globalization	--	-0.023*** (0.005)
Economic globalization	-0.005*** (0.002)	--
Social globalization	-0.011*** (0.002)	--
Political globalization	-0.002* (0.001)	--
Population growth rate	0.099*** (0.040)	0.125*** (0.051)
Urban-population growth rate	-0.003 (0.008)	-0.002 (0.010)
Age dependency ratio	-0.000 (0.002)	0.001 (0.002)
Irrigated land (% of cropland)	-0.002 (0.001)	-0.003* (0.002)
Manufacturing value-added (annual growth rate)	-0.001 (0.002)	0.000 (0.002)
Log of electricity consumption (kWh per capita)	-0.013 (0.018)	-0.001 (0.023)
Democracy index	-0.000 (0.001)	-0.001 (0.001)
Number of Observation	108	108

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Globalization indexes are taken from Dreher (2006)(http://globalization.kof.ethz.ch/); GNI per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/); HDI is taken from the HDR 2007/08 updated data of UNDP. The data cover the period from 1975 to 2005 in five-year intervals.

Disaggregated analyses of QOL are presented in Tables 4.8 through 4.11. Each variable -- health, education and income -- is a dependent variable in each Table. These analyses not only testify to the impact of globalization on each aspect of QOL, but also check the validity of the methodology

applied in this study. In Table 4.7, the log of life expectancy at birth is taken as a dependent variable. Unlike in Table 4.6, the lagged dependent variable is found to have a highly significant converging effect as both the coefficients are less than one. The effects are significant at 1% in both columns. The impact of overall and economic globalization on the convergence of life expectancy at birth is found to be significant at 5%, whereas social and political globalization have no significant effect on this convergence process.

Table 4.8 Globalization and "Life Expectancy at Birth" Gaps (1975-2005)

Dependent variable: Log of "life expectancy at birth" gap with Japan

Independent Variables	[1]	[2]
Lagged dependent variable	0. 947*** (0.163)	0. 774*** (0.122)
Log of GDP per capita	-0. 033 (0.121)	-0. 021 (0.075)
Overall globalization	--	-0.015** (0.008)
Economic globalization	-0.008** (0.004)	--
Social globalization	0.004 (0.006)	--
Political globalization	-0.002 (0.002)	--
Population growth rate	0.058 (0.051)	-0.117** (0.053)
Urban-population growth rate	-0.028* (0.015)	-0.010* (0.014)
Age dependency ratio	-0.004 (0.003)	-0.006** (0.003)
Irrigated land (% of cropland)	-0.007** (0.004)	-0.008*** (0.003)
Manufacturing value-added (annual growth rate)	0.002 (0.002)	0.001 (0.002)
Log of electricity consumption (kWh per capita)	0.037 (0.024)	0.034 (0.001)
Democracy index	-0.002** (0.001)	-0.000 (0.001)
Number of Observation	108	108

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Globalization indexes are taken from Dreher (2006)(http://globalization.kof.ethz.ch/); life expectancy at birth, GNI per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/); The data cover the period from 1975 to 2005 in five-year intervals.

The control variables have mixed impacts. As expected, the lagged dependent variable has a diverging effect on life expectancy at a 1% level of significance for both columns. GDP per capita has no significant effect. Population growth (significant at 5%, but only in column [2]), urban-population growth (significant at 10%), age dependency ratio (significant at 5%, but only in Column [2]), irrigated land (significant at 5% in Column [1] and 1% in Column [2]) and the democracy index (significant at 5% only in Column [2]) have converging effects on life expectancy at birth. The effects

of the remaining control variables are not significant. However, the overall results are consistent with the case of HDI in Table 4.2.

Table 4.9 reports the impact of globalization on the adult literacy gap. The main results are consistent with the previous Tables. Overall and economic globalizations have converging effects with a 5% level of significance. As for the control variables, the GDP per capita is found to not be significant. Population growth has a highly significant diverging effect at 1%, as expected. However, this is the case only in Column [2]. Unexpectedly, urban population growth and manufacturing value added are found to have a diverging effect on adult literacy at a 10% level of significance. This might be because these factors are more effective or more relevant for richer countries than poorer ones.

Table 4.9 Globalization and the "Adult Literacy" Gap (1975-2005)

Dependent variable: Log of "Adult literacy" - gap with Japan

Independent Variables	[1]	[2]
Lagged dependent variable	0.000 (0.000)	0.000 (0.000)
Log of GDP per capita	0. 437 (0.521)	0.814 (0.591)
Overall globalization	--	-0.077** (0.034)
Economic globalization	-0.161** (0.084)	--
Social globalization	0.200 (0.136)	--
Political globalization	0.012 (0.041)	--
Population growth rate	0.000 (0.000)	1.66** (0.688)
Urban-population growth rate	0.072* (0.039)	-0.060 (0.117)
Age dependency ratio	-0.030 (0.028)	-0.016 (0.028)
Irrigated land (% of cropland)	-0.008 (0.009)	0.015 (0.011)
Manufacturing value-added (annual growth rate)	0.069* (0.042)	0.052 (0.076)
Log of electricity consumption (kWh per capita)	-0.648 (0.432)	-0.363 (0.315)
Democracy index	-0.035** (0.017)	-0.010 (0.015)
Number of Observation	106	106

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Globalization indexes are taken from Dreher (2006)(http://globalization.kof.ethz.ch/); adult literacy, GNI per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/); The data cover the period from 1975 to 2005 in five-year intervals.

In the case of democracy, the result reconfirms the findings by Frey and Al-Roumi (1999) as the democracy index significantly reduces the adult literacy gap at 5% in Column [1]. The effects of the

remaining control variables are not significant. These results are also highly consistent with the case of HDI in Table 4.7.

The dependent variable for Table 4.10 is gross school enrollment—another education-related indicator—used to construct HDI. Here, gross school enrollment refers to the combined gross school enrollment from primary to tertiary level education. In this case, the lagged dependent variable is significant to have convergence at a 1% level for Column [2]. However, GDP per capita is not significant in either column.

Table 4.10 Globalization and "Gross School Enrollment" Gaps (1975-2005)

Dependent variable: Log of "gross school enrollment" gap with Japan

Independent Variables	[1]	[2]
Lagged dependent variable	0.000 (0.000)	0.973*** (0.124)
Log of GNI per capita	0.530 (0.328)	-0.069 (0.122)
Overall globalization	--	-0.008 (0.012)
Economic globalization	-0.015 (0.016)	--
Social globalization	0.055** (0.023)	--
Political globalization	-0.001 (0.009)	--
Population growth rate	0.841** (0.429)	0.244** (0.124)
Urban-population growth rate	-0.042 (0.078)	-0.034* (0.020)
Age dependency ratio	-0.016 (0.019)	-0.012* (0.006)
Irrigated land (% of cropland)	-0.021* (0.011)	-0.012*** (0.005)
Manufacturing value-added (annual growth rate)	-0.007 (0.017)	0.003 (0.004)
Log of electricity consumption (kWh per capita)	-0.225 (0.161)	-0.029 (0.058)
Democracy index	0.007 (0.006)	0.001 (0.002)
Number of Observation	99	99

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Globalization indexes are taken from Dreher (2006)(http://globalization.kof.ethz.ch/); gross school enrolment, GNI per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/); The data cover the period from 1975 to 2005 in five-year intervals.

Surprisingly, only social globalization is found to have a converging effect at a 5% level. The rational for social globalization to affect school enrollment could be an increasing support of international cooperation on education in poorer countries. In terms of the control variables, as expected, population growth has a diverging effect at 5%, and urban population growth, the age

dependency ratio, irrigated land and manufacturing value added have converging effects at a 10% level of significance.However, the level of significance increased to 1% for manufacturing value added in Column [2]. These results indicate that school enrollment is affected more by domestic policies than globalization (except social globalization). Further analysis is essential to explore this issue.The result for this particular dependent variable is somehow different from that of previous dependent variables.In fact, gross school enrollment has been found to be neither converging nor diverging (Figure 4.22).

Finally, Table 4.11 presents the results for GDP per capita, the income measure of QOL, as the dependent variable. As the coefficient of the lagged dependent variable is more than 1 in both columns, it is evidence of the diverging effect. The effect is significant at the 1% level in increasing the income gap. This means that the initial level of GDP per capita is a very good predictor of future income levels. This phenomenon leads to income divergence, which is consistent with the findings of this study as well, as Figure 4.23 shows a sharp divergence of GDP per capita.

Table 4.11 Globalization and "GDP Per Capita" Gap (1975-2005)

Dependent variable: Log of "GDP per capita" gap with Japan

Independent Variables	[1]	[2]
Lagged dependent variable	1.064*** (0.022)	1.045*** (0.014)
Overall globalization	--	-0.002** (0.001)
Economic globalization	-0.004*** (0.001)	--
Social globalization	0.000 (0.001)	--
Political globalization	0.000 (0.001)	--
Population growth rate	0.000 (0.000)	0.019 (0.022)
Urban-population growth rate	-0.011** (0.005)	-0.010** (0.004)
Age dependency ration	0.000 (0.002)	0.000 (0.001)
Irrigated land (% of cropland)	-0.006*** (0.001)	-0.003*** (0.001)
Manufacturing value-added (annual growth rate)	-0.001 (0.004)	-0.002** (0.001)
Log of electricity consumption (kWh per capita)	0.018 (0.012)	0.004 (0.007)
Democracy index	-0.001*(0.001)	-0.001** (0.000)
Number of Observation	105	105

Notes: Dynamic panel one step system GMM estimations are reported. Standard errors are in parentheses. ***, **, and * denote the significance of the coefficients at 1%, 5% and 10%, respectively.

Sources: Globalization indexes are taken from Dreher (2006)(http://globalization.kof.ethz.ch/); GDP per capita (current PPP, US$), population growth rate, urban-population growth rate, age dependency ratio, irrigated land, manufacturing sector value-added, and electricity consumption per capita are taken from the WDI online database of the World Bank; Democracy Index is calculated from the data of Freedom House (http://www.freedomhouse.org/); The data cover the period from 1975 to 2005 in five-year intervals.

Interestingly, although GDP per capita is diverging in the region, overall and economic globalization is found to have a converging effect at 5% and 1% levels of significance, respectively. This indicates that income divergence is not due to globalization, but a lack of globalization, because poorer countries are less globalized than the richer ones in general.

Regarding the control variables, as expected, urban population growth (significant at 5% for both columns), irrigated land (1% significance for both columns), manufacturing value added (significant at 5% for Column [2] only) and the democracy index (significant at 1% for Column [1] and 5% for Column [2]) has a converging impact on GDP per capita. Indeed, urbanization leads to better living conditions, offering better facilities and opportunities compared to rural areas. Irrigated land and manufacturing sectors value-added are also highly significant in reducing the income gap in both cases. Expanding irrigated land generates higher agricultural productivity, and increasing the share of manufacturing value added to GDP enhances technological advancement, industrial productivity and also generates more employment in poorer countries, which ultimately leads to reduced income gaps. Finally, as the existing literature suggests (see Barrow, 1999, for detail), democracy is highly significant in reducing income gaps. In spite of these effects, income is sharply diverging in the region due to the existing level of significant income inequality across the countries.

Overall, although the converging effect of globalization is weak with gross school enrollment, the effects are highly significant for the other variables. More importantly, the effect is highly significant in reducing the overall QOL convergence in terms of HDI. In spite of rising income inequality, the growing level of globalization helps reduce the gap on overall QOL of people in the Asia-Pacific.

4.5 Chapter Conclusion

In the context of contradicting arguments on global convergence, and possible consequence of globalization on the convergence (or divergence) process, the results of this study reveal that the gap between the rich country, Japan, and the rest of the selected Asia-Pacific countries has significantly reduced in terms of QOL since 1975. Thus, results reconfirm the convergence hypothesis as far as the HDI and the health and education indicators are concerned. More importantly, globalization, in terms of its key elements as well as the comprehensive indicators, KOF indexes, has been shown to have a highly significant converging effect on QOL convergence in the Asia-Pacific. Interestingly, even though GDP per capita is found to be diverging, the globalization effect is observed to be significantly converging and most of the control variables are also found to have converging effects. Thus, the result reveals that income divergence primarily depends on the existing income level of a country. It is therefore argued that globalization should be promoted with other supportive socioeconomic policies to reduce income divergence across the countries.

Similarly, in spite of the sharply diverging trend of GDP per capita, there is an obvious convergence of HDI. It is more dichotomous when considering the literature, which shows a very strong positive relationship between income and health and education. However, the economic theory of diminishing marginal return to the health and education expenditure explains this dichotomy. Precisely, even if poorer countries gain less income than richer ones, they can improve their people's health and education levels at a faster pace. Of course, income is one of the leading measures of QOL, but health and education are also equally, and sometimes more, important. Income is just a means of life, but arguably, health and education are ends or goals. Therefore, it is argued here that convergence in QOL matters more than convergence in income.

It is more important to find the significant impact of globalization on this convergence process because many politicians, policymakers, social organizations, activists and even some academics criticize globalization for increasing income inequality. Clearly, diverging income is the result of low levels of globalization in poorer countries. Thus, any country's integration into the world economy and society is important for global convergence in any aspect.

Furthermore, in the context of the growing discussion as well as initiatives for Asian regional integration, and the debate on regionalism versus globalization, the findings of this study support the view that globalization accelerates regional integration by reducing the QOL gap between the rich and poor countries in the region. Intuitively, as a wide developmental gap is one of the main obstacles to regional integration in Asia, anything that is converging has a favorable impact on the regional integration process.

What are the policy implications of these findings? Clearly, both rich and poor countries should promote globalization. In view of the questions being raised about the effectiveness of development aid,[55] and clear findings of the converging effect of globalization, rather than providing more aid, richer countries should be more open towards poorer countries, particularly with a focus on LICs.

The next chapter focuses more on policy issues of globalization in the context of LICs in the Asia-Pacific region. Applying a content analysis framework, the chapter assesses the extent to which issues of globalization are mainstreamed in the Poverty Reduction Strategy Papers (PRSPs), the comprehensive development planning document of LICs.

[55] According to Doucouliagos and Paldam (2009), most of the evidence shows that aid (for the last 40 years) has not been effective. The conclusion has been drawn by examining the entire literature on aid effectiveness, which consists of 97 econometric studies done by the end of 2004. The authors have also shown that the research community is reluctant to publish their negative results.

Chapter Appendices

Appendix 4.1 List of Control Variables and Their Definition

1. *Annual population growth rate (annual %):* Population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship--except for refugees not permanently settled in the country of asylum, who are generally considered part of the population of the country of origin.
   Source: World Bank staff estimates from various sources including census reports, the United Nations Population Division's World Population Prospects, national statistical offices, household surveys conducted by national agencies, and Macro International.
2. *Urban population growth (annual %):* Urban population is the midyear population of areas defined as urban in each country and reported to the United Nations.
   Source: World Bank staff estimates using United Nations, World Urbanization Prospects.
3. *Age dependency ratio: It* is the ratio of dependents--people younger than 15 or older than 64--to the working-age population--those aged 15-64. For example, 0.7 means there are seven dependents for every 10 working-age people. *Source:* World Bank staff estimates from various sources including census reports, the United Nations Population Division's World Population Prospects, national statistical offices, household surveys conducted by national agencies, and Macro International.
4. *Electric power consumption*: It measures the production of power plants and combines heat and power plants minus transmission, distribution, and transformation losses and usage by heat and power plants. Source: International Energy Agency, Energy Statistics and Balances of Non-OECD Countries and Energy Statistics of OECD Countries.
5. *Irrigated land*: It refers to areas purposely provided with water, including land irrigated by controlled flooding. Cropland refers to arable land and permanent cropland. Source: Food and Agriculture Organization, Production Yearbook and data files.
6. *Democracy indicator:* It consists of two key rights; political and civil. The political rights measurement is based on subjective indicators that annually rank each country on a scale from one (highest level of political rights) to seven (lowest level of political rights). Similarly, the civil liberties measurement is used to capture personal rights, such as those to free expression and to organize or demonstrate, and are measured on the same scale from one to seven. These two Freedom House measures of democracy are averaged and normalized to range from zero to 100, with 1000 representing full democracy. The measures of democracy are taken from Freedom House (2009), and are available from 1972 to 2008.
   (*Source:* Freedom house, 2009. http://www.freedomhouse.org/template.cfm?page=1)

Note: All the variables, except Democracy Index, are taken from the WDI online database of the World Bank, hence the definitions are sourced from the WDI online data base

Appendix 4.2 Summary Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
HDI gap	126	0.285	0.128	0.031	0.56
Life expectancy gap	126	15.564	6.954	1.935	36
Adult literacy gap	126	27.466	23.849	0	81
Gross enrollment gap	122	20.919	14.426	-10.1	54
GDP per capita gap	126	14801.7	8408	-13023.5	29349.9
GNI per capita	109	3524.44	6138.448	230	39410
Population growth rate	126	1.806	.814	-0.557	4.178
International trade (trade)	108	78.712	64.276	9.159	444.315
Foreign dir. investment (fdi)	108	2.484	3.369	-2.757	17.779
Telephone/mobile scbr. (ict)	116	12.668	26.375	0.032	146.022
Remittances (remit)	89	3.868	6.475	.045	38.373
Overall globalization	126	42.467	15.756	14.45	86.36
Economic globalization	119	44.613	20.029	9.84	96.34
Social globalization	126	33.419	20.875	8.05	91.04
Political globalization	126	53.251	19.250	12.07	90.62
Urban-population growth rate	126	2.971	4.549	-42.905	11.277
Age dependency ratio	126	69.631	15.094	37.087	96.422
Irrigated land (% of cropland)	78	22.276	16.435	0	85.365
Mnfcr. value-added (growth rate)	107	5.767	8.516	-22.77	30.29
Electricity C. (kWh per capita)	99	992.333	1707.165	6.569	8507.197
Democracy index	111	52.778	22.257	8.333	91.667

Appendix 4.3 Correlation Matrix

	dhdi	dlifexp	dadultlr	denrol	dgdppcp	gnipcp	trade
HDI gap (dhdi)	1						
Life exp. Gap (dlifexp)	0.8845	1					
Adult literacy gap (dadultlr)	0.9185	0.7425	1				
Gross enrollment gap (denrol)	0.8171	0.665	0.7729	1			
GDP per capita gap (dgdppcp)	0.4408	0.4778	0.2592	0.3375	1		
GNI per capita (gnipcp)	-0.6705	-0.5779	-0.4769	-0.528	-0.2359	1	
International trade (trade)	-0.5092	-0.433	-0.5118	-0.3142	0.0141	0.4111	1
Foreign direct inv. inlow (fdi)	-0.1688	-0.1061	-0.2086	-0.0889	0.1888	0.2049	0.7094
Telephone and/or mobile sub. (ict)	-0.5335	-0.4634	-0.361	-0.4838	-0.1783	0.9267	0.2858
Remittances (remit)	0.1806	0.1169	0.0978	0.0237	0.511	-0.2462	-0.0313
Overall globalization (gblz)	-0.6075	-0.4813	-0.5303	-0.4119	0.1702	0.6549	0.7347
Economic globalization (egblz)	-0.56	-0.4015	-0.5707	-0.413	0.1019	0.4547	0.8392
Social globalization (sgblz)	-0.7552	-0.6545	-0.6558	-0.51	0.0217	0.7524	0.7252
Political globalization (pgblz)	0.049	0.0504	0.181	0.0885	0.3711	0.3014	-0.0568
Population growth rate (Png)	0.3525	0.3689	0.4544	0.2834	-0.0506	-0.2376	0.1001
Urban-popn. growth rate (urpgrwth)	0.2627	0.3696	0.3234	0.1615	-0.0432	-0.1711	-0.0293
Age dependency ratio (agedepr)	0.5758	0.6055	0.521	0.3291	0.0495	-0.6164	-0.1394
Irrigated land % of cropland (irrland)	0.1626	0.003	0.2731	0.1992	0.1574	0.1262	-0.5375
Manuf. value-added (Manvadd)	0.0591	0.0728	0.0859	0.0053	0.2487	0.2556	0.18
Electricity consumption (Elecpcp)	-0.6326	-0.5523	-0.4411	-0.5064	-0.276	0.9807	0.3677
Democracy Index (dindex)	-0.234	-0.1961	-0.1813	-0.1334	-0.1619	0.3145	0.0214
	fdi	**ict**	**remit**	**gblz**	**egblz**	**sgblz**	**pgblz**

Foreign direct inv. inlow (fdi)	1						
Telephone and/or mobile sub. (ict)	0.1739	1					
Remittances (remit)	-0.1094	-0.1974	1				
Overall globalization (gblz)	0.5252	0.5508	-0.0126	1			
Economic globalization (egblz)	0.6751	0.3553	-0.0988	0.8847	1		
Social globalization (sgblz)	0.4608	0.6215	0.0255	0.9315	0.7901	1	
Political globalization (pgblz)	-0.0847	0.3182	0.0914	0.4577	0.0762	0.2849	1
Population growth rate (Png)	0.2069	-0.2763	0.0254	-0.0157	0.0845	-0.1334	0.001
Urban-popn. growth rate (urpgrwth)	0.0621	-0.184	-0.1603	-0.0224	0.1173	-0.195	0.0142
Age dependency ratio (agedepr)	0.0709	-0.5405	0.1769	-0.378	-0.1599	-0.4967	-0.2587
Irrigated land % of cropland (irrland)	-0.4182	0.2089	0.1979	-0.2093	-0.473	-0.0987	0.2617
Manufacturing value-added (Manvadd)	0.3402	0.2562	-0.1444	0.1636	0.1882	0.0952	0.0857
Electricity consumption (Elecpcp)	0.2101	0.9583	-0.3043	0.6039	0.4153	0.6969	0.2802
Democracy Index (dindex)	-0.12	0.2596	0.0482	0.1566	-0.0439	0.2657	0.2092

	png	**urpgrwth**	**agedepr**	**irrland**	**manvadd**	**elecpcp**	**dindex**
Population growth rate (Png)	1						
Urban-popn. growth rate (urpgrwth)	0.6739	1					
Age dependency ratio (agedepr)	0.8194	0.5347	1				
Irrigated land % of cropland (irrland)	-0.334	-0.2278	-0.3354	1			
Manufacturing value-added (Manvadd)	-0.0273	0.0996	-0.1437	0.0699	1		
Electricity consumption (Elecpcp)	-0.2567	-0.1695	-0.5982	0.1362	0.2148	1	
Democracy Index (dindex)	-0.1377	-0.4421	-0.2354	-0.0062	-0.3827	0.315	1

Chapter 5

Globalization as a Poverty Reduction Strategy: Evidence from the Asia-Pacific

Chapter Synopsis

This thesis has found a significant impact of globalization, in terms of its key elements as well as comprehensive indicators of KOF indexes, on QOL, empirically in Chapter 3 and Chapter 4. In the context of growing worry about globalization's perceived negative consequences in poorer countries and growing income inequality across nations, these chapters have demonstrated globalization's significant impacts on human poverty reduction in developing countries and QOL convergence among rich and poor countries in the Asia Pacific region. Now questions arise: how do low-income countries (LICs) respond to the current wave of globalization? How do they incorporate issues and elements of globalization in their development agenda, particularly in their poverty reduction strategies? These are crucial questions as current international development efforts are targeting the sole goal of poverty reduction under the World Bank and IMF's framework of poverty reduction strategy and the United Nations' declaration of Millennium Development Goals (MDGs). Therefore, this chapter examines the extent to which the key elements of globalization such as international trade, foreign investments, foreign aid, transnational labor migration and tourism have been mainstreamed into the Poverty Reduction Strategy Papers (PRSPs), the main development planning documents of LICs, in the Asia-Pacific. Using a content analytic framework, the chapter finds that LICs in the region are very keen towards globalization. Particularly, trade openness gained the highest priority in the PRSPs, followed by foreign investment, foreign aid and tourism. However, transnational migration received the lowest priority, which calls for further investigation.

5.1 Introduction

In this rapidly globalizing world, countries' openness towards their regional neighbors and to the rest of the world is one of the most important strategic areas for poverty reduction, and it is of great interest to national governments, donor communities, the business community, and even the general public. Poverty reduction has been a recent focus as it is the central goal of international development. "Shaping the 21st Century: The Contribution of Development Co-operation" was the first document adopted (in 1996) by the Thirty-fourth High Level Meeting of the Organization for Economic Cooperation and Development (OECD), Development Assistance Committee (DAC), in which poverty reduction had been given top priority with a concrete target. The document defined the foremost development goal as "a reduction by one-half in the proportion of people living in extreme poverty by 2015" (OECD, 1996:2). Based on the lessons from the past 50 years, the document

represents a new policy for the first part of the 21st century. Consequently, for the same year, the World Bank and IMF introduced the Heavily Indebted Poor Country (HIPC) initiative, taking immediate action to help the poorest, most heavily indebted countries escape from unsustainable debt. The initiative was designed to enable poor countries to focus their energies on creating policy and building an institutional foundation for sustainable development and poverty reduction.

More comprehensively, several initiatives by the World Bank and IMF gave a basic framework for the Poverty Reduction Strategy (PRS) process in 1999. In January of that year, the World Bank introduced the Comprehensive Development Framework (CDF) aiming to correct the previous sector-based development strategy. In September of the same year, the World Bank and IMF expanded the HIPC initiative to strengthen the focus on poverty reduction. Finally, the framework for Poverty Reduction Strategy Papers (PRSPs) was introduced in December of that year as a device to ensure the proper use of concessional loans and debt relief to low-income countries (LICs).[56] Furthermore, the Millennium Development Goals (MDGs) adopted by the UN Millennium Summit in September 2000 provided more precise objectives and targets for the PRS process.[57]

From the viewpoint of LICs, most of which have decades of experience with planned development, the PRSP is a modified development planning document. LICs try to incorporate the principles and guidelines provided by the World Bank and IMF into their original national development planning documents, calling the modified version a PRSP. Even though many scholars have criticized PRSPs for being heavily dominated by the criteria and guidelines of the World Bank and IMF rather than considering real socioeconomic situations and people's aspirations (e.g. Carr, 2008 and Kamruzzaman, 2009), as a fundamental and comprehensive policy document of LICs, it is worthwhile to analyze the key international development issues existent within these documents.

Globalization has been one of the key issues related to international development in recent decades, and there is a tremendous amount of theoretical and empirical literature on globalization's impact on development and poverty reduction. Globalization, defined as the flow of goods, capital, people, and ideas, has both direct (benefiting poor people directly) and indirect (through the economic growth channel) effects on poverty reduction. Mainstream studies argue that globalization helps poverty reduction: *directly* by reducing the price of goods that are consumed by the poor, increasing employment and remittances, improving education and health, ameliorating poverty and suffering, and promoting governance and democracy; and *indirectly* through economic growth by increasing economic efficiency through competition, productivity, and technology transfers. However, these

[56] Poverty Reduction Strategy Papers (PRSPs) are the national development policy documents prepared by governments in LICs through a participatory process involving domestic stakeholders and external development partners, including the World Bank and IMF. Available at: http://www.imf.org/external/np/exr/facts /prsp.htm (accessed 1 August 2010). According to the World Bank's "country classification," LICs have a GNI per capita of $975 or less, calculated using the World Bank Atlas method.

[57] The Millennium Development Goals (MDGs) are eight international development goals that 189 United Nations member states and at least 23 international organizations have agreed to achieve by the year 2015. They include reducing extreme poverty, reducing child mortality rates, fighting disease epidemics such as AIDS, and developing a global partnership for development. Available at http://www.un.org/millenniumgoals/ bkgd.shtml (accessed 1 August 2010).

effects are not automatic and depend on accompanying policies (Goldin and Reinert, 2007, Sapkota, 2010).

Thus, this Chapter examines the extent to which the key elements of globalization, such as international trade, investment, foreign aid, transnational labor migration, and tourism, have been mainstreamed into PRSPs in the Asia-Pacific. To do so, it follows a content analytic framework by comparing all the PRSPs in two major world regions: namely, East Asia and the Pacific (EAP) and South Asia (SA), where more than two thirds of world's poor reside (Chen and Ravallian, 2008).[58] A list of the analyzed PRSPs is given in Appendix 5.1.

The rest of the chapter proceeds as follows. Section 2 briefly highlights the 13 PRSPs analyzed from the Asia Pacific region. The section briefly discusses the relative importance of each PRSP in the overall development agenda, given each country's social, economical, and political environment. Section 3 examines the main pathways from globalization to poverty reduction. Based on the existing literature, the section briefly explains the direct as well as indirect impacts of globalization on poverty reduction that shows how and why globalization is crucial for poverty reduction in LICs. Section 4 discusses the methodology used with an explanation of the data and the variables examined. It describes the content analytic framework applied to assess the 13 PRSPs from the Asia Pacific LICs. Section 5 presents the results, which confirms that trade received the highest priority followed by foreign direct investment (FDI), foreign aid, tourism, donors' participation and transnational migration. Finally, Section 6 concludes the chapter with the argument that LICs in the region are very keen towards globalization in general. However, each country's experience of globalization, regime type and cultural background affect its outward policies. These results are useful for policy makers and the donor community when formulating second generation PRSPs.

5.2 PRSPs in Perspective

The reviewed PRSPs were published between 2002 and 2008. Thus, a time effect can be observed as later ones were better designed, better organized and more comprehensive in general. Furthermore, the relative importance of each PRSP in their overall development agenda is also generally influenced by the country's political system, level of socioeconomic development, stage of globalization, and presence of internal or external conflict.

Overall SA PRSPs are relatively less organized and unbalanced in terms of the different elements of globalization. On the other hand, PRSPs from EAP countries are more balanced in their focus on the different aspects of poverty and development problems and, more importantly, in prioritizing the major elements of globalization as means for development. This section discusses each PRSP briefly, starting from SA. The information is based on each country's PRSP document, and the data reported are taken from the WDI online database of the World Bank unless otherwise specified.

[58] The definition of world regions is also taken from the World Bank's "country classification."

5.2.1 Afghanistan's PRSP: An Aspiration for Reconstruction and Nation Building

Afghanistan's PRSP is the newest among the reviewed PRSPs, published in 2008 with the title, "Afghanistan National Development Strategy (ANDS)." In 2008, Afghanistan's population was about 29 million, GNI per capita (Atlas method) was $370, the poverty headcount rate was 42% and life expectancy at birth was 44 years, all below the average of LICs. The country's GDP was $10.6 billion and exports were 17.2% of GDP for the same year. The last three decades of the 20th century was a time of civil war and instability for Afghanistan. It was more serious when the Taliban, an extremist Muslim group, dominated the political landscape from 1996 to 2001. Core institutions were destroyed and the nation was pushed to unrivaled levels of absolute poverty, ill health, and large scale illiteracy. With the support of the US, together with the international community, a parliamentary democracy was introduced in 2001. However, civil conflict and insecurity remained the major challenge for the county, even after a presidential election under a new constitution in 2004.

In this background, a PRSP was prepared after two years of analysis and priority-setting, drawing on extensive national and sub-national consultations, and based on the MDGs. It provides a detailed, budgeted strategy and offers a roadmap towards stability, self-sustaining growth, and human development. The key priorities of the PRSP are as follows:

a) Security: to achieve nationwide stabilization, strengthen law enforcement, and improve personal security.

b) Good governance, rule of law, and human rights: to strengthen democratic practices and institutions, human rights, the rule of law, delivery of public services, and government accountability.

c) Economic and social development: to reduce poverty, ensure sustainable development through a private sector-led market economy, improve human development indicators, and make significant progress toward achieving the MDGs.

Besides these key priorities, the PRSP recognized five cross-cutting issues that simultaneously affect the above priorities. First is the elimination of the narcotics industry, which represents a formidable threat to the country, the region, and beyond. The PRSP set eight activities to control narcotics production and distribution, which are "(i) alternative livelihoods, (ii) building institutions, (iii) information campaign, (iv) drug law enforcement, (v) criminal justice, (vi) eradication, (vii) drug demand reduction and treatment of drug addicts, and (viii) regional cooperation" (p.16).

The second cross-cutting issue is anticorruption. The PRSP acknowledged that high level of corruption is a major barrier to development and better governance, and emphasized the rule of law, impartiality in political decision making, proper management of public resources, the provision of efficient services and greater roles for civil society and the private sector. The PRSP also focused on achieving clear progress in reforming public administration and judicial systems as well as implementing measures in the counter narcotics strategy. The third issue of focus is capacity

development, both human and institutional. The PRSP proposed to build the institutional mechanisms to support capacity development, mainly in the public sector, but where appropriate, supporting institutions and initiatives will also enable the private sector to participate and benefit from these mechanisms, such as the National Vocational and Education Training Board.

As gender inequality is at the highest level in Afghanistan, it is another cross-cutting issue given focus in the PRSP. The PRSP provides a framework for mainstreaming gender interventions across sectors so as to address women's position in society, their socioeconomic condition, and access to development opportunities. The implementation of the strategy for gender equity is a shared responsibility among government entities at the national and sub-national levels. The environment is another cross-cutting issue of the PRSP, which emphasized conservation, protection, and improvement of the country's environment. It also aimed to ensure the sustainability of development efforts for future generations. The PRSP gave top priority to strengthen the capacity of the National Environmental Protection Agency to perform its regulatory, coordination, and oversight functions, and the capacity of line ministries to actively address environmental considerations in their program designs.

Another focus was on regional cooperation, as the PRSP put, "Afghanistan occupies a key strategic location linking Central Asia with South Asia, providing China and the Far East with a direct trade route with the Middle East and Europe. …Developing the opportunities arising from this strategic location as a 'land bridge' between Central and South Asia, and the Middle East and the Far East will contribute to regional stability and prosperity, as well as increased investment and trade" (p. 17). To enhance regional cooperation, the PRSP prioritized "(i) to increase and deepen Afghanistan's participation and leadership in bilateral and region-wide initiatives and agreements that facilitate transit, transport, and investment in the region; (ii) to promote cross-border initiatives for the equitable exploitation of shared resources of hydro power; (iii) to facilitate the voluntary return of refugees; and (iv) extend regional cooperation on border management to better align efforts against organized cross-border crimes, such as trafficking in drugs and weapons. The government recognizes that it cannot achieve its goals with regards to improving security without close cooperation from regional partners, particularly Pakistan" (Ibid).

As a whole, the PRSP is relatively well organized, although it is highly ambitious given the context of Afghanistan's difficult political situation. This is natural though, as the country could not even consider development in the past, and the PRSP is the country's first development planning document. It was formulated as a great "hope," as President Hamid Karzai said that it "… beg[a]n the journey of rebuilding a nation from a past of violence, destruction and terror" (p. ii).

5.2.2 Pakistan's PRSP: Fulfilling the Requirements of the World Bank and IMF

Pakistan introduced a PRSP in 2003, entitled, "Accelerating Economic Growth and Reducing Poverty: The Road Ahead." In 2008, Pakistan's population was about 166.1 million, GNI per capita (Atlas method) was $950, the poverty headcount rate was 17.2%, and life expectancy at birth was 67 years. The country's GDP was $164.5 billion, and exports were 12.8% of GDP for the same year. Development challenges for Pakistan include achieving high and sustained broad-based economic growth, particularly in rural areas, reducing poverty, providing essential social and economic services and infrastructure to the poor, creating job opportunities, and improving governance. In this context, Pakistan's PRSP has four major pillars for development: a) Accelerating economic growth; b) Improving governance; c) Investing in human capital; d) Targeting the poor and the vulnerable.

To achieve high economic growth, the PRSP emphasized continuity in opening the economy through a stable set of macroeconomic policies in the areas of privatization, trade liberalization, banking and financial sectors, labor markets, and the regulatory environment to take advantage of opportunities provided by globalization. It also focused on streamlining the regulatory framework, improving the enabling environment for small and medium size enterprises (SMEs), the provision of supportive infrastructure, a rural development strategy, and housing finance. Notably, the PRSP tried to provide a comprehensive program of trade reforms, gradually moving the economy away from protectionism and towards greater trade openness and global economic integration with a reduction of tariffs, export promotion and diversification, and by facilitating liberal imports.

To improve governance, the PRSP proposed devolution, fiscal decentralization, access to justice, police reforms, civil service reform, pay and pension reform, capacity building, an anticorruption strategy, procurement reform, freedom of information, fiscal and financial transparency and strengthening statistics. Devolution includes the devolution of political power, decentralization of authority, deconcentration of functions and distribution of resources.

As most social development indicators for Pakistan are lower than those of other developing countries at similar levels of per capita income, the PRSP prioritized investment in human capital. To achieve this goal, the focus was on improvements in education and health delivery, drinking water and sanitation, youth development, and strengthening the commission for human development. In education, literacy was estimated at 49% with considerable gaps across genders, provinces and the rural-urban divide. Male literacy was 61% and female literacy was 36.8% in 2000-01. Pakistan is facing a challenge of coverage and quality in education. In the health sector, challenges include a high population growth rate, a high incidence of low birth-weight babies and maternal mortality. To solve these and other human aspects of the development program, the PRSP plans to strengthen the National Commission for Human Development.

The PRSP finally set several strategies to target the poor and vulnerable directly. Its strategies include expansion of microfinance facilities, streamlining emergency relief assistance programs, and strengthening other safety nets and pension programs for the private sector, focusing on rural areas. Microfinance, rapidly growing in Pakistan, has the potential to serve the poor by building their assets, developing their microenterprises, enhancing their income earning capacity, and empowering women. The PRSP also provisioned several social safety net programs, such as monetary support for health care, education, and marriage, and a food support program.

However, the strategies are not properly linked with the poverty reduction objective and lack a policy coordination mechanism. In fact, Pakistan prepared the PRSP under the presidency of Army General Pervez Musharraf, who came to power by military coup. Thus, the PRSP did not get much attention as the regime had political priorities other than poverty reduction. It seems the document was prepared to serve the World Bank and IMF conditionality for concessional loans.

5.2.3 Bangladesh's PRSP: Development Strategies under Political Instability

Bangladesh's PRSP was published in 2005, entitled "Unlocking the Potential –National Strategy for Accelerated Poverty Reduction (NSAPR)." The country's population was about 160 million, GNI per capita (Atlas method) was $520, the poverty headcount rate was 40%, and life expectancy at birth was 66 years in 2008. The country's GDP was $79.6 billion and exports were 20.3% of GDP the same year. The PRSP of Bangladesh took a broad definition of poverty, including deprivations in income, food security, quality of life, and vulnerability, and had three main pillars: pro-poor growth, human development, and governance to address poverty and development problems and to achieve the MDG targets by the year 2015.

The PRSP stressed the need for ensuring globally competitive industrialization based on the country's comparative advantage. The export-led growth policy of Bangladesh gave exports a unique position in the poverty reduction discourse. Since the early 1980s, Bangladesh has promoted trade mainly through reforms of its trade regime and removal of the structural obstacles to production and trade. The liberalization programs undertaken by successive governments focused on the simplification of import procedures, reduction of quantitative restrictions, rationalization and diminution of import tariffs, and maintaining a competitive exchange rate. The PRSP is committed to setting up a domestic incentive structure, which is largely non-distortionary in nature and minimizes policy-induced anti-export bias. However, there is little discussion of the fact that the current high trade protection, by creating significant anti-export bias along with a cumbersome import regime, acts as a major drag on export growth.

The PRSP identified agriculture and rural development as priority areas for rapid poverty reduction. A comprehensive but very ambitious agriculture and rural development strategy had been outlined. However, job creation, sustained growth, and poverty reduction largely depend on the

broader development of the nonfarm rural sector, a topic which does not receive sufficient attention in the PRSP. The PRSP also stressed private sector development by facilitating direct support to private enterprises and emphasizing an improved legal and regulatory environment.

The PRSP focused on human development as one of the three strategic pillars of the PRS. The targeted goals are consistent with the achievement of the MDGs. It rightly focuses on issues such as education quality and internal efficiency of the system, and access to education and health services for the poor. It also noted that the improvement of human development and health can be major factors in the reduction of poverty and deprivation, providing the poor with the tools to access the benefits of growth. The plan proposed for social protection is also appropriate for the country's needs. The weakness, however, lies in the costing, which leaves out large and expensive items like secondary and post-secondary education. It also does not address the risks arising from the lack of effective coordination between separate Ministries of Primary and Secondary Education, the high overheads arising from multiple overlapping programs run by multiple ministries, or the centralized model of service delivery in health care.

Governance is the third pillar of the PRSP. As the country suffers from a poor reputation for governance, the strong focus on governance is appropriate. The strategic and selective approach taken in the PRSP for addressing governance issues is encouraging. It highlights the importance of improvements in public financial management as a means to reduce corruption and improve service delivery to the poor. The focus is largely on procurement, which is undoubtedly the most important source of budgetary leakages. However, the lack of specificity on sectoral governance reforms suggests that ownership needs to be broadened within the government. While recognizing the need for broad-based governance reforms ranging from the judiciary to anticorruption to decentralization, the strategic focus is on those governance issues that are of most concern to the poor.

Comparatively, Bangladesh designed a better PRSP than Pakistan, which played a greater role in the country's development despite its political instability. However, Bangladesh has had less conflict with India and more progressive globalization and development indicators than Pakistan.

5.2.4 Bhutan's PRSP: Just a Cover Note of a Development Plan

Bhutan published a PRSP in 2004 as "A Cover Note to the Ninth Plan Main Document." In 2008, Bhutan's population was about 0.69 million, GNI per capita (Atlas method) was $1,900, the poverty headcount rate was 31.7% (in 2004), and life expectancy at birth was 54 years. The country's GDP was $1.3 billion and exports were 55.9% of GDP the same year. Landlocked in the Himalayas between two large neighbors, India and China, Bhutan has enjoyed robust growth and low inflation based on sound economic management, good governance, and judicious protection of its natural resources.

The PRSP reflects Bhutan's distinctive approach to development based on the concept of Gross National Happiness. The PRSP has four pillars: economic growth and development; promotion and preservation of cultural heritage; sustainable use of the environment; and good governance. The key strategies for achieving these goals are maintaining sound macroeconomic policy, ensuring good governance (emphasizing decentralization), expanding physical infrastructure (access to roads, electricity and telecommunication services), and improving access to social services (principally schools and hospitals). The objective is to sustain the growth momentum while broadening its base and to reduce poverty further, especially by overcoming the challenges of Bhutan's geography to reach the poor in secluded communities.

The PRSP contains ambitious targets, for an economic growth of 8.25%, compared to historical experience. Pushing the economy to this higher growth curve is challenging. Some increase in the growth rate can be expected over the medium term. However, implementation of the government's strategies in various sectors, as outlined in the Ninth Plan would be important. In addition, rapid development of the private sector is more important to raise income levels for the poor and generate employment. This would also help to provide employment opportunities for the large number of young job-seekers expected in the coming years since capital-intensive investment projects in the power sector offer limited opportunity for job creation. The PRSP recognized these issues and proposed measures to improve the business environment, including investments in human and physical capital, regulatory reform, and trade liberalization. These reforms would help Bhutan reap its comparative advantage in the tourism sector and tap the potential for higher productivity in agriculture. Greater private sector participation in the financial sector would also facilitate the development of commercial banking that could nurture entrepreneurship.

The key fiscal challenge was to limit the size of fiscal deficits in the face of an ambitious public expenditure program. To accomplish this, the PRSP planned a rise in domestic revenue by 1.25% of GDP over the medium term and a decline in current expenditure by 2% of GDP over the same timeframe. To finance the resulting deficit, it relied on substantial grant inflows (10–15% of GDP a year), concessional external financing of about 4% of GDP a year, and domestic financing of around 3% of GDP a year. The links between the development objectives and spending allocations in the annual budget are crucial. However, weak links were evident in the sectoral spending plans for health, education and rural development.

In sum, as a result of relatively autocratic government and closed policy, Bhutan's PRSP came as "A Cover Note" to its Ninth Five Year Plan, which is not well organized or balanced among different aspects of globalization and poverty. Same as the PRSP of Pakistan, it seems that the PRSP is just to fulfill the requirements of the World Bank and IMF in order to qualify for concessional loans.

5.2.5 Sri Lanka's PRSP: A Development Model for Conflict Affected Countries

Sri Lanka is one of the early starters of the PRS process. The country published its PRSP in 2002, entitled, "Regaining Sri Lanka: Vision and Strategy for Accelerated Development." The country's population was about 20.2 million, GNI per capita (Atlas method) was $1,780, the poverty headcount rate was 23%, and life expectancy at birth was 74 years in 2008. The country's GDP was $40.6 billion and exports were 24.9% of GDP the same year. Despite the country's substantial achievements in human development and the economy's external openness, several factors have impeded Sri Lanka's ability to realize its growth potential. The civil conflict that started in 1982 has not only disrupted economic activity but also made sustained implementation of economic reforms difficult. At the same time, poor infrastructure, a large and inefficient public sector and an overly restrictive regulatory environment have choked incentives for private investments.

The main goal of the PRSP was to accelerate growth and reduce poverty through private-sector led development. It focused on a set of reforms geared toward reducing trade barriers and deregulation, particularly in banking, labor and land markets, training and reform of higher education to match employment opportunities with the requisite skills, improving connectivity through development of infrastructure to expand access to markets, proposals in the area of human development and social protection to fight poverty, especially in the rural sector, and a commitment to developing monitoring mechanisms to track implementation and measure results.

The PRSP presented a comprehensive description of the levels and trends of poverty.The non-income dimensions and correlates of poverty were also analyzed adequately, particularly in the areas of education, nutritional indicators, and employment by sectors. The PRSP outlined six core areas - providing a supportive macroeconomic environment, reducing conflict-related poverty, creating opportunities for pro-poor growth, investing in people, and improving governance and empowerment. The action plan matrices list specific policies in these areas.

The PRSP formulated an ambitious framework of accelerating growth and maintaining macroeconomic stability. In identifying the sources of growth the PRSP outlined detailed action plans for raising productivity in priority sectors like agriculture, fisheries, tourism, apparel, and the tea industry. The PRSP envisaged a significant reduction in the deficit (to about 4% of GDP over the medium term) through a combination of increasing revenue by broadening the tax base and improving tax administration, a rationalization and reorientation of expenditures, including a reduction in defense spending, and a shift in financing from costly domestic debt to concessional foreign funds. The PRSP also put forward a progressive agenda for structural reforms and committed to reducing the state's involvement in commercial activities and redefining its role and focusing on providing "public" goods and services and using public resources effectively for poverty reduction.

The PRSP revitalized the rural economy as an integral part of pro-poor growth. It rightly

focused on areas like rural connectivity, land markets, water resource management, rural electrification, import tariff policy and productivity of non-plantation agriculture. In the education sector, the policy recommendations and strategic directions were positive and progressive, which emphasized quality and equity through school-based management, increased stakeholder participation, and involvement of the private sector. At the tertiary level the focus was on increasing supply. In developing a health strategy, the PRSP assigned the highest priority on addressing the health concerns of the poor by focusing on public health issues relevant to the labor market by increasing institutional autonomy, encouraging private sector involvement, particularly in training and technical education, and investing in quality assurance services to meet the needs of disadvantaged groups, and rationalizing the use of health care funding. The PRSP also committed to rationalize and depoliticize all social welfare programs, the "cash transfer program" in particular, based on the recently enacted Welfare Reform Act. The reform process involved setting objective criteria for the selection of beneficiaries of the "cash transfer program" through means-testing, a credible enforcement of these criteria, and the concomitant development of a complete database of beneficiaries to track entry into and exit from the program. These reforms were expected to engender better targeting with lower rates of exclusion of deserving beneficiaries. The PRSP also provides a detailed overview of the institutional arrangements for monitoring and evaluating the implementation of its programs and strategies.

Although Sri Lanka has for decades suffered from a bloody war with the separatist Liberation Tigers of Tamil Eelam (LTTE), the PRSP constitutes an adequate framework for the overarching objective of enhancing growth and poverty reduction, which was well focused on the conflict-affected development problems and offers relevant solutions.

5.2.6 Nepal's PRSP: Sole Focus on Poverty Reduction

Nepal's PRSP was published in 2005, entitled, "The Tenth Plan." The country's population was about 28.8 million, GNI per capita (Atlas method) was $400, the poverty headcount rate was 31%, and life expectancy at birth was 67 years in 2008. The country's GDP was $12.6 billion and exports were 12.1% of GDP the same year. Nepal has been caught up in a vicious cycle of poverty and economic stagnation since the Maoist insurgency started in 1995. Poverty is providing a fertile ground for the disorder, which in turn is pushing the economy into a downward trend that minimizes its capacity to solve the poverty and development problem. The goal for the PRSP was, therefore, to break out of this vicious cycle by designing and forcefully implementing an appropriate strategy to reduce poverty and to eliminate the root causes of the disorder.

In this context, the PRSP appropriately formulated a poverty reduction strategy based on four pillars: to promote faster and pro-poor economic growth, equitable access to social and economic infrastructure and resources for the poor and marginalized groups, social inclusion and targeted

programs, and improved governance. The PRSP emphasized effective implementation to ensure better delivery of outputs and services to rural communities. To do so, within a tight budget constraint, it adopted policies that limited the role of the public sector and prioritized public interventions, enhanced the participation of the private sector, nongovernmental organizations (NGOs), international nongovernmental organizations (INGOs), and community-based organizations in development activities, developed alternative delivery mechanisms, particularly through greater devolution of functions, responsibilities and resources to local bodies, and promoted greater community involvement in the formulation and management of key programs aimed at meeting the needs of the rural population. The document also emphasized good governance to minimize leakages and irregularities, and ensure greater accountability through better monitoring mechanisms. To bring about the necessary changes in these areas, economic reforms in a broad range of areas and sectors have been formulated, together with a time-bound plan of critical immediate and medium term actions for their implementation. The document tried to provide a comprehensive framework, supported by detailed sectoral programs, to carry out this strategy in five years.

The PRSP emphasized the growth that improves income distribution and further reinforces the positive impact of growth on poverty. In this context, the PRSP recognized that a growth strategy that can benefit all income groups (including poor and deprived segments of society) have two major components. First, since more than 80% of the population is engaged in agriculture, agriculture must be made to grow by at least 4% p.a. Second, it emphasized private sector-led nonagricultural growth. The growth strategies for agriculture were to modernize, diversify and commercialize crop and livestock production by expanding the use of technology, and increasing the access of farmers to modern agricultural inputs and credit. Similarly, promoting the participation of the private sector and NGOs/INGOs in service delivery, market promotion and infrastructure development were other major strategies.

The non-agriculture sector includes a number of important sub-sectors such as manufacturing, trade, tourism, transport, construction and financial and social services. Although, Nepal's trade, tourism and industrial regime was quite liberal, the size of the private sector was small and inefficient, and lacked competitiveness. The PRSP, therefore, focused to expand output capacity and improve the efficiency of the private sector through the adoption of appropriate measures. It planned appropriately to join the World Trade Organization (WTO), making strong efforts to strengthen its international competitiveness. Therefore, in order to create a favorable environment to achieve private sector led growth, the PRSP focused on removing impediments to private sector development. In this regard, a strong promotional package especially for export-oriented industries, measures to increase incentives for investment, and an appropriate technology and information program is planned to enhance competitiveness.

The PRSP acknowledged that the development of human resources is essential for reducing human poverty and improving the quality of life in rural areas. While human development has many dimensions, education, health, rural drinking water and sanitation are particularly important. In addition, basic infrastructure such as access to (even low-quality) roads, electricity and telephone communications (particularly in remote areas) can help improve living conditions for the poor in rural areas. Ensuring equitable access to these services and facilities is especially important for mainstreaming the very poor and deprived communities.

The PRSP also addressed gender and ethnic/caste–related disparities and facilitated social inclusion by mainstreaming such efforts, i.e. by taking actions under all four pillars of the poverty reduction strategy instead of simply relying on targeted programs. Accordingly, in implementing key sectoral programs, it emphasized ensuring equity of access to such programs for all, with special attention (and monitoring of such actions) to assuring the access of women and deprived communities, with the explicit objective of reducing existing gaps between these groups and the rest of the population. In sum, in spite of a severe armed Maoist conflict, Nepal's development aspiration was well reflected in its PRSP.

5.2.7 Maldives's PRSP: A Development Strategy for a Small Island

Maldives, a small but politically stable country in Asia, published a PRSP in 2007, entitled, "Seventh National Development Plan." In 2008, the population of Maldives was about 0.31 million, GNI per capita (Atlas method) was $3,640, and life expectancy at birth was 72 years. The country's GDP was $1.3 billion and exports were 83.5% of GDP the same year. The poverty headcount rate has been falling steeply, from 40% in 1997, to 28% in 2004, and further to 16% in 2005, continuing to fall despite the devastation of the tsunami in 2004.[59] Maldives is on track to meet most of the MDGs, having already met goals on eradicating extreme poverty and hunger, achieving universal primary education, reducing child mortality, improving maternal health, and combating HIV/AIDS, malaria and other diseases.[60]

The PRSP is based on eight key principles: national ownership, enhanced trust and confidence, economic opportunity for all, gender equality, environmental sustainability, human rights, civil society participation, and a focus on results. The strategy identifies 12 important goals and 88 targets across four areas: economic growth, social equity, environmental protection, and good governance. The PRSP placed a strong emphasis on achieving the MDGs, and emphasized results, as well as noting the need to ensure the cost of initiatives were consistent with resource availability. Strengthening social

[59]Maldives reports these poverty rates in the PRSP based on a poverty line of $3.45 in purchasing power parity (PPP) terms. Using the international MDG poverty line of US$1 PPP per day, the headcount ratio is significantly lower, and fell from 9% in 2004 to 6% in 2005.

[60]Millennium Development Goals—Maldives Country Report, October 2007, Government of Maldives.

safety nets, fostering growth poles in the outer atolls, generating employment opportunities, especially for women, and encouraging population and development consolidation across islands, were key aspects of the PRSP for overcoming the developmental challenges.

The monitoring and evaluation systems were generally adequate. Although, the PRSP lacked specifics on implementation progress reporting arrangements, the systems for tracking poverty and other indicators were good. PRSP emphasized the need to strengthen institutions and enhance capacity, but these will need to be rationalized. Institutional development and capacity building in the areas of public expenditure and environmental management were especially important. The PRSP discussed the population and development consolidation policy to foster the agglomeration of people and economic activity on larger islands as a central component of the development strategy. The policy needs to be elaborated in greater detail, ensuring that other national initiatives are consistent with encouraging consolidation.

The PRSP recognized that weaknesses in the institutional framework and limited capacity pose major constraints to development. In most areas, ranging from providing health care to bolstering the judiciary, the document emphasized the preparation of new legislation and other institution building measures, as well as redoubling the training and education of professionals. Much of this is related to the small size of Maldives, combined with its stage of development, where rising expectations are associated with upper middle-income aspirations. These initiatives require spending, and as in other areas of the PRSP, they need to be prioritized to ensure sustainability, mindful that the civil service has already been growing rapidly in recent years, and that budgetary resources are limited. Implementing the provisions of the recently passed Civil Service Act and other related reforms certainly contribute to addressing these challenges.

In short, Maldives has achieved notable development progress in recent decades through a combination of sound macroeconomic management, private sector-led tourism development, and improving public service provision. As the country does not have other major security and political problems, the importance of the PRSP in its national development agenda is high.

5.2.8 Cambodia's PRSP: Focusing on Globalization and Regionalization for Poverty Reduction

Cambodia, a Southeast Asian country, published a PRSP in 2006, entitled, "Cambodia's National Strategic Development Plan (NSDP) 2006–2010." Cambodia's population was about 14.5 million, GNI per capita (Atlas method) was $640, the poverty headcount rate was 30.1%, and life expectancy at birth was 61 years in 2008. The country's GDP was $10.35 billion and exports were 65% of GDP the same year. The poverty diagnostics in the PRSP were brief but strategic and balanced. The document benefited from the availability of recent household data derived from the 2004 Cambodian Socio-Economic Survey (CSES). This provided detailed insights into the level and distribution of poverty in 2004, as well as trends in poverty since 1993/4.

The PRSP focused on broadening the economic base for sustained pro-poor growth. This is important as Cambodia's growth is concentrated in urban areas and based around the garment and tourism sectors. A key aspect of the PRSP was to encourage growth in the rural and agricultural sector. This is crucial for reducing poverty as the overwhelming majority of the poor live in the countryside and rely on agriculture for their livelihoods. Although the PRSP identified increasing agricultural productivity through land reforms and expanding rural credit as key areas for progress, specific and prioritized actions to achieve these aims need to be pointed out. Economic diversification is essential to invest in the social sectors initiated under the PRSP that improve health and education outcomes sustainably. Infrastructure development, particularly in rural areas is also equally important.

Key strategies and actions of the PRSP were (i) establishing a "core" of good governance, (ii) maintaining the broad environment for strategy implementation (domestic stability, international integration, development partnerships and favorable macroeconomic and financial circumstances), (iii) enhancing the agricultural sector, (iv) improving physical infrastructure, (v) promoting private sector-led growth and job creation, and (vi) building capacity and human capital. Priority actions listed under these headings represent a mix of new commitments and the existing programs.

In the social sectors, particularly health and education, policies were significantly oriented towards the needs of the poor. The PRSP recognized the importance of public financial management and public administration reforms in the achievement of social sector objectives.

The PRSP acknowledged the fact that trade is a powerful and important catalyst for socioeconomic development and emphasized the promotion of trade as among the top priorities. It pointed out that if market outlets are available, investments would flow to encourage and enhance the production of goods and services, using the country's natural advantage, as has happened in the garment industry, and as could be achieved in agriculture, agro-processing, handicrafts, and other areas.

Overall, Cambodia's PRSP is an example of a well organized planning document for a post-conflict country, which offers a comprehensive analysis of the country's past, objectively recognizes current problems, and rationally proposes solutions.

5.2.9 East Timor's PRSP: An Aspiration for Nation Building

East Timor, the first newly independent nation of the 21st century, published a PRSP in 2002, entitled, "National Development Plan 2002 (NDP)." In 2008, the country's population was about 1.1 million, GDP was $0.5 billion, GNI per capita (Atlas method) was $2,460, and life expectancy at birth was 61 years. In 1999, the citizens of East Timor voted for independence in an UN-managed referendum. The country was under UN administration until May 2002, when the first government assumed power. It was during this period that the PRSP was formulated, which had main two objectives: to reduce

poverty in all sectors and regions of the nation, and to promote economic growth that is equitable and sustainable, improving the health, education, and wellbeing of everyone in East Timor.

The PRSP focused on improving the productivity of the poor by achieving strong economic growth within an enabling environment. This was expected to catalyze and sustain contributions of the poor to national development. The document recognized the challenges of providing basic social and economic services to the poor, nurturing and promoting their entrepreneurial initiatives, and prohibiting discrimination based on gender, ethnic origin, language, or geographic location. It prioritized agricultural development, microenterprise development and private sector participation in infrastructure development for poverty reduction.

The PRSP presented the main areas for capacity building and training, in several of its programs, in different sectors. These programs tried to address both short-term implementation needs and long term capacity requirements at the central, district and local levels. The capacity building plan is based extensively on government partnerships with civil society organizations, the church, NGOs, the private sector, traditional institutions, informal networks, and mutual-help groups, particularly at the village level. The PRSP also had a comprehensive program for capacity development of the public sector, such as judicial, health and education service and civil service, as a vast majority of civil servants were neither adequately experienced nor trained.

The main resource constraints for rural development were detailed in the PRSP. They focused largely on social and gender issues, but also listed the main areas for capacity building, both within the government and civil society organizations. Infrastructure constraints were viewed as particularly severe, limiting access to markets. The private sector had no meaningful framework for enabling rural development and governance was restricted by limited coordination, inadequate targeting, a lack of transparency, and limited accountability. Along with health, education was a top priority as the country had the lowest literacy rate in the world.

Although the country had just emerged when the PRSP was published, the document provided a sound framework for poverty reduction and the country's aspiration of nation building can be observed in the document.

5.2.10 Lao PDR's PRSP: A Framework to Continue Growth and Poverty Reduction

Lao People's Democratic Republic (PDR) published a PRSP in 2006, entitled, "National Socio-Economic Development Plan 2006-2010." The country's population was about 6.21 million, GNI per capita (Atlas method) was $760, and life expectancy at birth was 65 years in 2008. The country's GDP was $5.54 billion and exports were 33% of GDP the same year. The PRSP provided a comprehensive strategy for development, with a range of medium- and long-term policies aimed at sustained growth and poverty reduction. The document recognized the challenge to the government of integrating the Laos economy regionally and globally, while at the same time building critical skills, capacity, and

infrastructure to the benefit of all in view of the continued need for major improvements in social and economic conditions. It comprised of four pillars for poverty reduction and development, including human development and private sector-driven economic growth, enhanced competitiveness, trade promotion, and regional integration, social development and focused poverty reduction interventions, and sound economic governance and gender and ethnic equality.

The PRSP addressed poverty through several thematic and cross-cutting issues, aiming to further reduce poverty through sectoral and regional development. The poverty reduction strategy prioritized expanding economic activity, improving access to basic services, increasing internal and health security, and empowering the decision-making of the poor. It recognized that gender equality, good governance, and legal reforms can play crucial roles in poverty reduction, and that private sector development and natural resource management ensure opportunities and funding to fight poverty. Targeted poverty reduction programs to the poorest districts were justifiable and supported by sector strategies. The plan identified priorities within sectors and adopted a strategy for geographical targeting in the 47 poorest among the 142 districts. Over the last decade, poverty has declined faster in the poorest (priority) districts than in other (non-priority) districts. However, gaps in access to health and education between priority and non-priority districts have grown since the early 1990s, driven by more rapid progress in the latter. The document focuses on targeting poverty interventions to the priority districts, which could help distribute benefits from growth more equitably.

The PRSP emphasized improving the investment climate, primarily through strengthening and streamlining the legal underpinnings of private sector activity, namely through property rights protection and an overall business regulatory framework. The document rightly identified moving from a business licensing to a registration system as a priority for implementation. Other priorities include improving the provision of business services, reforming the banking system to enhance credit access, and speedy implementation of the SME strategy.

The PRSP appropriately recognizes the key importance of universal enrollment in primary education, in line with the Education for All Program (EFA). The health strategy also appropriately focused on expanding primary and preventive care. Furthermore, it properly emphasized the importance of agriculture and rural development for poverty reduction, primarily by increasing farmers' capabilities and competitiveness. A continuation of government support for the agricultural sector was indicated, including the promotion of commercial agriculture, agricultural exports, and product diversification, as well as off-farm diversification for rural populations. The PRSP prioritized the introduction of new technology, including IT, in production, preservation, and processing, and the strengthening of extension services and skills training for farmers and other rural populations.

The PRSP recognized better governance as critical to achieving its overall objectives. The focus was on improving public service delivery, enhancing transparency and participation in policymaking, and strengthening the rule of law. To better address corruption, the government passed a new

anticorruption law and strengthened the State Inspection Agency (SIA). The document also aimed to improve public knowledge of rights and obligations, including women's legal awareness and access to the judiciary. There was a plan to conduct legal literacy programs in schools and villages, with particular emphasis on the local level where knowledge is more limited. It also appropriately identified capacity building as a critical area for plan implementation and identified actions for most sectors. Overall, the PRSP provided a good basis for continued growth and poverty reduction.

5.2.11 Mongolia's PRSP: Continuation of Economic Reform and Openness

Mongolia's PRSP was published in 2003, entitled, "Economic Growth and Poverty Reduction Strategy (EGPRS)." In 2008, the country's population was about 2.64 million, GNI per capita (Atlas method) was $1,670, and life expectancy at birth was 67 years. The country's GDP was $5.27 billion and exports were 57% of GDP the same year. The major objectives of the PRSP were to provide economic stability, build unrestricted market cooperation, create a favorable environment to run a business in order to reduce poverty, and accelerate the economic growth of the country.

The PRSP is based on three main pillars, namely macroeconomic stability, improving the business climate, and human capital enhancement. It put focus on governance that aimed to enhance accountability, transparency, and effectiveness. The reforms in the economic legislation aimed to create a favorable and competitive business environment for all types of enterprises, and eliminate unnecessary licenses and other administrative impediments. In addition, access to financial resources was to be expanded, especially for rural entities and SMEs. The document put priorities on those most affected by natural disasters through expanding financial and banking services in rural areas by developing small and middle-size enterprises, stabilization and expansion of agricultural activities.

The PRSP also prioritized the development of energy, roads, communication and information to create a favorable environment for businesses. The energy sector development strategy included ensuring sustainable development of the energy sector, creating an environment for the efficient production of energy, increasing economic efficiency, supporting the use of renewable energy resources, and a step-by-step privatization of state-owned shareholding companies in the energy sector. In the medium term, its plan for the transportation sector included development focusing on rural area road network expansion with active participation from local communities, enhancing competition among transport service providers, improving technical capacity through the replacement of engines, and expanding freight and transit capacity. Similarly, the ICT sector strategy focused on establishing the appropriate policy, legal and regulatory framework, developing key telecommunication and information infrastructure necessary for providing access to reliable and affordable connectivity, establishing an economic and business framework for the utilization of ICTs in governance and other applications, and developing human resources to effectively utilize ICTs.

Another pillar for economic growth was the promotion of FDI and external trade facilitation, including maintaining a stable regulatory framework and simplifying business licensing. The medium term policy of the PRSP focused on the expansion of sources of economic growth, in particular giving priority to the development of a processing industry based on domestic raw materials, mining and extraction, tourism, IT, and infrastructure.

Social service delivery is another focus of the PRSP. The policies for social services focused on education, health, social welfare, and employment sectors, including improving basic service delivery with a pro-poor focus, enhancing professional capabilities of service providers. A special focus was given on improving maternal and infant health care. The social welfare system reforms aimed to create foundations for the pension system reforms, expanding coverage and monitoring the insurance system, reorganizing the social assistance management through pursuing the principle of community based services, and streamlining criteria for better targeting and service delivery based on a new type of household assistance benefits. In sum, the country's efforts toward economic reform and democratization, started in 1990, can be observed in the PRSP.

5.2.12 Indonesia's Interim PRSP: Sole Goal to Fulfill Donors' Criteria

Indonesia, a highly populous country in Southeastern Asia, published an interim PRSP in 2003, entitled, "Interim Poverty Reduction Strategy Paper (iPRSP)." The country's population was about 227.35 million, GNI per capita (Atlas method) was $1,880, the poverty headcount rate was 15.42% (as per Statistics Indonesia) and life expectancy at birth was 71 years that year. Furthermore, the country's GDP was $510.73 billion and exports were 29% of GDP. Although the iPRSP was denoted as the document serving as a preliminary effort to form a full PRSP in 2004, the full PRSP was not submitted to the World Bank and IMF as the country upgraded to a lower-middle income status and the condition of providing a PRSP no longer applied to the country. Thus, this chapter assesses the iPRSP, which is available publicly. However, the document is not well organized and is incomplete. It indicates that the purpose of the iPRSP was just to fulfill the conditionality of the World Bank and IMF rather than to formulate sound development policies. In 2001, the government formed the inter-ministerial Poverty Reduction Committee in order to implement a set of comprehensive and harmonized actions in poverty reduction. Under the coordination of this committee, and through various forums and meetings, stakeholders at the national level prepared the iPRSP.

The PRSP had two main approaches of poverty alleviation. The first was to increase income by improving productivity by which the poor community could have good management capacity and better opportunities and protection to attain better results from social, economic, cultural, and political activities. The second approach was to reduce expenditure costs for basic needs, such as access to education, health, and infrastructure, and to facilitate social and economic activities. To achieve these objectives there were four basic policies. First was to create opportunities, meaning that the

government, private sectors, and communities should make efforts to create job and business opportunities for the poor. Second was community empowerment, meaning that the government, private sectors, and communities should empower the poor so that they would be able to attain their economic, social, and political rights. Third was capacity building, meaning that the government, private sectors, and communities should help build the poor's capacity/capability in order to be able to work for their own needs and achieve higher levels of productivity. Finally, social protection, which committed the government through its public policy, invited the private sectors and the community to provide social protection for the poor. Focusing on both macro and micro policies under these four strategies, the mainstreaming of various policies and programs is crucial to improve the efficiency and effectiveness of poverty reduction initiatives and to ensure its sustainability.

In sum, the key strategies of the iPRSP for poverty reduction were creating job and business opportunities for the poor, empowering the poor so that they could attain their economic, social, and political rights, improving capacity to fight for their needs, and providing social protection of the poor. The basic principles of these strategies were equality, justice, participation, democracy, market mechanisms, legal order, mutual trust, and a sense of security. However, these strategies were not well elaborated and there is no policy coordination mechanism for their effective implementation. It seems that the iPRSP was formulated in a short period to fulfill a condition placed by the World Bank and IMF for concessional loans. In fact, as the country qualified for the concessional loan later, and donors do not required a PRSP for non-concessional loans, Indonesia has not published a full PRSP.

5.2.13 Vietnam's PRSP: Balancing Socialist and Capitalist Policies

Vietnam's PRSP was published in 2006, entitled, "The Five-Year Socio-Economic Development Plan (SEDP)." The country's population was about 86.21 million, GDP was $90.64 billion, exports were 78% of GDP, GNI per capita (Atlas method) was $890, and life expectancy at birth was 74 years in 2008. The PRSP comprised of four main pillars: (a) promoting growth and transition to a market economy; (b) reducing poverty and ensuring social inclusion; (c) managing the environment and natural resources in a sustainable manner; and (d) building institutions that can support the strategy. The document was supported by an action plan, which contains a results-based framework structured around these four pillars.

The PRSP had a number of strategies to support pillar (a), such as investing on growth, tax reform, financial sector reform, international economic integration, state owned enterprises reform, and business development. Pillars (b) expected to be supported by including the vulnerable into the mainstream, tackling ethnic minority poverty, reducing gender disparity, delivering basic education, developing a universal health care system with insurance provisions, assisting poorer communes, and managing social change. The strategy under pillar (c) included improving environmental protection, natural resources management, and forestry sector reform. Finally, pillar (d) focused on governance

supported by strategies for fighting corruption, legal and judicial reform, public financial management, and public administration reform. However, poor attention was placed on the efficiency of investment, the transparency of investment decision-making and the sustainability of public debt, which would result in financing risks and potential contingent liabilities.

Notably, the PRSP put WTO and Association of South East Asian Nations (ASEAN) Free Trade Agreement (AFTA) accession as a major challenge rather than an opportunity. It highlighted that "the biggest challenge is the competitiveness and capacity for international economic integration of enterprises and the whole economy which are still below the requirements and the world's general level. Meanwhile, the roadmap for full implementation of commitments to AFTA, WTO and other international agreements has created more severe competitive pressure on enterprises" (p. 33). It further took globalization as a significant threat: "Globalization will increase competition pressure, especially on countries developing at a low pace like ours. Economic, business, investment competitions become more serious. Financial, monetary and price markets will probably become more complex" (Ibid).

In fact, the PRSP tried to gain a balance between socialist and capitalist economic policies. For example, it emphasized improving and establishing the institutional framework of the socialist oriented market economy in a comprehensive manner and proposed action to continue reform and complete the market economy institutions with a socialist orientation. Such a controversial policy orientation makes the document weaker in mainstreaming domestic as well as globalization issues.

In spite of such variation among the reviewed PRSPs, the documents are still the most important resource to observe LICs' outward orientation. Findings will be very useful in identifying the level and appropriateness of strategic priorities in poverty reduction adopted by LICs in the region, as well as their orientation toward global integration, especially given that many countries are in the process of formulating second-generation PRSPs. Therefore, the results can be useful for poverty reduction policymakers and the donor community. The next section discusses the causal links between globalization elements with poverty reduction, which gives the rational for LICs to integrate globalization issues into their PRSPs.

5.3 Why is Globalization Crucial for Poverty Reduction?

What are the motivations for LICs to globalize? What favor can they expect and what consequences might they face? A brief review of the existing literature is presented here, which explains the channels through which globalization affects poverty reduction, which can answer the above questions.

The World Bank (2002) study of "Globalization, Growth and Poverty" came up with three significant findings. First, poor countries, with around 3 billion people, broke into the global market for manufactures and services. The study noted a shift in developing countries exports over a 20 year

period from a predominant share of primary commodities to that of manufacturing and services. This successful shift of exports, an element of global integration, generally supported poverty reduction. The study found examples of this integration among Chinese provinces, Indian states, and the countries of Bangladesh and Vietnam. The second finding concerned the inclusion of marginalized people and areas, both across countries and within them. One of the most disturbing global trends of the past two decades was that a number of countries (with a total population of around 2 billion people) were in danger of becoming marginal to the world economy. Incomes in these countries had been falling, poverty had been rising, and they participated less in trade than they had 20 years earlier. The world therefore has a large stake in helping countries integrate with the global economy and facilitate the greater inclusion of countries in globalization today. A third issue identified by the World Bank study concerned standardization or homogenization. Opinion polls in diverse countries revealed the concern that economic integration would lead to cultural or institutional homogenization despite the fact that societies that were fully integrated into the global economy differed enormously both culturally and institutionally. The study concludes that nations that integrated (i.e., those that opened up to international trade and investment) grew more rapidly than advanced nations (thus reducing the gap with advanced nations) during the past two decades, while nations that did not globalize grew less rapidly than the integrated and advanced nations, thus increasing their gap with respect to the others.

Many other independent studies suggest that integrating with the regional as well as global economy opens up national markets and ensures competition, thereby removing inefficiencies and leading to greater growth and poverty reduction (e.g. Solow, 1956; Swan, 1956).[61] Over the 1990s several highly visible global cross-country studies argued that openness was good for growth (Dollar, 1992; Sachs and Warner, 1995; Frankel and Romer, 1999). Similarly, Urata and Yokota (1994) concluded that the policy to liberalize trade and foreign direct investment, as well as antitrust laws and other policies to strengthen competition in the domestic market are important for bringing about an increase in productivity, which in turn has importance in economic development. Moreover, Dollar and Kraay (2004) claimed with their country cases and cross-country analysis that globalization leads to faster growth and poverty reduction in poor countries.

There are many other studies that focus on the effect of specific elements of globalization on poverty reduction. As trade and FDI are already discussed in length in Chapter 3, the discussion here is focused on tourism, foreign aid and migration. However, the discussion starts with a brief review on already discussed elements to present the holistic picture. Regarding international trade, many argue that it has both a direct (benefiting poor people directly) and indirect (through the economic growth

[61] For example; Rodrik (1988) and Devarajan and Rodrik (1989) argue that scale economies and imperfect competition are prevalent in developing countries which complicate the welfare impact of trade liberalization. The theoretical possibility of a welfare-reducing impact from trade liberalization in the presence of imperfect competition and increasing returns to scale has been pointed out in other studies such as Ocampo and Taylor (1998) and Eaton and Grossman (1986).

channel) effects on poverty reduction. Winter *et al.* (2004) claim that theoretically it can be expected that the effect of international trade or trade liberalization is poverty-reducing on average in the long run, and they do not support the view that trade liberalization has an adverse impact on poverty. Empirically, evidence is broadly consistent with this theoretical assumption. For instance, Badiane and Kherallah (1999) show that the domestic liberalization of food crop farming in Africa has had a strong effect on reducing poverty and argue that it brought about increased levels of investment by private traders, and an expansion in their activities. This created employment for low skilled labor in itself, but, in addition, it reduced retail prices for food and various transaction costs.

Even if the poor do not benefit directly from increased demand generated by trade liberalization, they may benefit indirectly because those who benefit directly increase their demand for inputs and consumption goods and services. For example, John Mellor and Sarah Gavian (1999) argue that one of the main advantages of stimulating agriculture is that it strongly increases the demand for goods and services produced by the poor. Furthermore, Cogneau and Robillard (2000) argue that an increase in the world price of export crops significantly reduces rural poverty but slightly increases urban poverty. The poor also benefit indirectly through the growth effect of trade. For instance, Ravallion (2001) finds a 1% increase in mean income results, on average, a 2.5% decrease in the proportion of people in absolute poverty. The positive and significant relationship between trade liberalization and total factor productivity (TFP) is another channel for benefiting the poor through growth (Coe, Helpman, and Hoffmaister, 1997; Urata and Yokota, 1994).

Similarly, FDI can have positive effects on poverty by creating employment, improving technology and human capital, and promoting competition. For example, Moran (2001) reviewed the evidence in the automotive, computer, and electronics sectors and concluded that the host country of FDI in these industries benefited from technological transfers and better performance of the subsidiary via supervision and better management. In general, foreign Multinational Enterprises (MNEs) tend to source inputs locally as they are usually cheaper and sometimes of higher quality. Thus, host countries can gain a number of important benefits from FDI. For example, the employment rate can increase because the sourced inputs represent new production, production technologies can be better adapted to local conditions because suppliers are more likely to employ labor-intensive processes, the MNEs can transfer state-of-the-art business practices and technologies to the local suppliers, and it is possible that local suppliers can combine into a spatial cluster that supports innovation and upgrading (Finger and Schuler, 2000).

How about tourism? Before 1990, tourism had been criticized as a strategy for economic development because it is associated with dependency on an external and inconsistent source of growth (Bryden, 1973; de Kadt, 1979; Britton, 1980). Thus researchers and policymakers viewed tourism as an unsound option for economic development and they tend to recommend agricultural development as an appropriate strategy for poverty reduction. Such negative arguments are still

prevalent today to some extent (for a detailed explanation, see Wilkinson, 1987; Pastor and Fletcher, 1991; Copeland, 1991; Sinclair, 1998; Rao, 2002).

In recent decades, tourism has been perceived as a positive element for poverty reduction, as it creates positive impacts for generating foreign exchange earnings, economic growth, rapid mass job creation, stimulus to consumption, and welfare enhancement. Thus, it is playing a major role in the formulation of the development strategies of developing countries. This belief is largely backed by empirical evidence that tourism expansion is relevant and significant for growth and economic development (West, 1993; Modeste, 1995; Shan and Wilson, 2001; WTO, 2002; Easterly, 2002; Vanegas and Croes, 2003; Dritsakis, 2004; Croes and Vanegas, 2006; Steiner, 2006; Kim et al., 2006).

Tourism development has been found to be effective in unlocking opportunities for the most vulnerable groups within the tourism sector. More recently, some international organizations have identified tourism as such an engine of economic expansion to assist poor countries in reducing poverty (Hawkins and Mann, 2007). In 2002, the WTO incorporated the positive outcome of four studies that demonstrate how tourism can raise incomes, encourage and adopt poverty reduction programs, and enhance the impact of tourism development in reducing poverty in its "Tourism and Poverty Alleviation" report, released at the Johannesburg Summit on Sustainable Development. Enhanced opportunities to generate mass employment and the expansion of the opportunity, to the most vulnerable groups of society, to participate in the production of tourism goods and services are the most important pro-poor impact of tourism (Ashley, Goodwin and Roe, 2000; Encontre, 2001). Furthermore, many studies demonstrated that tourism-generated foreign exchange earnings have come to represent a significant revenue source, increasing employment, family income, tax revenues, and economic growth in both developed and developing countries worldwide (Hazari and Sgro, 1995; Page, 1999; Durbarry, 2002; Sugiyarto, Blake and Sinclair, 2002; Vanegas and Croes, 2003; Croes and Vanegas, 2006).

Aid is another element of globalization, which by definition, has great potential to contribute to poverty reduction if it is managed properly. This is more important for the LDCs as they have limited internal resources and their development objective is more focused on poverty reduction. Thus, the effectiveness of aid is largely measured on the basis of how it contributes to poverty reduction. In the case of aid, there is a large debate in favor of and against conditionality. For example, Burnside and Dollar (2000) argue that aid is only effective where policies are good, yet has no ability to influence those policies. However, there are two important reasons to hesitate before accepting this conclusion. Firstly, Burnside and Dollar's findings have been challenged on econometric grounds, most sharply by Hansen and Tarp (2001) and most recently by Easterly *et al.* (2004), who argue that aid effectiveness is invariant with respect to the Burnside and Dollar indicator of good policy. Secondly, whatever one's judgment may be of the balance of the econometric evidence on the relationship between aid and the Burnside and Dollar indicator, the indicator itself hardly convinces in its ability to capture

comprehensively the quality of a country's policies and institutions for promoting pro-poor growth. It comprises only two macroeconomic variables (inflation and budget deficit), which are more readily interpreted as correlates of the growth process rather than independent causes of growth.

Collier and Dollar (2001, 2002) argue that donors should have no influence whatsoever over recipients' policies in the process of poverty-efficient allocation of aid. The World Bank's current official position also supports the argument that in order to achieve maximum poverty reduction impact, donors might have only two criteria to allocate aid; one is recipients' existing economic policies, the other is the level of poverty.

Serious practical difficulties arise when attempting to assess the orientation towards poverty reduction of any given composition of public expenditure largely supported by aid in LICs, as individual sectors differ in the balance of their direct and indirect effects on poverty reduction as well as in their overall impact (Ferroni and Kanbur, 1991). Because of these difficulties, previous research efforts have not yielded comprehensive estimates of the pro-poor content of public spending - only partial studies have indicated that certain components are pro-poor (Gupta et al., 2005) for primary education and health spending, or anti-poor (Knight et al., 1996) for military spending. Two of these authors, with others, have developed a range of methodologies for devising one overall measure of pro-poor (public) expenditure, called the PPE index (Gomanee et al., 2003). The general procedure consists of two stages. First, sectors are identified that, from the literature (on basic needs, benefit incidence, and so forth) and among development practitioners, have a reputation for being pro-poor: basic health care, primary education, water and sanitation, rural roads and agricultural extension services. Next, sector-specific poverty elasticities are estimated, and a composite policy indicator is constructed that weighs sectoral outlays accordingly.

Aid is also considered to serve as reducing inequality by providing resources for such projects that focus on backwards and unprivileged areas of society. A well-established result in the literature is that inequality exercises downward pressure on the extent to which growth benefits the poor (Hanmer and Naschold, 2000), as well as on growth itself. It operates through four channels in particular: by reducing levels of social capital and trust, by increasing the likelihood of civil conflict, by depressing demand for goods and services at the bottom end of the income scale, and by reducing investment (Nafziger and Auvinen, 2002; Alesina and Perotti, 1996). Corruption, likewise, exercises a downward influence on investment and productivity, mediated in part through an increase in the cost of doing business and in part through a depletion of social capital (World Bank, 1997). Most importantly, corruption is likely to affect the share of public spending, even on allegedly "pro-poor" sectors, that reaches the poor; it affects what is commonly called the benefit incidence of spending (Van de Walle, 1998; Castro-Leal et al., 1999; Sahn and Younger, 2000).

International migration is another key element of globalization that can potentially greatly benefit poorer countries and thus offers direct impacts on poverty reduction. The OECD (2008)

recently published a position paper that summarizes existing research on this issue. In their view, LICs export mostly high skilled labor, while middle–income countries tend to export mostly low–skill workers. High-skill workers tend to migrate legally, which entitles them to take their family along and significantly reduces remittances. Lower-skilled workers, on the contrary, tend to migrate illegally, leaving their families behind at least for a certain period, which increases remittances. As a result, LICs would seem to be investing large portions of their GDP in the training of high-skill individuals, and then lose these workers with very modest remittances in exchange. In any case, those remittances that do arrive would tend to do so within more affluent families, which increases income inequality. For them, emigration is a perverse process that may further distance them from development, through a loss of skilled manpower, economic and social sectors, and sheer capital invested in migrants' skills. On the contrary, medium-income countries export persons in which the country has invested little in the way of private or public funds, and they tend to remit larger relative amounts, which would produce a significant net income for their (poor) families, thus reducing poverty and possibly furthering development. What does this mean for policymakers and donors of LICs? Clearly, migration of low-skilled workers produces greater benefits to LICs and hence reduces poverty significantly. Thus, migration policies that promote low-skilled workers and open up labor markets for low-skilled workers in labor-recipient countries would have a significant contribution on poverty reduction.

Specifically, a number of studies focusing on certain developing countries have found positive impacts of remittances on poverty reduction. For example, remittances reduce rural poverty in Mexico, the level, depth and severity of poverty in Guatemala, and remittance recipient households' poverty in the Philippines. In general, the migration of poorer members' of the society leads to the reduction of poverty and inequality elsewhere as well (Özdenand Schiff, 2006: 6-7). The developmental potential of these monetary resources is seen as large because of the evidence of increasing absolute amounts of remittances. In the early 1990s, global migrant remittances stood at about US$75 billion per annum (Van Hear, 1998; cited in Sumata, 2002: 621), which rose to above US$232 billion in 2005, sent back home globally by around 200 million migrants representing three times official development aid (US$78.6 billion dollars), with US$166.9 of this going to developing countries (Orozco, 2006, 4; citing World Bank, 2005: 88). Notably, research has shown that remittances can be much more than formally transmitted pecuniary assets, and consist also of goods and informal transfers of goods and money that go unrecorded (Rodriguez, 1996; Puri and Ritzema, 1999; Clark and Drinkwater, 2001; Ballard, 2002; Orozco, 2002; Bracking and Sachikonye, 2006).

Recent work by Adams and Page (2005) is one of the most influential in migration research, which strongly links remittances with poverty reduction. Using a 71 country multivariate data set, the authors argue that a 10% increase in international remittances from each individual migrant will lead

to a 3.5% decline in the proportion of people living in poverty. Therefore, remittances significantly reduce the level, depth and severity of poverty in developing countries.

However, negative impacts of remittances on development have also been increasingly recognized, particularly from a political economy perspective. For example, Nyberg-Sorensen *et al.* (2002) have noted the association between remitted income and inflation, especially in land and real estate prices (see also Hermele, 1997), while noting, in relation to inequality, that remittances "tend to go to the better-off communities in the better-off countries of the developing world"(p. 53). Where economic and political governance is nefarious or predatory, the effect of remittances can be deleterious for non-receiving households, experienced in the form of increasing inter-household inequality and inflation in inelastic supply markets, even when the economy-wide growth effect is taken into account (Bracking, 2003). Using a 300 household sample, Bracking and Sachikonye (2006:40) argued that immediate income benefits to some households are followed by price adjustments in local markets, effectively pricing out poorer households from scarce goods, but that poorer households have created a favorable coping strategy in the form of an informal remitted goods (as opposed to money) economy. However, the inter-household effects of remittances remain unclear, and researched little elsewhere.

The poverty reducing effects of these formal and informal remittances have also been explored through the observation of distinct economic effects. For example, remittance flows are understood by most contemporary researchers to be counter-cyclical, mitigating the impact of adverse shocks (Freund and Spatafora, 2005). However, Burgess and Vikram (2005) found no stabilization effect of remittances in the Philippines. Also, flows of informal remittances constitute the single largest source of foreign exchange and clearly outweigh formal transfers of FDI for many of the poorest countries (Spatafora, 2005: 1).

From the above discussion, together with the findings from Chapters 3 and 4, it is argued that globalization and its elements are highly relevant for LICs for their overarching goal of poverty reduction. More importantly, as poverty reduction has been the sole goal of international development since the beginning of the 21st century in the context of accelerating globalization, wisely integrating globalization elements into PRSPs is crucial for both donors and LICs.

5.4 Methodology

This chapter amends the framework adopted by Bojo and Reddy (2003) by substituting the environmental variables they used with the key elements of globalization in the 13 published PRSPs from the Asia-Pacific region.[62] In fact, Bojo and Reddy also followed an assessment method that is

[62] All 13 PRSPs were obtained from the World Bank PovertyNet website: available at: http://www.worldbank.org/poverty/strategies/index.htm (accessed in May 5, 2010).

used in a previous work on mainstreaming the environment in PRSPs (Bojö and Reddy, 2002), mainstreaming the environment in country assistance strategies (Ekbom and Bojö, 1997; Shyamsundar and Hamilton, 2000), and in the Guidelines for the Joint Staff Assessment of PRSPs (World Bank, 2000).

As Bojo and Reddy (2003: 9) defined it, the term mainstreaming for this study includes a description of globalization elements, an analysis of links between poverty and globalization elements, policy and program responses to meet those challenges, and the process underpinning the strategy. Each of these components is further broken down into specific items under key variables for each element of globalization. As an example, the description of these variables for trade is provided in Appendix 5.2. A brief description of the key elements of globalization is provided below.

5.4. 1 Key Elements of Globalization Considered for this Chapter

Globalization is a broad term that is widely used to describe a variety of economic, cultural, social, and political changes. It includes aspects from the revolution in information technology to the diminishing of national and geopolitical boundaries, and the ever-expanding transnational movement of goods, services, and capital (Guttal, 2007:523**)**. Among the large number of elements and issues related to globalization, this study selects the following six key elements that are important for LICs, particularly for poverty reduction:

1. Trade: Exports and imports of goods and services, which is considered the central issue of globalization.
2. Foreign direct investment (FDI):Flow of FDI within the country, which depends on the range of its openness policy and investment environment.
3. Foreign aid: Development aid from the donor community to LICs is the key element of economic cooperation, which could be a catalyst not only for international development but also for globalization.
4. International migration: The movement of people across borders, especially from underdeveloped countries to developed countries, is another factor that helps the process of globalization. It also facilitates cultural exchange and integration.
5. Tourism: The tourism sector, especially flows of tourists from developed countries to developing countries, contributes to the recipient's economy and also facilitates cultural integration such as international migration.
6. Donor participation: As the developers and key players of the PRS framework, donors should have a large role in the PRS formulation and implementation process. Without their participation, the effectiveness of PRSPs cannot be ensured and development aid projects cannot be harmonized.

As per the definition of mainstreaming of globalization elements discussed earlier, these key elements of globalization are further broken down in specific items. A content analysis is employed to

analyze the extent to which these elements of globalization have been integrated into the 13 PRSPs as follows (a list of the analyzed PRSPs are given in Appendix 5.1).[63]

- Criterion 1 (*Issue*): Were issues related to globalization included in the PRSPs?
- Criterion 2 (*Causal links*): Were the causal linkages between globalization elements and poverty related issues analyzed within the PRSPs?
- Criterion 3 (*Responses*): Were globalization related responses/actions defined in the PRSPs?
- Criterion 4 (*Process*): Were links between the PRSP formulation process and policy and planning processes related to globalization (regionally/globally) detailed in the PRSP itself?

5.4.2 Scoring Method

Without formalizing and simplifying the qualitative judgments explained above, it is not practical to assess 13 PRSPs across many variables for each key element of globalization. All the relevant variables (see Appendix 5.2 for an example of trade) for each element of globalization are scored with respect to each country's PRSP. A numeric score in the range of 0 to 3 is given, depending on the treatment of relevant issues in each PRSP, based on a subjective judgment where:

- ❖ 0 = no mention
- ❖ 1 = mentioned, but not elaborated
- ❖ 2 = elaborated
- ❖ 3 = best practice

These numeric values permit an average aggregate score to be computed for each analyzed PRSP with values ranging from 0 (the element of globalization is not mentioned in the document at all) to 3 (good practice evident on all four criteria). As there are a large number of variables to consider for scoring all the selected key elements of globalization discussed above, it is not practical to elaborate all the variables one by one here. Thus, Appendix 5.2 lists the filtering issues and aspects of international trade as an example. All the remaining elements are also filtered accordingly.

The scores presented in the results section are un-weighted average scores. It might be logical to apply explicit weights to different variables, but it makes the scoring process complex and less transparent. Instead, scores are assigned according to a valuation of the significance of each set of variables. In fact, subjective judgment is essential for any assessment, including scoring. However, this format makes subjectivity transparent and consistent across countries. It is not recommended to give attention to small differentials in scores between countries.

[63]Content analysis is a systematic, replicable data reduction technique (Stemler, 2001) that can be used to determine the presence of a particular concept (here, key elements of globalization) within a body of text (here, the published PRSPs from the Asia-Pacific countries).

As the method is subjective, the possibility of a certain degree of the author's bias is acknowledged. However, the formats for scoring criteria are very specific and standardized to minimize such biases. Thus, it is considered sufficiently reliable and transparent to use this detailed method to arrive at conclusions on how globalization issues are mainstreamed within PRSPs, which can be used to make international comparisons. As Bojo and Reddy (2003:12) put it:

> Though not intended to be scientifically precise, this scoring method is a practical way to condense considerable information into numbers that have a clear interpretation. …Any assessment, including scoring, involves subjective judgments. In this format, subjectivity is transparent and consistent across countries.

5.5 Results

This section reports a summary of scores of the key elements of globalization in the PRSPs in the Asia-Pacific region, a summary of scores of the selected 13 countries with respect to mainstreaming the globalization elements. It also presents some good practice examples of mainstreaming the key globalization elements in the PRSPs, and a regional comparison of the level of mainstreaming the key elements in the PRSPs in EAP and SA.

5.5.1 Summary of Scores by the Key Elements of Globalization

Disaggregating the overall score on the mainstreaming of globalization into component scores can provide some additional insights. However, rather than explaining the score of each of the four criteria for each element, as explained in section 5.4.1, the following discussion based on the average score gained on the 0-3 scale, as shown in Table 5.1, is given below.

There is great variability among the issues covered in the PRSPs, with *trade* receiving the most attention and demonstrated by many good practices, followed by FDI. As shown in Table 5.1 and Figure 5.1, trade and FDI scored 2.6 and 2.0, respectively, on the 0-3 scale. As the major driving forces of globalization, these two elements constitute the core content of economic liberalization. Thus, a high score on these elements demonstrates the outward orientation of developing countries in the region. These results are consistent with the econometric outcomes in Chapter 3 that international trade is found to be highly significant in promoting human development and poverty reduction. Thus, it is rational for policymakers to open up their trade regime and integrate their trade into regional as well as global trade networks. Although Chapter 3 reveals that FDI has less impact on human development and gender development, it has highly significant effects on poverty reduction. Therefore, it is natural to give a high priority to FDI, after trade elements, in the PRSPs of LICs in the region.

Table 5.1 Summary of Factor Scores for Key Elements of Globalization (0-3 point scale)

Variables	Average Score
International Trade	2.6
FDI	2.0
Foreign Aid	1.8
International Tourism	1.8
Donor Participation	1.2
International Migration	0.8
Overall average	**1.7**

Source: Author's own assessment of the PRSPs

Surprisingly, foreign aid falls behind FDI, although, by definition aid is considered more important for poverty reduction in LICs. Aid can contribute to growth and poverty reduction in two basic ways. Aid inflow, by relaxing financing constraints (low savings, foreign exchange and the government budget), can finance investment in the physical and human capital that promotes growth. Donors also use aid as a lever to encourage policy reform, i.e. conditions are attached to the aid. However, such conditionality is always in question and it makes aid unattractive. The effectiveness of conditionality is mediated by the recipient government's willingness to accept the conditions (which is not the case in general) and its ability to implement them (the latter in turn determined by domestic political and administrative capacity). Even if the conditions are accepted and implemented, there is no guarantee that the outcome (in terms of improvements in some indicators of economic performance) will be as anticipated – the conditions may have been inappropriate or other events may have undermined their impact. On the reasonable assumption that recipients want aid, their willingness to accept conditions will depend on their beliefs regarding the efficacy of the proposed policies in realizing government objectives. For LICs, this objective is poverty reduction, which is also the criterion of aid effectiveness for donors.

Similarly, the global transfer of technology for poverty reduction is through foreign aid. In recent years, bilateral aid agencies and international financial institutions have proclaimed that their paramount mission is nothing but poverty reduction. Increasingly, aid transfers have become conditional on the aid-recipient country adopting a Poverty Reduction Strategy Paper itself (Toye, 2007:508). Furthermore, bilateral and multilateral donors tend to put other conditions that serve their own interests, which make aid less attractive.

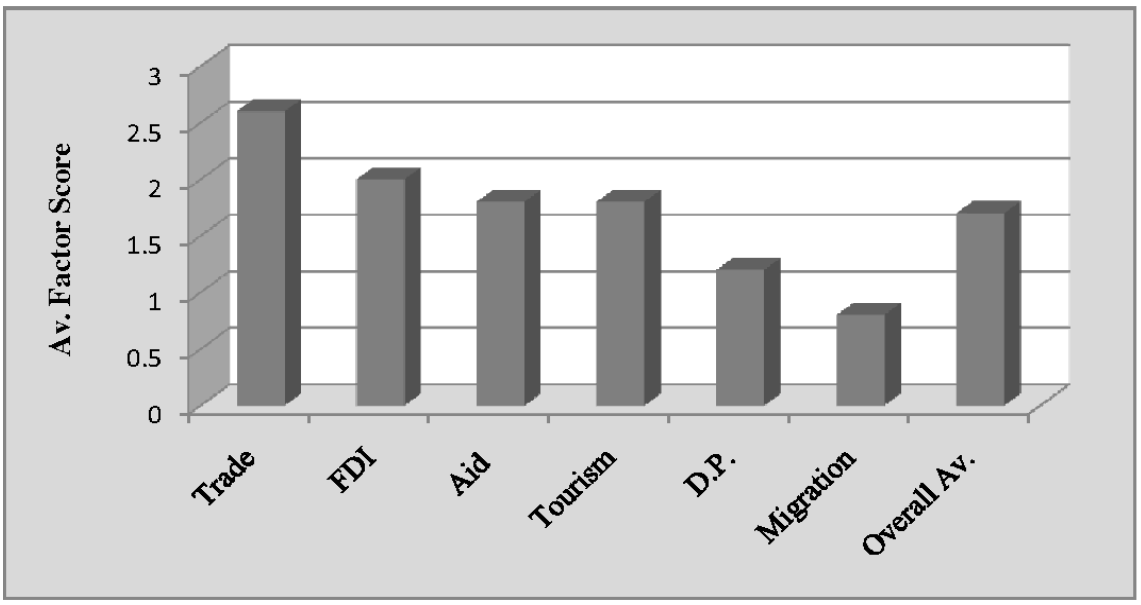

Figure 5.1 Average Factor Scores for Key Elements of Globalization in the Asia-Pacific (0-3 point scale)

Note: D.P. = Donor participation in the PRSP formulation process
Source: Author's own assessment of the PRSPs

In addition, as the donor community is actively involved in the PRS process, they are most likely to minimize their aid burden. In fact, except for Denmark, Luxemburg, Norway, the Netherlands and Sweden, all donors' aid contribution is far below the UN's Official Development Assistance (ODA) target of 0.7% of GNI (Figure 5.2). More seriously, most aid projects are motivated to serve the business or strategic purpose of the donors rather than the poverty reduction goal of the LICs. Thus, a lower priority to aid in PRSPs is understandable.

Foreign aid, tourism, and the donor participation in PRSP preparation are often mentioned with some elaboration with an average score of 1.8 for foreign aid and tourism and 1.2 for donor participation. As tourism receives the same priority as foreign aid, countries tend to lean toward self-reliance for development. In fact, tourism has great potential to poverty reduction. Tourism is the world's largest industry and has been an integral component of economic development strategies in developing nations for over half a century: "The industry's potential to generate foreign exchange earnings, attract international investment, increase tax revenues and create new jobs has served as an incentive for developing countries to promote tourism as an engine for macro-economic growth" (Torres and Momsen, 2004: 294–5). Views on the relationship between poverty and tourism have varied widely over the past half-century. In the 1950s and 1960s tourism was identified as a modernization strategy that could help newly-independent Third World countries earns foreign exchange (de Kadt, 1979). By the 1970s and through the 1980s many social scientists were arguing

that poor countries are typically excluded from or disadvantaged by what tourism can offer (Britton, 1983; Scheyvens, 2007). There has now been a concerted push towards a reversal of this thinking in the 1990s, coinciding with the development industry's global focus on poverty alleviation, as epitomized by the MDGs. The poverty alleviation thrust is founded on a consensus among donors that globalization offers a path out of poverty (Storey *et al*., 2005) and tourism is one of the main industries that globalization can bring to LICs. It is within this context that tourism and poverty alleviation are being increasingly linked.

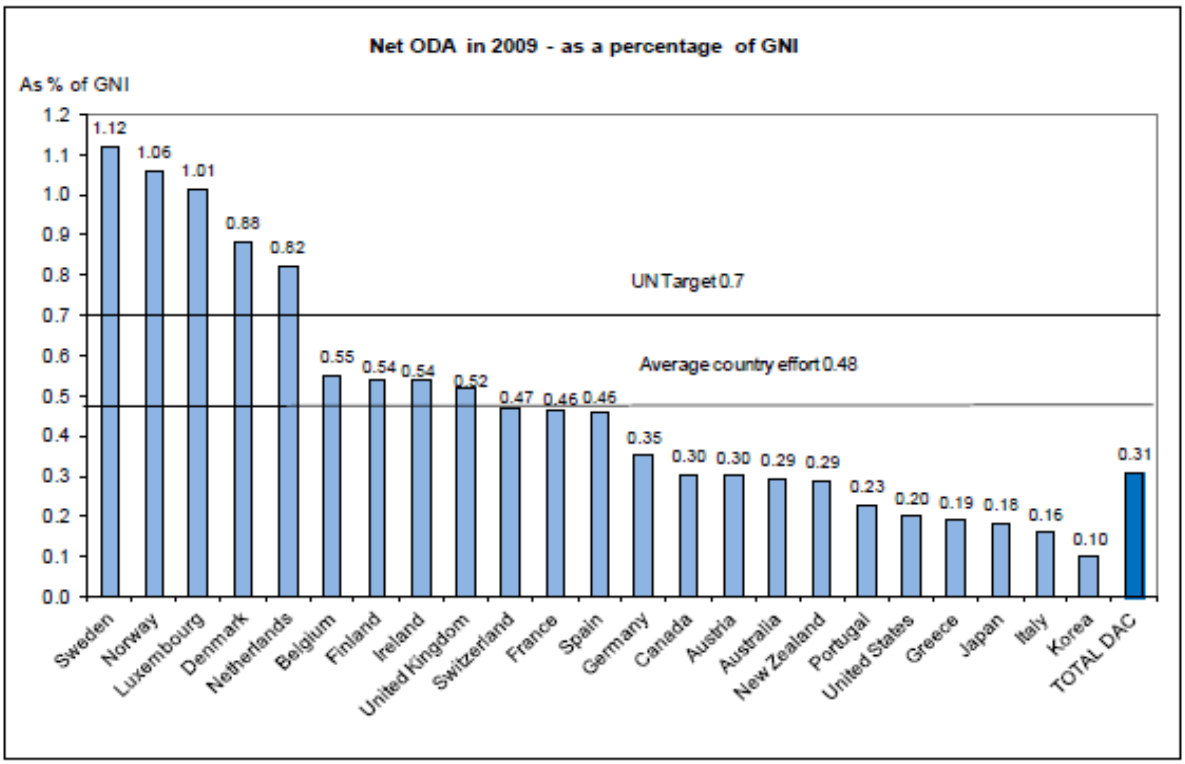

Figure 5.2 Net ODA by Bilateral Donors in 2009 (as% of GNI)

Source: OECD aid statistics, available at: http://www.oecd.org/dataoecd/17/9/44981892.pdf (accessed in August 5, 2010)

In this context, a wide range of interest groups are paying due attention to tourism as a mechanism for poverty reduction. A 1999 meeting of the UN Commission on Sustainable Development urged governments to "maximize the potential of tourism for eradicating poverty by developing appropriate strategies in cooperation with all major groups, indigenous and local communities" (IIED, 2001: 41). Meanwhile, the World Tourism Organization initiated the Sustainable Tourism – Eliminating Poverty (ST-EP) Project (see http://www.unwto.org/step/index.php; Sofield *et al*., 2004). Elsewhere, donors (such as the Dutch bilateral aid agency, SNV) multilateral organizations (e.g. the Asian Development Bank, World Bank and WTO), and tourism organizations (e.g. the Pacific and Asia Travel Association) have expressed support for strategies whereby tourism can lead to

poverty reduction (Ashe, 2005; Christie, 2002; PPT Partnership, 2005). Therefore, LICs increasing focus on tourism is welcome and rational for their poverty reduction objective.

In contrast, issues of international migration receive an average score lower than 1.0, meaning they are rarely discussed at length, although a few countries (e.g., Nepal) recognize migration as an important tool for poverty reduction. In fact, the issue of unskilled migration is hardly emphasized in the context of globalization, especially by international organizations and developed nations, even though they are the drivers of globalization. However, it is surprising that the PRSPs of the LICs ignore labor migration despite the fact that they are experiencing high levels of unemployment of unskilled labor and stand to gain substantially from exporting their labor (Jennings and Clarke, 2005:685). For instance, at the *family level*, migration may improve household earnings, giving people better food, health, housing, and educational standards. Positive effects may spread to the wider community and society, preventing the decline of rural communities or the collapse of national economies. At the *community level*, migrants' hometown associations may serve as platforms resulting in significant development, such as improvements in local health, education, sanitation, and infrastructure conditions, benefiting migrant and non-migrant households. Migrants influence the development of their home countries by the resources and assets they send or bring back with them. Remittances are an important resource for many households in LICs, because they move directly from person to person, so they may have a more direct impact than other resource flows. Overall, remittances are becoming a more constant source of income than other private flows and FDI. Apart from benefiting migrant families, remittances also benefit unrelated non-migrants by fostering trade and services between emigrants and non-migrants. More importantly, remittances constitute a much higher share of total international flows to LICs (Nyberg-Sørensen *et al*., 2002).

In spite of these facts and the econometric result in Chapter 3 that reveals the highly significant poverty reducing effect of remittances, it is unusual to find very low policy attention to labor migration issues in the PRSPs. Of course, there is evidence and arguments that claim LICs export mostly high skilled labor, while middle–income countries tend to export mostly low–skill workers (OECD, 2008). In their view, high-skill workers tend to migrate legally, which entitles them to take their family along and significantly reduces remittances. Lower-skilled workers, on the contrary, tend to migrate illegally, leaving their families behind at least for a certain period, which this increases remittances. These facts further demand policy responses by donors and LIC governments that promote unskilled labor migration and control or discourage skilled migration. Therefore, this neglect of the migration issue in the PRSPs of LICs in the region calls for further research.

5.5.2 Summary of Scores by Country

Each country's rating on the mainstreaming of globalization in its PRSP is summarized in Table 5.2.

Comparisons among countries can be visualized in Figure 5.3. There is considerable variation in the degree of mainstreaming from a high score of 2.5 (Sri-Lanka) to a low of 0.5 (Indonesia). Countries with a score of 2.0 or higher are Cambodia, East Timor, Lao PDR, Mongolia, Maldives and Nepal. Afghanistan, Bangladesh, Vietnam, Bhutan, Pakistan and Indonesia score lower than 2.0.

Table 5.2 Summary of Country Scores for Key Elements of Globalization (0-3 point scale)

Country	Region	Average Rating
Sri-Lanka	South Asia	2.5
Cambodia	East Asia and Pacific	2.2
East Timor	East Asia and Pacific	2.1
Laos PDR	East Asia and Pacific	2
Mongolia	East Asia and Pacific	2
Maldives	South Asia	2
Nepal	South Asia	2
Afghanistan	South Asia	1.8
Bangladesh	South Asia	1.7
Vietnam	East Asia and Pacific	1.5
Bhutan	South Asia	1
Pakistan	South Asia	0.8
Indonesia	East Asia and Pacific	0.5
	Average Score	**1.7**

Source: Author's own assessment of the PRSPs

While these scores should not be seen as precise measurements, they do indicate that the level of attention given to the issues varies considerably. Some variation is legitimate and to be expected. However, there is no reason to believe that the low scoring countries are free from concerns of globalization related to poverty. For instance, in spite of the very low scores of Indonesia and Pakistan, these countries both have great concern for such issues and are of considerable importance for global economic relations.

Why is there so much variation among the countries? One possible explanation is related to the countries' past experiences with globalization. The countries with more favorable experiences with the consequences of globalization can be expected to have more favorable attitudes toward globalization, as reflected in their PRSPs, than others. For example, with the liberalization of its economy in 1977, Sri Lanka entered into the arena of globalization as a pioneer and leader in SA with respect to the pursuit of an outward-looking policy (Samaratunge and Nyland, 2006:416). Because of

continuous support from international community, Sri Lanka could gain sustained and high growth within the region even though the country suffered from conflict with the armed separatist LTTE for decades. Similarly, as a result of the efforts of global and regional powers, Cambodia was able to end its long-term civil war and achieve gradual economic development (Shatkin, 1998:382). It is globalization that fuels recent high growth and improvement in socioeconomic indicators in the country. Thus, globalization elements are well integrated into these countries' PRSPs.

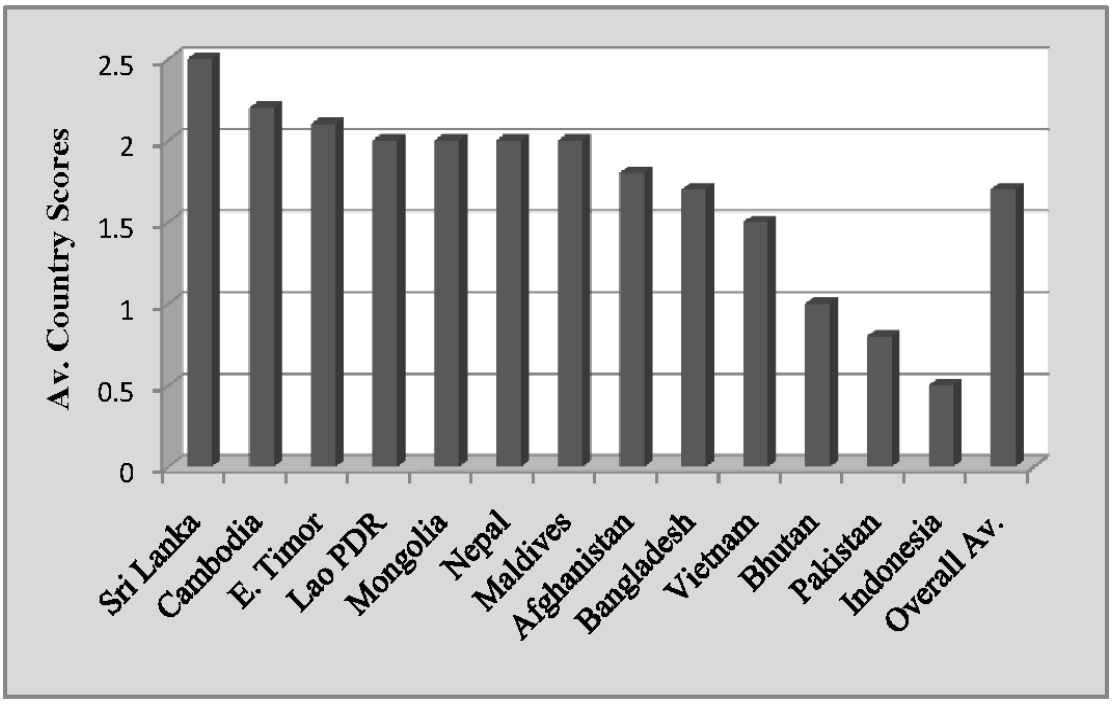

Figure 5.3 Average Country Scores for the Level of Mainstreaming of Globalization (0-3 point scale)

Source: Author's own assessment of the PRSPs

Apart from pure economic reasons, other sociopolitical factors can also lead to variation among country scores. Countries with a Muslim-dominant population composition, e.g., Pakistan (97%), Bangladesh (89%) and Indonesia (86%), are generally more averse to globalization, as Kurth (1999) argues that one of the main sources of resistance to globalization is revivalist Islam.[64] He also argued that Islam tends to be more resistant toward modernization process compared to other religions.

Similarly, the results support the argument made by Leeds and Davis (1999) that countries with autocratic regimes tend to limit international interactions. In fact, there is a close and positive relationship between globalization and democracy. A free market economy, which is the backbone of globalization, usually leads to economic growth and development, which increases the size of the middle class, promotes education, and consequently reduces income inequality, thereby leading to

[64] The data are estimates for 2007 and sourced from the IMF's World Economic Outlook, October 2007.

democratization (Platner, 1993, Weitzman, 1993, and Lipset, 1994). Globalization also makes necessary demand for international business activities, which require a peaceful trading environment. This is why foreign investors seek peaceful environments in developing countries for their continued investment. Thus, donor agencies and rich states always impose political and economic conditionality for aid and other support on the developing world. Through this process, democracy would ultimately spread to these states because of internal needs for aid and international demand for adjustment and political reforms. Consequently, the autocratic regimes in developing countries fear the globalization process as a threat to the continuity of their political power. Thus, Bhutan with an active monarchy and Vietnam with a socialist political system score lower on mainstreaming globalization elements in their PRSPs.

The second interesting finding is that the average score for all countries examined is about 1.7 on the 0-3 scale. This is a broad indicator of the level of attention paid to the aspects of globalization, which reveals that LICs in the region are not so reluctant toward opening up their country. In the context of many competing issues in the PRSPs, there may be more or less good reasons for not mentioning or elaborating on each issue. It is difficult to offer a more precise assessment of each case, and these scores suggest a need for more detailed country-specific analyses.

Finally, some good practices are observed among the PRSPs analyzed in this chapter. The following section offers some examples that can serve to inspire future work. As examples below illustrate, the standard for "good practice" is not extraordinarily demanding and should be easily achievable if sufficient attention is given to globalization.

5.5.3 Examples of Good Practices

There are a number of priorities that should be taken into account by policymakers while formulating a PRSP. Therefore, one cannot expect to find lengthy elaboration or comprehensive coverage of each issue and element in a PRSP. This section highlights good practice in PRSPs in terms of the key elements of globalization considering the four criteria of mainstreaming discussed in the methodology section. As the PRSPs are open to the public and easily accessible, it presents only brief examples of good practice.

As trade issues have gained the top policy priority by most developing countries in the Asia-Pacific, we can find several examples of good practice in trade issues. As the highest scorer on mainstreaming globalization, Cambodia's PRSP can be taken as an example of good practice regarding trade issues. The national government nicely links trade priorities with the recognition of this sector of comparative advantage. The PRSP observes:

> Linking production to consumption or producers to consumers, trade is a powerful and important catalyst for socio-economic development. Promotion of trade for Cambodian products has been among top priorities. …Various initiatives and reform measures taken to implement it (past policy frameworks to open up trade) culminated in dynamic export performance and integration of the country in numerous regional bodies and accession to WTO

> in 2004. Government has also successfully negotiated free and/or favourable trade agreements with many countries. However, there are still many bottlenecks similar to those in private investment in industries which inhibit growth in this sector. …Various reforms that the Royal Government of Cambodia (RGC) will pursue in governance, legal and judicial sector and in public administration, as well as rehabilitation of basic infrastructure, would no doubt contribute to a better climate for Trade and Investment by private sector (p. 55).

There are also some examples of good practices on FDI issues. Vietnam, Mongolia, East Timor and Nepal gained the highest score in FDI issues as they demonstrate good practice examples in their PRSPs. For example, Vietnam links its FDI policies with the country's resource needs, recognizing the sectors that create jobs and boost exports. Vietnam's PRSP recognizes the countries from which to attract FDI, including the United States, China, Japan, the EU and Russia, and introduces country-specific policies. The document also identifies the possible negative impact of FDI and adopts several measures to minimize the ill effects, such as prioritizing FDI in labor-intensive industries and restricting FDI in the rapidly growing domestic industry, among others. Similarly, Nepal plans to accelerate the pace of industrialization through increased participation of the private sector and to create additional employment in both rural and urban areas to reduce poverty. The main strategies to achieve these objectives are improving policies to attract domestic and foreign investment, strengthening the role of SMEs in national production and improving the overall industrial environment. The PRSP measures will also be taken to attract more foreign investment, along with appropriate technology, particularly in areas of comparative advantage in order to enhance competitiveness.

The PRSPs of Laos and East Timor have examples of good practices regarding foreign aid and tourism issues, respectively. As a major component of the budget, foreign aid receives due policy attention in the PRSP of Laos. Among other well formulated policies, the document states:

> To ensure the accountable and transparent management of ODA, there is a need to strengthen the Government's ownership of ODA, beyond the Ministry of Foreign Affairs. Agencies responsible for the sectoral coordination need support to guide them through more effective planning, management, evaluation and reporting of ODA. Official Development Assistance (ODA) from international organizations will be channeled appropriately to the areas according to their needs and the use of it should be effective in helping to reduce poverty by developing necessary skills of local people at the site for participation in economic development (p. 117).

Similarly, East Timor's PRSP has sound tourism strategies, which can be considered a good practice. The document includes policies to attract FDI to create jobs and to promote SMEs in the tourism sector for the purpose of poverty reduction. Setting clear performance indicators, the document formulates several programs, projects and activities, including development of specialized personnel, creation of a tourism database and websites, and formulation of sound tourism policies focusing on poverty reduction, among others.

5.5.4 Regional Comparisons

The countries of the EAP region have a slightly higher level of mainstreaming the key elements of globalization in their PRSPs than those in the SA region (Table 5.3). For easy comparison, main results are presented also in Figure 5.4. On the 0-3 scale, the overall regional average score for the level of mainstreaming is 1.71 and 1.69, respectively. However, the priorities and level of mainstreaming for each issue are different for both regions. For instance, trade issues are integrated the most in both regions, although the SA region has a much higher score (2.71) than the EAP region (2.42). However, FDI, tourism and foreign aid issues are far better integrated in the PRSPs of EAP countries. The average scores on these three issues are 2.33, 2.33 and 1.92 for EAP countries, and 1.79, 1.71 and 1.50 for SA countries respectively.

Table 5.3 Summary of Factor Scores by Country and Region
(0-3 point scale)

Key Elements of Globalization	East Asia and the Pacific (EAP)						Regional Average
	KHM	IDN	LAO	MNG	TMR	VNM	
International Trade	3	1	3	2	2.5	3	2.42
FDI	2	1	2	3	3	3	2.33
Tourism	3	1	3	2	3	2	2.33
Foreign Aid	3	0	3	2	2.5	1	1.92
Donor Participation	2	0	1	3	1	0	1.17
International Migration	0	0	0	0	0.5	0	0.08
Country Score	**2.2**	**0.5**	**2**	**2**	**2.1**	**1.5**	**1.71**

Key Elements of Globalization	South Asia (SA)							Regional Average
	AFG	BGD	BTN	NPL	PAK	MDV	SRN	
International Trade	3	3	2	3	2	3	3	2.71
FDI	1.5	2	2	3	1	2	1	1.79
Foreign Aid	3	1	1	2	1	1	3	1.71
International Migration	1.5	2	0	2	0	2	3	1.50
Tourism	1	2	0	2	0	2	2	1.29
Donor Participation	1	0	1	0	1	2	3	1.14
Country Score	**1.8**	**1.7**	**1**	**2**	**0.8**	**2**	**2.5**	**1.69**

Note: KHM=Cambodia; IDN=Indonesia; MNG=Mongolia; TMR=East Timor; VNM=Vietnam; AFG=Afghanistan; BGD=Bangladesh; BTN=Bhutan; NPL=Nepal; PAK=Pakistan; MDV=Maldives; SRN=Sri Lanka
Source: Author's own assessment of the PRSPs

Although this study does not intend to explain the causality of past experiences of globalization on current scores of PRSPs in these two regions, simple comparisons of globalization and poverty

reduction trends indicate their relationship and provide a rationale for the above results. As a result of rapid globalization, the EAP region has witnessed tremendous economic development and poverty reduction in the past two and half decades, whereas the SA region has not followed the same path. For instance, in 1981 nearly 78% of the total population in the EAP region was living under $1.25 per day, giving the region the highest incidence of poverty in the world.[65] The SA region had the second highest incidence of poverty with 59% of the population living below $1.25 per day. By 2005, the SA region remained the second poorest region, after Sub-Saharan Africa, with a poverty incidence of 40%, but the EAP region had progressed so rapidly that the poverty incidence had declined to about 17% (Chen and Ravallion, 2008:25).

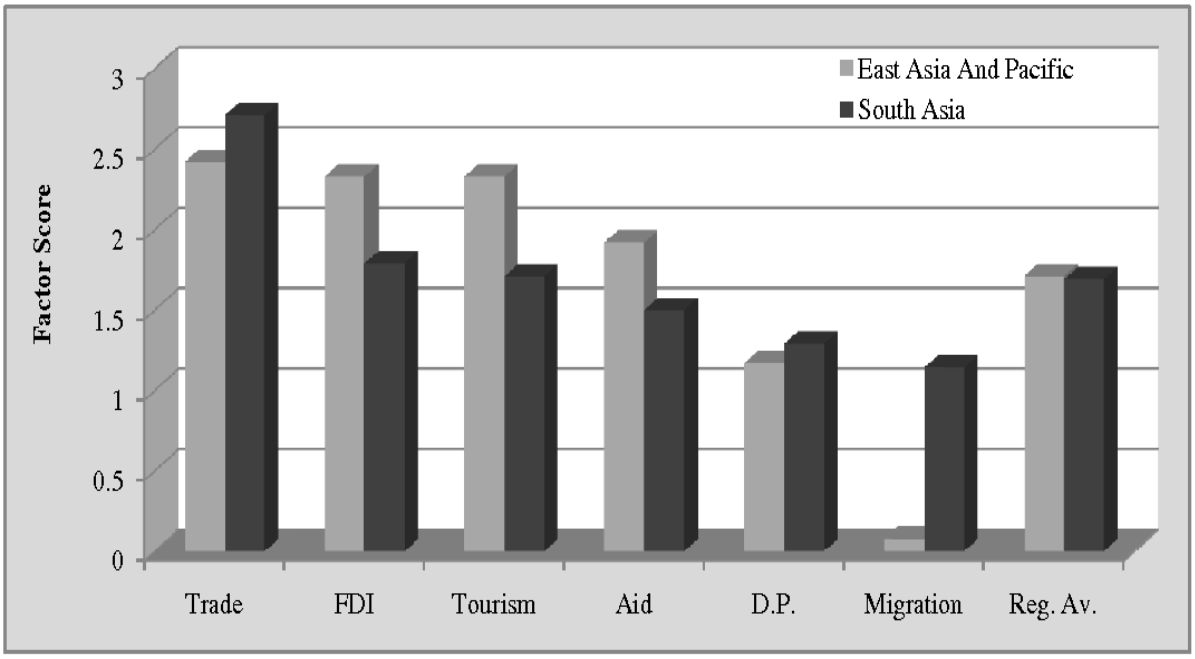

Figure 5.4 Regional Comparison of Average Factor Scores between EAP and SA (0-3 point scale)

Note: D.P. = Donor participation in the PRSP formulation process Reg. Av. = Regional Average

Source: Author's own assessment of the PRSPs

Interestingly, the trade to GDP ratio, as a proxy for globalization, rose from 20% to nearly 43% for the SA region, and from about 35% to 86% for the EAP region, from 1981 to 2005. Similarly, during the same period, the ratio of the EAP region's FDI inflow to GDP rose from 0.6% to 3.5%,

[65] The World Bank redefined the absolute poverty line at below $1.25 per day for international comparison in 2008.

whereas the corresponding ratio for the SA region rose from 0.1% to 1.1%.[66] Of course, the success of poverty reduction in the EAP region was not automatic. The globalization process was well supported by sound macroeconomic management, together with proper social policies, to transfer benefits to the poorest people in the region (World Bank, 2002:85-120).

Similarly, regarding globalization policies, the EAP region demonstrated a good balance of focus toward all elements of globalization. In fact, different elements of globalization move forward hand-in-hand; particularly, trade should be well supported by capital flows and vice versa. The World Bank (2002) has showed that most of the champions of globalization have opened both trade and investment, and many empirical studies have indicated positive relationships between trade and capital flows. Hence, properly balanced policy matters much more than just opening up countries to the global system.

Although these are the results from LICs for both the regions, it is more likely to have spillover effect on the EAP region, as it has more advanced countries with surprising progress on poverty reduction with rapid globalization. Not only Japan, South Korea, Hong Kong, Taiwan and Singapore, but also China, Thailand, and Malaysia are achieving rapid progress in socioeconomic development. Thus, the remaining countries, which are lagging behind, can be influenced by their successful neighbors in the EAP region. However, SA does not have such a success story as most of countries still have LIC status.

The priorities of issues are also slightly different between the regions. Trade and FDI are the first and second policy priorities in both regions, but the remaining variables have different rankings. For example, the priority sequence for the EAP countries is tourism, foreign aid, donor participation, and international migration. The sequence for the SA region is foreign aid, tourism, international migration and donor participation. As SA is poorer than the EAP region, the former gives more priority to foreign aid. Similarly, with higher development levels, EAP countries accord a higher priority to tourism than SA countries. In fact, foreign aid is supposed to be highly prioritized in PRSPs, as it is the national development plan of LICs. However, development aid is infamous for its increasing ineffectiveness and conditionality (Toye, 2007:508). Furthermore, PRSPs are the whole development plans of countries rather than, just literally, poverty reduction strategies; therefore, they are influenced by countries' domestic sociopolitical environments. Thus, it is reasonable for countries to give a lower priority to foreign aid.

Surprisingly, the level of donor participation in the preparation of PRSPs and the issue of international migration received very little discussion in the PRSPs of both regions. As the PRS process was initiated by the IMF and the World Bank, and they are providing technical assistance and other forms of support (World Bank and IMF, 2005), it is believed that at least these two most influential donors have participated well in many respects. They have even a key role in publishing

[66] The trade to GDP ratio data was taken from the World Development Indicators (WDI) online database of the World Bank.

the PRSP data and reports on their websites. However, why are the PRSPs quiet on donor participation? This calls for further investigation together with the case of international labor migration.

Comparing each element, EAP has higher scores on FDI, tourism and aid, whereas SA has higher score on trade, donor participation and international migration. The issue of international migration received the least attention in the PRSPs for both regions in spite of its highly positive and significant impact on poverty reduction.[67] This might be due to developed countries' reluctance to accept migrant workers and the donor community's reluctance to put this issue high on the agenda. This, too, requires further research.

5.6 Chapter Conclusion

As expected, trade and FDI issues are mainstreamed well in the selected PRSPs in the Asia-Pacific. Most of the PRSPs cover a wide range of international trade and FDI issues, and include good elaborations and analyses regarding the casual linkages between these issues and poverty reduction. In general, relatively less developed countries and regions tend to focus more on trade issues vis-à-vis FDI issues. These can be considered as balanced policy choices because most countries include trade and FDI issues as their first two priority options. This is important because trade and FDI are complementary and are the most significant elements of globalization. Interestingly, although by definition aid is considered more important for poverty reduction in LICs, foreign aid received little attention. This might be because of the increasing conditionality and ineffectiveness of aid.

The results of this study indicate that countries with more favorable experiences of globalization display more positive attitudes in their PRSPs (e.g. Sri Lanka, Cambodia) compared to countries with unfavorable experiences (e.g., Indonesia). Similarly, countries with relatively autocratic regimes (e.g., Bhutan and Pakistan) were rather reluctant to include globalization policies in their PRSPs.

It was surprising to find that the PRSPs gave little attention to transnational labor migration, although there are well established evidences of significant positive impact of labor migration on poverty reduction in developing countries. This might be due to developed countries' reluctance to accept migrant workers. However, further research is required to confirm this proposition. This author strongly recommends that developed economies' labor markets should be opened especially to unskilled workers from poorer countries. This is one of the most effective ways to transfer the benefits of globalization to the poor, which also contributes directly to cultural and social aspects of integration. Because unskilled laborers mostly come from poorer families in poor countries, culturally

[67] In their cross-country research, Richard H. Adams and J. Page (2005) analyzed a new data set on international migration, remittances, inequality, and poverty from 71 developing countries, and found that both international migration and remittances significantly reduced the level, depth, and severity of poverty in the developing world. After instrumenting for the possible endogeneity of international migration, and controlling for various factors, their results suggested that, on average, a 10% increase in the share of international migrants in a country's population would lead to a 2.1% decline in the share of people living on less than $1 per day.

poor people and regions are the most difficult to integrate into the global mainstream.

The results of the content analysis of the PRSPs presented here give us a glimpse of how elements of globalization are integrated into the development policies of developing countries in the Asia-Pacific. They also reflect the policies of the donor community towards developing countries as the PRS approach itself is guided by the leading donors, the World Bank and IMF. However, further research is necessary to identify the operational status of those policies and their impact, and to assess the appropriateness and effectiveness of the policy choices that national governments and the international community make.

In sum, this chapter reveals that the development policies of LICs are consistent with empirical evidence from the previous chapters. It is good to observe the outward policies of countries lagging behind in the development as well as globalization process, as those countries need higher and pro-poor growth to catch up to developed countries even in terms of level of income. However, it is argued that developed or richer countries need to be more open in terms of labor markets and agricultural sectors towards developing countries, particularly towards LICs because poorer countries gain more from such openness while the rich have nothing to lose.

Chapter Appendices

Appendix 5.1: Analyzed PRSPs

Countries	Documents (Name of the document*)	Date Published
East Asia and Pacific		
1. Cambodia	Poverty Reduction Strategy Paper II (National Strategic Development Plan 2006-2010)	Dec 22, 2005
2. East Timor	Poverty Reduction Strategy Paper(National Development Plan)	May 20, 2002
3. Indonesia	Interim Poverty Reduction Strategy Paper	Mar 31, 2003
4. Lao PDR	Poverty Reduction Strategy Paper(National Socio-Economic Development Plan 2006-2010)	Oct, 2008
5. Mongolia	Poverty Reduction Strategy Paper (Economic Growth Support and Poverty Reduction Strategy)	Jul 3, 2003
6. Vietnam	Poverty Reduction Strategy Paper II (The Five Year Socio-Economic Dev. Plan 2006-2010)	Jul, 2006
South Asia		
7. Afghanistan	Poverty Reduction Strategy Paper (Afghanistan National Development Strategy 2008-2013)	May, 2008
8. Bangladesh	Poverty Reduction Strategy Paper (National Strategy for Accelerated Poverty Reduction)	Oct 16, 2005
9. Bhutan	Poverty Reduction Strategy Paper(Poverty Reduction Strategy Paper: A cover note to the Ninth Plan)	Aug 11, 2004
10. Maldives	Poverty Reduction Strategy Paper(Seventh National Development Plan 2006-2010)	Jan, 2008
11. Nepal	Poverty Reduction Strategy Paper(The Tenth Plan 2002-2007)	May 30, 2003
12. Pakistan	Poverty Reduction Strategy Paper(Accelerating Economic Growth and Reducing Poverty)	Dec 31, 2003
13. Sri Lanka	Poverty Reduction Strategy Paper (Vision and Strategy for Accelerated Development)	Dec 5, 2002

*The name of the PRSP document might be different from the "PRSP" itself, although the World Bank and IMF call it a PRSP.

Appendix 5.2: Scoring Format to Assess International Trade Issues in PRSPs

1. Issues in Focus:
   i. WTO: accession, engagement, etc.
   ii. FTA activities: bilateral, regional, etc.
   iii. Export promotion: export promotion zone, tax subsidy, etc.
   iv. Reducing tariff: product, services, etc.
   v. Reducing non-tariff barrier

2. Causal Link Assessment
   i. Access to the international market for SMEs
   ii. Access to agricultural products
   iii. Reducing tariffs on products mostly using by the poor
   iv. Export promotion for handicrafts and employment generating products
   v. Incentives: pricing interventions, taxation, subsidies, exchange rate, etc.
   vi. Empowerment: training for SMEs and information for the poor
   vii. Gender: role of women in international trade

3. Response systems
   i. Trading capacity: legislation, regulation, institutional reform, data systems, cross-sectoral coordination, etc.
   ii. Investment in natural capital: investment in natural resource productivity
   iii. Investment in human-made capital: investment in trade infrastructure
   iv. Monitoring malpractices and increasing efficiency of customs
   v. Human resource development, trade and business

4. Process
   i. Description of the participatory process and identification of trade issues, poverty links, and actions

Score:
0 = not mentioned; 1 = mentioned but not elaborated; 2 = elaborated; 3 = good practice

Note: The scoring formats for the other elements are not reported in this paper. However, they can be provided upon request.

Chapter 6

Conclusion

This chapter investigates the impact of globalization – conceptualized as the various global flows including goods, services, capital, people, information and ideas that erode national boundaries and integrate national economies, cultures, technologies and governance – on QOL. The conceptual model developed in the thesis is empirically tested, which shows the validity of the model and the consistencies of the theoretical arguments of the thesis. In brief, the results are evident of the positive impacts of globalization on QOL in DCs and demonstrate a significant converging effect of overall QOL indicators and their sub-constructs in the Asia-Pacific region. It also evident that the LICs in the region are strategically considering globalization as an important means of poverty reduction, which is the single most important goal of their development policies after the PRS framework of the World Bank and IMF and the MDGs of the UN. On the basis of these results, policymakers can develop specific policies geared to enhance the positive effects of globalization and reduce its adverse effects. In conclusion, the contributions of each analytical chapter of this thesis are discussed below.

6.1 Contribution of Chapter 3

Previous research on globalization and QOL mostly focuses on the income dimension. Researchers tend to narrowly define globalization and use just one or a few variables to proxy globalization and QOL. On the other hand, after the recent introduction of comprehensive indicators of globalization and QOL, many others have tended to use these indicators without validating the results with their sub-constructs. Such validation is essential as the index number has its own limits. In spite of a single value that captures the measurement of many variables, index numbers cannot explain the characteristics of each element.

In this context, Chapter 3 contributes to the literature on the impacts of globalization on QOL primarily in four ways. First, it uses both key elements and comprehensive indicators of globalization and QOL as explanatory and dependent variables, respectively. Second, it covers a broad sample of DCs instead of certain regions like most previous studies. Third, it uses more recent data compared to prior studies. Fourth, it makes a number of methodological improvements and captures the differences in globalization effects across different income groups of countries. Each contribution is elaborated below.

In fact, the first contribution applies both for Chapters 3 and 4. As the concepts of globalization and QOL are rather vague, comprehensive definitions and measures (generating indexes) that can

incorporate these broad concepts are necessary. However, interpretations of such indicators and their results are not free from errors because of the complex interactions among the components of such indexes. Therefore, this study uses both comprehensive measures and their key components in the same analytical framework. First, four key elements of globalization: trade, FDI, migration and ICT development are taken as the explanatory variables in the regression under the FE estimation model. Then, results are compared by using the comprehensive indicators of globalization, the KOF indexes, in a different equation but in the same FE estimation model. Interestingly, results are found to be quite consistent in both approaches. Similarly, Chapter 3 uses not only the HDI, but also GDI and HPI-1 as dependent variables. As this chapter focuses on DCs, it is important to capture the effect of globalization on gender development and human poverty, together with overall human development.

The second contribution of this chapter is a wide coverage of sample. It uses data of 124 DCs, which is out of 146 DCs listed on the WDI online database of the World Bank. In fact, this chapter attempted to cover all DCs. However, due to the lack of sufficient data for 22 countries, it relies on the remaining 124 countries. Among such cross-country studies, this is the widest coverage to the author's knowledge. Such a wide coverage of data certainly strengthens the credibility and validity of any empirical results.

The third contribution is the recentness and structure of the data. It uses the most recent data in panel structure, which covers from 1997 to 2005. As the UNDP started to report HPI-1 after its 1999 HDR, in which it reported the data for 1997, this chapter takes annual data from that date to the most recent data available, (i.e. for 2005 as reported by HDR 2007/08). Conventionally, most cross-country literature has used only cross section data for a single year. Therefore, results might reflect unobserved characteristics that do not vary over time, or might reflect reverse causality, rather than being consequences of globalization. Some recent researchers have used panel data in their analyses, however, the Chapter 3 uniquely covers a large sample in its panel data structure. Interestingly, results show systematic effects of globalization on promoting human and gender development and reducing human poverty. Not only the key elements of globalization, but the comprehensive indicators of globalization also show such QOL promoting effects.

Finally, Chapter 3 makes several methodological improvements in cross-country regression. It introduces the interaction-terms between income groups of countries and globalization variables to capture differences in the globalization effect on different income groups of countries. The results reveal that overall the human development effect is significantly higher in LICs. However, the gender development and poverty reduction effects are significantly higher in LMCs. It indicates that governments in LICs should complement globalization policies with redistributive policies focusing on rural areas, where most of the people live. Chapter 3 also introduces population growth as a control variable, together with GDP per capita. As expected, population growth is found to be significant in hampering human and gender development and increasing human poverty.

6.2 Contribution of Chapter 4

There is large body of literature on convergence of income, particularly on economic growth across countries. However, only a few works assess the convergence hypothesis on other aspects of QOL, such as health and education. Similarly, scholars tend to test the convergence hypothesis taking similar groups of countries or provinces/states within a country, such as OECD countries, EU member countries, states of the US, provinces of Germany, etc. Thus, most of the existing literature is narrowly focused and cannot capture the broader aspect of QOL convergence among diverse countries.

Thus, Chapter 4 expands the existing literature by testing convergence in health and educational indicators, together with income indicators among countries in a highly diverse region, the Asia-Pacific, covering data from 1975 to 2005. It covers all countries of the EAP and SA regions where data exists. Like the first contribution of Chapter 3, it uses both key elements and a comprehensive measure of globalization. Furthermore, it uses both key components and a comprehensive measure of QOL. Specifically, Chapter 4 not only observes convergence of the HDI, the overall measure of QOL, but also examines the situation with health and education indicators, the sub-constructs of the HDI.

Secondly, most convergence literature focuses on the convergence of a certain variable, mainly income growth. They rarely examine the impacts of a certain variable, such as globalization, on the convergence/divergence process. Even the globalization literature rarely examines its effect on convergence. Although there is a huge body of literature on globalization and income inequality, these works do not explicitly test the convergence hypothesis. Therefore, Chapter 4 assesses the impact of globalization, in terms of its key elements as well as the KOF indexes, on the convergence of HDI and its sub-constructs: life expectancy at birth, adult literacy, school enrollment and GDP per capita.

Finally, the chapter makes a number of methodological improvements. The classical convergence approach consists of fitting cross-country regressions, relating the average growth rate of per capita income over some time period to initial per capita income and country characteristics. Then, convergence is said to hold if a negative correlation is found between the average growth rate and the initial income (i.e. the beta convergence). Many scholars, including Friedman (1992) and Quah (1993), criticized this regression method on the basis of Galton's fallacy of regression toward the mean, and argued that the cross-sectional result of speed of convergence is a statistical illusion. Alternatively, some scholars use time series econometric methods focusing on direct evaluation of the persistence of transitivity of per capita income differences between economies. According this method, tests for convergence require cross-country per capita output differences to be stationary and non-stationary difference is a symptom of divergence. In the case of two economies, this definition of convergence is relatively unambiguous, but in the case of more than two economies, this is not so clear. As existing statistical methods of testing the convergence hypothesis has been criticized, with some suggesting more transparent and direct methods, this chapter examines the movement of gaps of each QOL

variable between the benchmark country, Japan, and each country to observe the situation of convergence/divergence, simply determining if the gaps are widening or narrowing over time. Interestingly, results show that in spite of sharp divergence in GDP per capita in the region, the overall QOL indicator, the HDI, is converging as a result of convergence of the health and education indicators.

To examine the impacts of globalization, these gaps are then regressed with globalization in the dynamic panel data analytic framework. As there are many variables potentially affecting QOL, the chapter uses a number of controls such as *GDP per capita* at the initial point to capture the effect of the initial level of development on convergence, overall and urban *population growth rates* and *age-dependency ratio* to control for demographic factors, *irrigated land* in percent of total cropland to capture the effect of agricultural infrastructure, *electricity consumption* per capita to capture the effect of basic infrastructure in a modern society, the annual growth rate of the *manufacturing sector value added* to capture the effects of the industrialization process, and finally a *democracy index* is used to gauge the effect of political and social liberties on QOL. As expected, the chapter demonstrates that globalization, in terms of its key elements and the comprehensive indicators, the KOF indexes, are highly significant on QOL convergence in the Asia-Pacific. Interestingly, globalization is found to have significant converging effect on GDP per capita, although the GDP per capita is diverging sharply.

The contribution of Chapter 4 is therefore more important because many politicians, policymakers, social organizations, activists and even some academics criticize globalization for increasing income inequality. Clearly, diverging income is the result of low levels of globalization in poorer countries. Thus, it is argued that any country's integration into the world economy and society is important for global convergence in any aspect.

6.3 Contribution of Chapter 5

Chapter 5 complements the empirical results from the two preceding chapters with a qualitative analysis of development policy documents, the PRSPs, of LICs in the Asia-Pacific region. Even though Chapters 3 and 4 demonstrate the fine impacts of globalization on QOL, there are many countries with very low levels of QOL, poverty, malnutrition, low life expectancy, low access to education, illiteracy and so on. After the sole development objective for these LICs was set in 2000 by the World Bank and IMF, together with UN, how do LICs view globalization as a means to achieve this goal? While poverty reduction is the sole target of international development, globalization issues cannot be ignored in the policy framework of LICs. However, there are few works in this area.

Therefore, Chapter 5 contributes in this aspect, assessing the extent to which globalization issues are mainstreamed in the PRSPs of LICs in the Asia-Pacific region under a content analytic framework. Although the globalization process is becoming more and more important for LICs for their overriding

goal of poverty reduction, there is not much research effort on assessing globalization issues in PRSPs. The chapter demonstrates the fact that LICs are keen towards globalization and very willing to integrate their economy and society into the world system. Particularly, they are open towards international trade and FDI for their national development and poverty reduction. This fact is contrary to the misunderstanding of many scholars and donors who view LICs as a closed world. Therefore, it is expected to contribute to the overcoming of this misunderstanding.

The chapter uniquely designs the scoring methods under the content analytical framework, improving similar works on different research foci. Although the method is somewhat subjective, the formats for scoring criteria are very specific and standardized to minimize scorer bias. Thus, it is considered sufficiently reliable and transparent to use this detailed method to arrive at conclusions on how globalization issues are mainstreamed within PRSPs, which can be used to make international comparisons.

The chapter also compares the results across two main sub-regions: the EAP and SA. Although the average levels of mainstreaming of globalization in both regions are mostly the same, the EAP region demonstrates a good balance of focus towards all elements of globalization. In fact, different elements of globalization move forward hand-in-hand; particularly, trade should be well supported by capital flows and vice versa. Aware of this fact, most of the champions of globalization have opened both trade and investment, and many empirical studies have indicated positive relationships between trade and capital flows. Hence, well-balanced policy matters more than just focusing on certain aspects of globalization.

In sum, the chapter reveals that the development policies of LICs are consistent with the empirical evidence from previous chapters. It is good to observe the outward policies of countries lagging behind in the development and globalization processes, as those countries need higher and pro-poor growth to catch up to richer countries, even in terms of level of income. However, the chapter suggests that richer countries need to be more open in terms of labor markets and agricultural sectors towards developing countries; particularly towards LICs because poorer countries gain more from such openness while the richer countries have nothing to lose.

6.4 Concluding Remarks

This thesis concludes that globalization significantly contributes to QOL and reduces human poverty in DCs. More importantly, globalization improves the health and education of people in poorer countries faster than in richer countries, which leads overall QOL convergence. In this rapidly globalizing world, LICs in the Asia-Pacific region are open towards the global economy and society. They strategically take globalization elements as a means of national development and poverty

reduction. It is suggested to take a balanced approach to consider all the aspects of globalization properly to gain better results from the globalization process.

The models used in this thesis have been developed to explain the impacts of globalization on QOL at the country level. Future studies should identify under what conditions the flows of goods and services, capital, technology, and workers boost the QOL of poor and vulnerable people more effectively. This is important to ensure the development of policies that serve to further enhance QOL, particularly for those people whose QOL is far below the average of the community where they live.

This research is believed to be useful for policymakers (including the donor community) to design globalization policies for the above purpose. Furthermore, it is also useful for general people to understand the complex globalization process because globalization is changing the economical, political, and social systems at the global, regional, national, and individual levels, rapidly affecting everyone's life. Finally, it is argued that any unit of global society, be it regional, national, community or individual, will gain more if they can increase interaction with the outside world. It is natural to gain more from those units who have wider and deeper interactions with the outside world.

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MAJOR PUBLICATIONS

"Mainstreaming Globalization in Poverty Reduction Strategy Papers (PRSPs) in the Asia-Pacific," *Development in Practice* [accepted for publication].

"Globalization's Convergence Effect on Human QOL in the Asia-Pacific: Evidence from the KOF Index of Globalization,"*Asian Regional Integration Review* 2:1-28, March 2010. Available at: http://www.waseda-giari.jp/sysimg/imgs/20100326_giari_review_2.pdf

"Does Globalization Affect Human Development, Gender Development and Human Poverty? Evidence from the KOF Index of Globalization,"*E-ASPAC, A Peer-Reviewed Electronic Journal for Asia Studies on the Pacific Coast,* June 2010. Available at: http://mcel.pacificu.edu/easpac/2010/sapkota.php

Papers under review

"Impacts of Globalization on Quality of Life Convergence (or Divergence) in the Asia-Pacific between 1975-2005," *Asian Economic Journal*.

"Impacts of Globalization on Quality of Life: Evidence from Developing Countries,"*Development Economies*.

Works in progress

"Impacts of Globalization on Working Condition in Nepal," analysis of data from Nepal Labor Force Survey 1998 and 2008 based on field research in December 2009-January 2010.

REFEREE FOR ACADEMIC JOURNALS

Development in Practice, A Routledge journal

CONFERENCE PAPERS/PRESENTATIONS

"Impacts of Globalization on Quality of Life Convergence (or Divergence) in the Asia-Pacific between 1975-2005," **12th International Convention of the East Asian Economic Association (EAEA),** Seoul, Republic of Korea, October 2–3, 2010.

"Globalization and Human Aspect of Development in Developing Countries: Evidence from Panel Data,"**11th Association of Pacific Rim Universities- Doctoral Students Conference (APRU-DSC),** University of Indonesia, Jakarta, July 12–16, 2010. [Elected as Vice-Chairman of the APRU Doctoral Student Network]

"Globalization and Human QOL Convergence in the Asia-Pacific," **Association for Asian Studies (AAS) Annual Meeting,** Philadelphia, March 25–28, 2010.

"Globalization's Convergence Effect on Human QOL in the Asia-Pacific: Evidence from the KOF Index of Globalization," **Summer Institute on Regional Integration**, Global Institute for Asian Regional Integration (GIARI), Waseda University, Tokyo, August 2009. [Received the GIARI Summer Institute Best Paper Award]

"Mainstreaming the Key Elements of Globalization in the Poverty Reduction Strategy Papers (PRSPs) in the Asia-Pacific: A Comparative Analysis between the East Asia and Pacific, and South Asia," **10th Association of Pacific Rim Universities-Doctoral Students Conference** (APRU-DSC), Kyoto University, Kyoto, July 2009. [Elected as an Executive Member of the APRU Doctoral Student Network]

"Globalization's Convergence Effect on human development in the Asia-Pacific," Joint Graduate Students Session, **Japan Society for International Development (JASID)** in collaboration with Waseda University Doctoral Student Network (WUDSN), Waseda University, July 2009.

"Does Globalization Affect Human Development, Gender Development and Human Poverty? Evidence from the KOF Index of globalization," **43rd Annual Conference of Asian Studies on the Pacific Coast (ASPAC)**, Soka University of America, California, June 2009. [Received the ASPAC-Esterline Graduate Student Best Paper Award with cash prize]

"Impacts of Globalization on Human Welfare and Poverty in Developing Countries in the Asia-Pacific in Comparison with Other Regions: Evidence from Panel Data," **Waseda University Doctoral Student Network (WUDSN)**, Waseda University, Tokyo, May 2009.

"Mainstreaming the Key Elements of Globalization in the PRSPs in the Asia-Pacific," **Multinational**

Students Workshop on Regional Cooperation in East Asia, Waseda University, February 2009.

"Mainstreaming the Key Elements of Globalization in the PRSPs in the Asia-Pacific and the implications for poverty reduction (revised version)," **2nd International Development Conference,** Centre for Agricultural Resources and International Development, Toronto, November 2008.

"Mainstreaming the Key Elements of Globalization in the PRSPs in the Asia-Pacific and the implications for poverty reduction," **Summer Institute on Asian Regional Integration,** Global Institute for Asian Regional Integration (GIARI), Waseda University, Tokyo, August 2008.

HONORS, AWARDS AND SCHOLARSHIPS

GSAPS Travel Grant to present paper at the 12th International Convention of the East Asian Economic Association (EAEA), Seoul, Republic of Korea, October 2010.

Waseda University International Office Travel Grant to present paper at the 11th Annual APRU Doctoral Student Conference in Jakarta, Indonesia, July 2010.

COE Global Institute for Asian Regional Integration Grant to present paper at the Annual Meeting of the Association for Asian Studies, Philadelphia, U.S.A., March 2010.

COE Field Research Grant to conduct field research in Nepal, Global Institute for Asian Regional Integration (GIARI), Waseda University, December 2009-January 2010.

ASPAC-Esterline Graduate Students Best Paper Award, 43rd Annual Conference of Asian Studies on the Pacific Coast (ASPAC), California, June 2009.

GIARI Summer Institute Best Paper Award, GIARI, Waseda University, August 2009.

Heiwa Nakajima Foundation Scholarship to support Ph.D. research, April 2009-March 2011.

COE Global Institute for Asian Regional Integration Grant to present paper at the 43rd ASPAC Conference, California, June 2009.

COE Global Institute for Asian Regional Integration Grant to present paper at the 2nd International Development Conference, Toronto, November 2008.

Global Center of Excellence (COE) Fellowship in Ph.D. study at Waseda University, Tokyo, April 2008-March 2011.

Japan International Cooperation Agency (JICA) Scholarship to study Master's Degree at Waseda University, Tokyo, April 2006-March 2008.

Campus Topper Award in M.B.A. study, Nepal Commerce Campus, Tribhuvan University, 1998.

United Mission to Nepal Scholarship to study Diploma in Civil Engineering, 1989-1992.

District Topper Award in School Leaving Certificate (S.L.C.) exam, Sindhupalchowk District Headquarters, Nepal, 1989.

PROFESSIONAL EXPERIENCES

Global Institute for Asian Regional Integration (GIARI), Research Fellow, May 2008~Present

Responsibilities: Conduct research on economic integration and sustainability in the Asia-Pacific, Manage and participate in various international meetings, conferences, workshops and invited lectures by GIARI.

Major projects: 1) Impacts of globalization on human development, poverty and inequality in low-income countries; 2) Impacts of globalization on quality of life convergence in the Asia-Pacific; and 3) Globalization as a poverty reduction strategy in the Asia-Pacific. These works led to the Ph.D. dissertation.

Asian Development Bank Institute (ADBI), Research Associate, April 2010~Present

Responsibilities: Process analytical reviews and summaries of existing literature on trade in services, locate and collect relevant documents and data from various sources, compile abstracts and organize written material into bibliographic form, maintain databases. Process data using statistical software, such as Stata, prepare tables and graphs, etc., draft research results and review research reports submitted by research consultants for ADBI research publications. Assist in planning and implementing research projects, including conduct of conferences, seminars and workshops.

Major projects: 1) Trade policy challenges in Asia; 2) Impacts of health and education sector reform on human development in Asia; 3) Economic opportunities from the ageing society; and 4) Employment in service sector and regional integration in ASEAN countries.

National Planning Commission of Nepal, Planning Officer, February 2003 ─ February 2006

Responsibilities: Performed analysis, evaluation and scrutiny of project proposals forwarded by concerned line ministries for final approval; monitoring, evaluation and coordination of assigned development projects; assisting to formulate sectoral (infrastructure development) plans, policies, programs, and strategies of the Government of Nepal; etc. Assisted to formulate sectoral (infrastructure) plans, policies, programs, and strategies of the Government of Nepal; etc.

Tribhuvan University, Lecturer, May 1999 ─ April 2003

Responsibilities: Taught and graded undergraduate and graduate courses, advised undergraduate and graduate students. Courses taught include "Business Finance" and "Capital Structure" to undergraduate students; and "Investments" to graduate students.

PROFESSIONAL AFFILIATIONS

Vice-Chairman, Association of Pacific Rim Universities (APRU) - Doctoral Student Network
Member, East Asian Economic Association (EAEA)
Member, Association for Asian Studies (AAS), U.S.A.
Member, Asian Studies on the Pacific Coast (ASPAC), U.S.A.
Member, Japan Society for International Development (JASID), JAPAN

IT SKILLS

Good command on data analysis using statistical software-STATA
Good command on MS Office including Word, Excel, Power point etc.
General knowledge on web page editing (responsible for: http://www.aprudsn.org/)

LANGUAGES

English, Hindi and Nepali: reading, writing and speaking at native level

Japanese: Average on speaking and basic skills on reading and writing