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The Role Of Globalisation in Improving Human Development in Malaysia
(Peranan Globalisasi dalam Meningkatkan Pembangunan Masyarakat di Malaysia)

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ABSTRACT

This paper examines the impact of globalisation on the level of human development in Malaysia. It also investigates the roles of other potential determinants of human development such as foreign direct investment (FDI), trade openness and international migration on Human Development Index (HDI) in Malaysia. We employ the method of Auto-Regressive Distributed Lag (ARDL) on the annual time series data covering the period from 1980 to 2017. The results confirm a positive and significant long run relationship between globalisation and FDI with HDI in Malaysia. However, the results imply a negative short and long run relationship of both trade openness and international migration with HDI. Therefore, the results suggest for policies to be focused and geared towards fostering globalisation and attracting the inflows of FDI if the country's main agenda is to improve the level of human development.

Keywords: Globalisation; Human development; Auto-Regressive Distributed Lag; Malaysia

ABSTRAK

Kertas kerja ini mengkaji peranan globalisasi dengan menggunakan teknologi maklumat dan komunikasi (ICT) sebagai proksi dalam meningkatkan tahap pembangunan manusia di Malaysia. Ia juga menyiasat peranan penentu potensi lain pembangunan manusia seperti pelaburan langsung asing (FDI), keterbukaan perdagangan dan migrasi antarabangsa ke atas Indeks Pembangunan Manusia (HDI) di Malaysia. Kami menggunakan kaedah Auto-Regressive Distributed Lag (ARDL) pada data siri masa tahunan yang meliputi tempoh 1980 hingga 2017. Hasilnya mengesahkan hubungan jangka panjang yang positif dan signifikan antara globalisasi dan FDI dengan HDI di Malaysia. Walau bagaimanapun, hasilnya menyiratkan hubungan pendek dan jangka panjang yang negatif mengenai keterbukaan perdagangan dan penghijrahan antarabangsa dengan HDI. Oleh itu, hasilnya mencadangkan dasar-dasar untuk difokuskan dan bertujuan untuk memupuk globalisasi dan menarik aliran masuk FDI jika agenda utama negara adalah untuk meningkatkan tahap pembangunan manusia.

Kata Kunci: Globalisasi; Pembangunan masyarakat; Auto-Regressive Distributed Lag; Malaysia

INTRODUCTION

In the early days, Malaysia was heavily reliant on the agricultural industry where the focus was mainly on primary products such as paddy, rubber, and tin. Over the years, we have witnessed an industrial revolution resulting in a transition from agriculture to the manufacturing industry. This has played a key part in fostering globalisation in the country. The creation of Multimedia Super Corridor (MSC) has succeeded in accelerating the achievement of objectives of Vision 2020 and transforming Malaysia into the information and communication technology (ICT) based country. Besides, this has also encouraged Foreign Direct Investment (FDI) into the country. For instance, based on the data from the Malaysian Investment Performance Report 2017 published by the Malaysian Investment Development Authority (MIDA 2017), organisations from China, Switzerland, Singapore, Germany, and the Netherlands were the majority investors for about

56% in 2017. The infusion of foreign capital can develop prosperity and wealth to the country by providing job opportunity and increasing the standard of living.

Moreover, it is expected that the increase in trade activities in Malaysia would lead to higher market performance in the globalisation era. According to the Ministry of International Trade and Industry (MITI 2018) weekly bulletin 2018, Malaysia is recorded as the largest exporter of electronic integrated circuits and parts worth USD 2,464.9 million in 2016.[1] The international trade will promote economic growth that consistently gives a quality of life to people. Based on the data of World Development Indicators, there has been a stable and consistent growth in the GDP per capita of Malaysia in recent years. In addition, globalisation has also become a prime force for spreading connection and knowledge through the emergence of ICT that enormously fulfils the deficiency of network in the sense of speed, transparency, and accuracy. The open policy developed and implemented by the government has led to the opening of the Malaysian market in terms of migration either for working or studying. As a result, the movement of people, for example foreign workers to work in agricultural and construction sectors may increase the economic growth and allows remittance inflow and cultural exchange.

According to Bhagwati (2004) and Moore (2001), globalisation has made the world a better place, and this has contributed to economic prosperity, political freedom, and world peace. It can be a powerful and dynamic force for growth and development. If it is appropriately managed, the foundations for enduring equitable growth at the international level can be laid. Globalisation is not a new phenomenon as people have been interacting worldwide since the early 1980s. In general, Hebron and Stack (2016) defined globalisation as a process that involves internationally from interaction and integration between different nations around the world that operates over many centuries as aided by some activities such as a foreign investment, technology utilization, trade openness, international migration and so on that have taken place throughout world history.

Micklethwait and Wooldridge (2001) claim that choices are the essence of globalisation. It enables individuals to have more choices in living their lives as they wish. In a way, this means better or higher quality in terms of life satisfaction. In this context, some previous studies used the Human Development Index (HDI) instead of the Gross Domestic Product (GDP) as the indicator to measure individual's life performance in relation to globalisation. The United Nations Development Programme (1990) emphasises the importance of expanding the richness of human life, rather than the economy. Human development can be measured by using life expectancy at birth, average, and expected years of schooling and gross national per capita income. The values of HDI are standardized between 0 and 1. The cut-off points for HDI are; HDI of 0.800 or greater for very high human development, 0.700-0.799 for high human development, 0.550-0.699 for medium human development and less than 0.550 for low human development. Indeed, HDI is a relevant alternative to measure various aspects of the nations' performances.

According to Costa and Steckel (1997), a better analysis of the economy can be obtained by using HDI because it highlights the trend between longevity, education, and economic growth. Sen (1997) also emphasises that GDP per capita does not focus on other factors of economy that defines human well-being. For instance, certain harmful activities could be the reason of positive contribution towards GDP of the country such as deforestation activity, oil extraction, and mining, but they can also cause harm to humans and the environment. Environmental threats such as water pollution can cause death and influence human development negatively. Thus, human development is necessary to be set as the fundamental pillars and core considerations of a country's level of development.

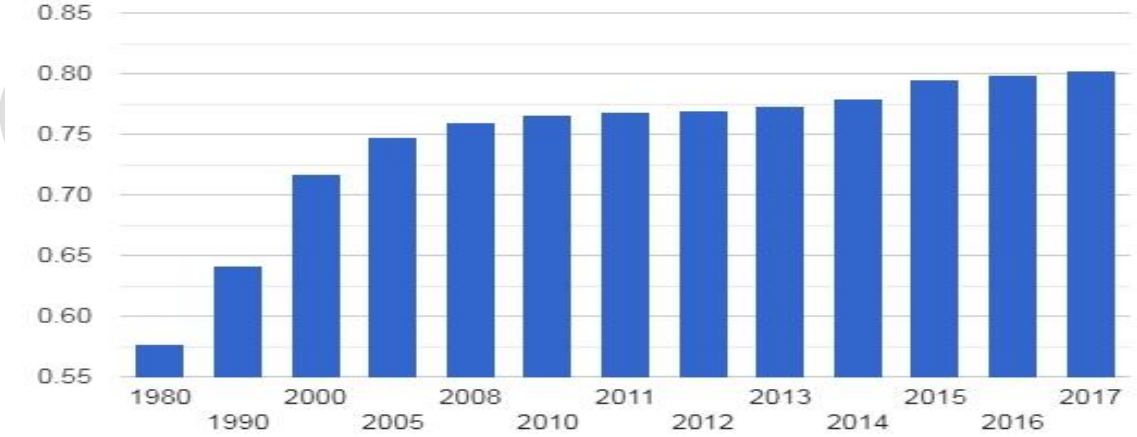

FIGURE 1: The Human Development in Malaysia (1980-2017)
Source: The Global Economy.com, The United Nations

Figure 1 shows that the trend of human development in Malaysia from 1980-2017 that is rapidly increasing. This is mainly driven by the policies implemented by the government that encourages activities and programmes that can foster globalisation in an attempt to curb poverty and increase the standard of living. Indeed, Samimi and Jenatabadi (2014) mentioned that globalisation is one of the significant contributions to the economic and development growth as well as promoting human development. On top of that, Malaysia manages to secure a significant growth momentum. This can be proven when Malaysia's life expectancy at birth has increased by 4.8 years. Then, the mean years of schooling have also increased. Between 1990- 2017, Malaysia's GNI per capita shows an increase of 156.7%.

However, some studies, for instance, Lindert and Williamson (2003) and Borghesi (2003) have documented adverse impacts of globalisation, such as the increase in income inequality and environmental degradation, respectively. According to Marchiori et al. (2013) the problems include a drastic increase in competition for global talents which has resulted in wide income gaps between the skilled and the low-skilled workers. Hence, globalisation has inevitably exposed the country to an increase in the unemployment rate, and it has also widened the income gaps. Besides, it causes the spread of deadly diseases such as AIDS or other communicable diseases that might affect health condition and quality of life.

By right, globalisation should be one of the prominent keys towards enhancing human development, especially in the case of developing countries like Malaysia. Most research has been focused on the subject of economic growth and yet the findings on globalisation and growth nexus are still mixed and inconclusive. As mentioned before, it would be more meaningful if we could provide an in-depth study from a different perspective of individual country's performance, that is by looking at people's developments from important aspects of life. Moreover, the role and impact of globalisation on human development is deemed vital in the current pace of the modernisation. Hence, building on this argument, the motivation of this research is to investigate whether globalisation plays a role in the improvement of the level of human development alongside other potential determinants such as FDI, trade openness and international migration for the case of Malaysia.

LITERATURE REVIEW

Some studies have suggested significant relationship between globalisation and human development. In this context, Sirgy et al. (2004) have built a theoretical linkage between globalisation and human development. They emphasised the importance of the link between globalisation quality of life (QOL). Globalisation, as defined by Sirgy et al. (2004) is ''the diffusion of goods, services, capital, technology, and people (workers) across national borders''. Tsai (2007) proposed empirical testing on some linkages, and he concluded that globalisation might have both positive and negative consequences. Subsequently, Figueroa (2014) stated that globalisation could be measured from different aspects such as economic, social and political and the impacts of globalisation may differ according to these aspects of measurement. Besides, the impacts may also differ based on the specific area of examination of human development and institutional quality of the country. In this respect, Stiglitz (2006) also added that success in development means "sustainable, equitable, and democratic development that focuses on increasing living standards, not just on measured GDP".

Asongu et al. (2017) stated that globalisation positively affects inclusive human development and the benefits are higher in countries with high initial levels of inclusive development. Lall et al. (2007) presented two different views on globalisation. Firstly, globalisation brings about benefits in terms of growth and improvements in many aspects. For instance, Thorbecke and Eigen-Zucchi (2002) justified that there is a positive impact of globalisation on Quality of life (QOL). Debrah et al. (2000) also found that globalisation has strengthened the East Asia regional economic co-operation and promoted economic growth. Hence, Sirgy et al. (2004) hypothesised that globalisation creates jobs opportunity, increases wage level, and produces purchasing power. The second view is not entirely in line with the first one in which it states that globalisation may have resulted in rising incomes for individuals and nations, but the benefits are not equally shared or distributed (Lindert & Williamsom 2003; Borghesi 2003; Marchiori et al. 2013).

Some studies have suggested a negative link between FDI and host-country development leading to slow economic growth. (Campos & Kinoshita 2002; Carkovic & Levine 2005; Mencinger 2003). In contrast, studies such as Borensztein et al. (1998), Casson (2007) and Muhammad Khalid and Mazlan (2018) found positive impacts of FDI on economic growth of the host countries. Most of the times, FDI and its spillover effects will benefit the societies in the form of higher level of education, life expectancy and purchasing power.Similarly, the findings on the relationship between trade openness and growth are mixed. A positive relationship between trade openness and growth was documented by studies such Barro (1991), Dollar and Kraay (2003), Edwards (1993) and Frankel and Romer (1999) whereas studies such as Clemens and Williamson, (2001), Irwin, (2002) and O'Rourke (2000) have found an opposite sign for the relationship between the two variables. However, most of these empirical studies suffer from weak theoretical foundations, low quality of data and unsuitable techniques of estimation. Detailed studies of individual countries are mostly relevant to gauge a deep understanding of the impact of trade openness and economic growth. As for the international migration, empirical evidence

of the importance of remittance in enabling human development at different levels in the society was presented by Edwards and Ureta (2003) and Orozco (2000). To further understand the relationship between international migration and human development, especially in the long run, rigorous data and research are needed by conducting a cross-sectional analysis (Maimbo et al. 2005).

DATA AND METHODOLOGY

In order to examine the relationship between globalisation and human development in Malaysia, we utilised the annual time series data from 1980 to 2017. The following equation model is adapted from the study by Sapkota (2011), constructed as follows:

$$\mathrm{HDI_t} = \alpha + \beta_1 \mathrm{LICT_t} + \beta_2 \mathrm{FDI_t} + \beta_3 \mathrm{TRADE_t} + \beta_4 \mathrm{REMT_t} + \varepsilon_t \quad (1)$$

In this model, Human Development Index (HDI) is a function of Foreign Direct Investment (FDI), trade openness (TRADE), international migration (REMT) and mobile cellular subscriptions (ICT). The data for this study were obtained from the World Development Indicators (WDI) over the period from 1980 to 2017. Table 1 provides the summary statistics of the variables used in the study.

TABLE 1. Summary statistics of data

Variables	Observations	Mean	Standard Deviation	Min	Max
Human Development Index (HDI)	31	.7216	0.0520	0.6278	0.802
Mobile subscriptions (LICT) USD	31	15.1332	0.05197	0.6278	0.802
Trade Openness in Malaysia (TRADE) % of GDP	31	169.6192	31.1132	111.9196	220.4073
Foreign Direct Investment (FDI) % of GDP	31	4.0442	1.9182	0.0567	8.7605
International migration (REMT) % of GDP	31	0.4195	0.1887	0.1305	.8393

In this model, HDI is the dependent variable. Meanwhile, the other independent variables were chosen based on the significant elements of globalisation implied from most previous studies such as studies from Sapkota (2011), Solarin and Eric (2015), Naeem and Arzu (2017) and Muhammad at al. (2010). The only variable that was converted to natural logarithm is ICT. This is to normalise the data by reducing the dispersion of data with the high standard deviation. For those presented in the form of index or percentage, we used the non-logarithm version of these variables.

In this study, the following methodological procedures were adopted to test the time series analysis. The technique used in this paper is Autoregressive Regressive Distributed of Lag (ARDL) in cointegration. ARDL procedure was introduced by Pesaran et al. (2001). This technique is the possible way to test for association of cointegrating between the variables. Hence, it can also be used to specify the existence of long run relationship among variables in the model. The ARDL bound test approach can be derived as follows:

$$\Delta HDI_t = a_0 + \sum_{i=1}^{p} \emptyset_i \, \Delta \, HDI_{t-i} + \sum_{i=0}^{p} \emptyset_i \, \Delta LICT_{t-i} + \sum_{i=0}^{p} \lambda_i \, \Delta FDI_{t-i} + \sum_{i=0}^{p} \varphi_i \, \Delta TRADE_{t-i} + \sum_{i=1}^{p} \gamma_i \, \Delta REMT_{t-i} + \delta_1 HDI_{t-1} + \delta_2 LICT_{t-1} + \delta_3 FDI_{t-1} + \delta_4 \, TRADE_{t-1} + \delta_5 REMT_{t-1} + \varepsilon_t \quad (2)$$

Based on Gujarati and Porter (2009), the series needs to be stationary to avoid any inconsistency in estimation of coefficient. Therefore, Augmented Dickey Fuller (ADF) test and Phillips-Perron (PP) test will be used to identify the presence of unit root. The tests were conducted at the level and first difference using the ADF and the PP tests. The hypotheses for the unit root tests are as follows:

H_0: The series contains unit root i.e. non-stationary
H_a: The series does not contain unit root i.e. stationary

There are conditions that need to be fulfilled by the variables. The conditions are that the variables have to be stationary at order 0 and/or i.e. I(0) and/or I(1), but not I(2). Then, to test the reliability of ARDL model, a series of statically diagnostic checks were conducted which consists of Breusch-Godfrey Serial Correlation LM to check the presence of correlation in the error term of regression model, Heteroskedasticity test, and test for normality.

RESULTS AND DISCUSSION

Before estimating the model of ARDL and performing the bounds test, all the variables must be stationary. Thus, the necessary test, namely ADF and PP were conducted to ensure that these variables have met all the requirements needed. Table 2 shows the results of ADF and PP tests for all five variables:

TABLE 2. Unit root tests

Variable	ADF	PP
Level		
HDI	-1.7412 (0.4029)	-1.7412 (0.4029)
LICT	-3.8068 (0.0073)***	-6.6262 (0.0000) ***
FDI	-2.9530 (0.0490)**	-3.0090 (0.0433) **
TRADE	-0.1701 (0.6172)	-1.2907 (0.6236)
REMT	-1.8805 (0.3374)	-1.7504 (0.3984)
1^{ST} Difference		
HDI	-6.6485 (0.0000) ***	-6.6425 (0.0000) ***
LICT	-5.6639 (0.0004)***	-9.9285 (0.0000)***
FDI	-5.4248 (0.0001) ***	-6.6766 (0.0000)***
TRADE	-3.6465 (0.0405)**	-4.0350 (0.0035)***
REMT	-4.3223 (0.0016)***	-4.3079 (0.0017)***

Note: *, **, and *** denotes a rejection of the null hypothesis at the 10%,5% and 1% significance levels.

The variables HDI, TRADE, and REMT were found stationary results only at the first difference i.e. I(1) Meanwhile, LICT and FDI were found stationary at level for both tests of ADF and PP i.e. I(0). The mixture of I(0) and I(1) variables indicate that the estimation method of ARDL is appropriate for this study.

Next, the bounds test developed by Pesaran et al. (2001) was performed to analyse the long run relationship between HDI and LICT as well as other control variables; FDI, TRADE AND REMT. To interpret the results of bounds test, we used the asymptotic critical values of Narayan (2005). When the estimated value of F-statistic is higher than the upper bound and/or lower bound at a specified significance value, we can reject the formulated null hypothesis of no long run relationship and therefore, the long run relationship is statistically significant. Table 3 presents the results of ARDL bounds test. Based on the results obtained, the F-statistic for a sample of 37 observations is higher than the upper bound critical values oat 10%, 5% and 1% significance levels. Thus, we can reject the null hypothesis and conclude that the long term relationship exists between the variables of interest.

TABLE 3. Bounds test

Significance value	Critical value		F-statistic
	Lower Bound	Upper Bound	K = 4
1%	3.74	5.06	
5%	2.86	4.01	5.1378
10%	2.45	3.52	

In Table 4, we present the results of long run estimation. LICT and FDI have a significant positive relationship with HDI in the long run at 1% and 10% significance levels, respectively. A 1% increase in ICT will cause the increase in human development by 0.0155 points in the long run. This suggests ICT as a proxy of globalisation is an important factor for human development in Malaysia. On the other hand, a 1% increase in FDI, which is measures as a percentage of GDP will result in an increase of 0.0011 points in human development. The possible benefits from FDI include technology transfer, increased production efficiency, and quality improvement. These attributes positively influence the components of HDI. Conversely, a 1% increase in TRADE and REMT will lead to a decrease of 0.0002 and 0.0602 points in human development in the long run, respectively. These findings are in line with the studies conducted by White & Anderson

(2001) and Garret (2001). The study by Chami et al. (2005) revealed a negative relationship and suggested that remittances may not be a source of capital for economic development.

TABLE 4. Long run estimation

Variable	Coefficient	Standard Error	T-Statistic	P-value
LICT	0.0155	0.0034	4.5659	0.0002
FDI	0.0011	0.0016	0.7167	0.0566
TRADE	-0.0002	0.0001	-2.1696	0.0429
REMT	-0.0602	0.0140	-4.3072	0.0004

Table 5 shows the empirical results of the short run relationship from the estimation of ARDL model. Based on the results, the error correction mechanism (ECM) indicated by CointEG(-1) is negative and statistically significant for the estimated variables. The coefficient value of -0.36 indicates that the speed of adjustment from disequilibrium in the short run to equilibrium in the long run is about 36%. In addition, ICT and FDI have a positive and statistically significant relationship with human development, whereas the other two variables, REMT as the proxy of international migration and TRADE have significantly negative relationship with human development in the short run in Malaysia. For further explanation, a 1% increase in ICT and FDI, measured as pecentages of GDP will cause human development to increase by 0.0215 and 0.0004 points, respectively. Contrastingly, a 1% increase in TRADE, masured as percentage of GDP will reduce human development by 0.0003 points whereas a 1% increase in REMT, also measured as percentage of GDP will reduce human development by 0.0385 points. The short and long run findings are rather consistent with each other. Both indicate significantly positive relationship of ICT and FDI with human development.

TABLE 5. Short run estimation

Variable	Coefficient	Standard Error	T-statistic	P-Value
LICT	0.0215	0.0051	-4.2317	0.0005
FDI	0.0004	0.0005	0.8397	0.4115
TRADE	-0.0003	0.0001	-2.0700	0.0523
REMT	-0.0385	0.0090	-4.2598	0.0004
CointEG(-1)	-0.3670	0.1183	-3.1025	0.0059

The diagnostic tests were performed to check for the presence of problems such as heteroskedasticity, serial correlation and abnormality of the residuals. The results are shown in Table 6 below. Our estimation model was proved to be free from the problem of heteroskedasticity since the p-value is 0.9900, which is higher than the significance value 0.05. Hence, there is no evidence to reject the null hypothesis of no heteroskedasticity at 5% of significance level. Furthermore, the p-value for serial correlation LM test is 0.7085, which is higher than 5% significance level. Again, we cannot reject the null hypothesis of no serial correlation in this model. Moreover, Jarque-Bera normality test also indicates that the residuals are normal where the p-value obtained is more than 5%, suggesting that we cannot reject the null hypothesis that residuals are normally distributed. Therefore, we can conclude that our estimation is free from all the problems stated above, suggesting that our results are reliable.

TABLE 6. Diagnostic Tests

Test	F-statistic	Probability
Heteroskedasticity	0.5571	0.9900
Serial Correlation	0.1999	0.7085
Normality Test	0.0245	0.9878

Besides, stability test has also been carried out to determine the constancy and stability of our estimated ARDL model. Here, the cumulative sum of recursive (CUSUM) test and cumulative sum of square of recursive residuals (CUSUMSQ) tests were presented in Figure 1 and Figure 2, respectively. Based on the CUSUM graph, it shows that the model is stable. The reason is that the CUSUM lines fall in-between the two 5% significance lines.

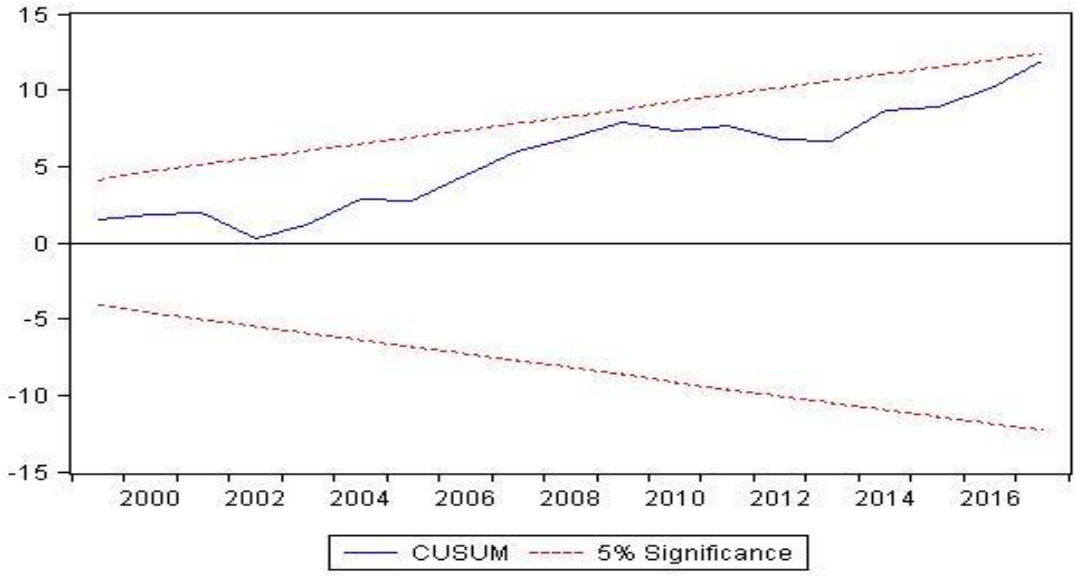

FIGURE 2. Plot of Cumulative Sum of Recursive Residuals

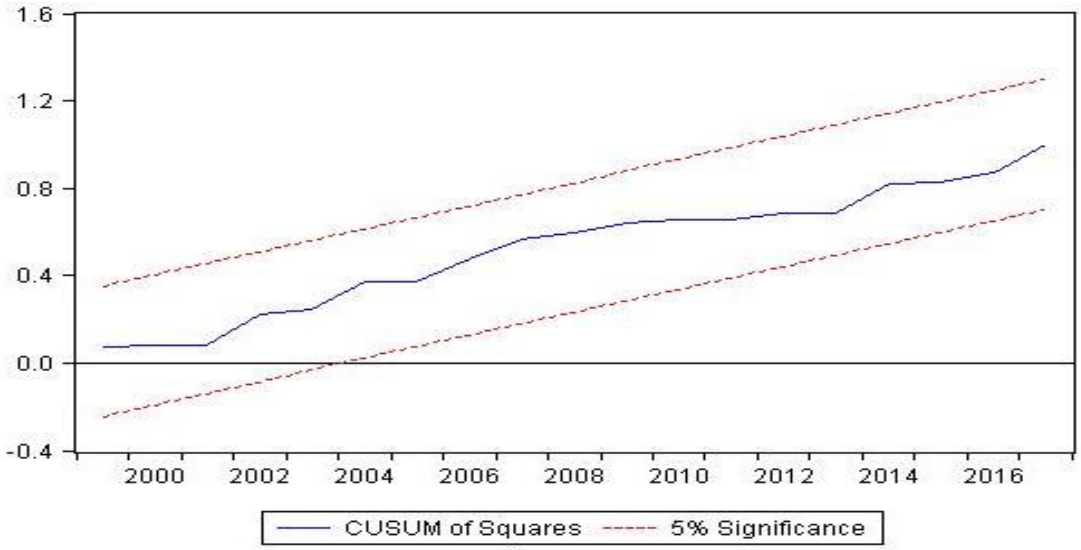

FIGURE 3. Plot of Cumulative Sum of Square of Recursive Residuals

CONCLUSION AND RECOMMENDATIONS

By using the modelling technique of ARDL, we found ICT (as the proxy of globalisation) and FDI to be statistically significant and positively related to the level of human development in Malaysia both in the short run and long run. However, the results of the relationship between trade openness and international migration with the level of human development had indicated otherwise. They were found to be negatively related both in the short and long run. These findings were robust in which all the diagnostic and stability tests were passed at 5% level of significance. Indeed, globalisation is and recognised as an important factor not only in promoting and boosting the economic growth, but also human development. ICT, as the proxy for globalisation in our study is the most comprehensive and brilliant mechanism to enhance people's sense of empowerment and open up wider opportunities. Besides, our study also showed that FDI is an essential element in improving the human development in Malaysia. FDI creates job opportunities and enhances knowledge spillover which is vital for economic growth and human development (Oketch 2006; Noorbakhsh et al. 2001).

Hence, a well-functioning financial system, realistic policy implementation, and sustainable economic growth should be carried out in order to make Malaysia a preferred place among foreign investors to invest. On the contrary, we obtained a negative relationship between trade openness and international migration with human development in short run and long run.

Hence, the Malaysian government should consider establishing a fundamental plan of framework which can expand the maximum gain from globalisation and FDI to promote human development. This is to ensure that all people regardless of demographic and social background enjoy the prosperity. The policy-makers should also pay a close attention in addressing the main factors of emigration. With higher institutional quality in this country, this can reduce international migration and thus improve the level of human development in Malaysia. An improvement in the current policy trade and tax incentives is also essential considering their significant effects on economic growth and human developments.

NOTE

1. MITI Weekly Bulletin 2018 Volume 466 – 02 January 2018

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