



The Impact of Globalization Dimensions on Macroeconomic Performance in SAARC Countries: A Panel Data Analysis

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Received 10/08/2025

Accepted : 25/10/2025

Published : 31/12/2025

<https://doi.org/10.52919/arebus.v6i2.109>

ABSTRACT

This study examines the impact of globalization—economic, social, and political—on the macroeconomic performance of the South Asian Association for Regional Cooperation (SAARC) member countries from 1980 to 2023. An unbalanced panel dataset consisting of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka is generated and used to examine the effects of globalization on GDP growth and inflation, with foreign direct investment (FDI) and trade openness as critical mediating variables. To address cross-sectional dependence, heteroskedasticity, and autocorrelation, panel fixed effects models are employed in the analysis, and the robustness of the study is assured with unit root testing, cointegration, and diagnostic testing. Our results indicate that economic and social globalization positively foster growth, with economic globalization having the highest positive impact (coefficient = 0.089***). Additionally, we conclude that FDI and trade openness have significant positive effects on growth, while political globalization does not have a significant positive or negative relationship with it. In line with the disciplining hypothesis, our inflation model indicates that trade openness exerts a significant disinflationary effect (coefficient = -0.042***).

In contrast, foreign direct investment (FDI) influences inflation positively (coefficient = 0.124**), presumably due to demand-side risks. Our study suggests that member countries of SAARC must continue to strategize and integrate into the global economy. For policy implications, countries should design initial macroeconomic resilience by insisting on fiscal discipline, maintaining foreign exchange buffers, and diversifying the economy to minimize the impact of volatility in the global economy.

Keywords: Globalization, Economic Growth, Inflation, FDI, Trade Openness, SAARC, Panel Data

JEL: F43, O53, F62, C23, O11

How to cite this article

Upadhyaya, Y. M., & Oli, L. B. (2025). The impact of globalization dimensions on macroeconomic performance in SAARC countries: A panel data analysis. *Advanced Research in Economics and Business Strategy Journal*, 6(2), 336-353. <https://doi.org/10.52919/arebus.v6i2.109>

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1. INTRODUCTION

The complex association between globalization and macroeconomic performance has been one of the main focuses of academic scholarship with respect to the evolving economies of countries within the South Asian Association for Regional Cooperation (SAARC). This association is a unique region of interest, as it represents a diverse set of economies with complex development agendas, providing a vibrant opportunity to engage with how the different dimensions of globalization impact various macroeconomic indicators.

Globalization has been one of the defining features of the global economy in contemporary society, influencing the economic, social, and political environments of various nations across the globe. Globalization has been characterized as the increasing interplay of markets, the diffusion of ideas, and the development of cross-border interactions, leading to a pivotal influence on both advanced and emerging economies and their associated development paths. For developing economies and developing regions like South Asia, globalization, or globalization-like processes, have been prominent over the last forty years of trade liberalization and foreign direct investments (FDI) and have been based on technological advancements and participation in global organizations. SAARC includes eight member nations (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka), each representing varying levels of complexity and relevance to global social, political, and economic environments.

The macroeconomic performance of SAARC countries has fluctuated over time with episodes of strong growth and structural change, alongside ongoing pressures such as inflation uncertainty, persistent external imbalance, and a range of institutional limitations. In this dynamic setting, globalization is often considered a possible driver of economic growth and development. However, globalization does not solely drive economic success; its impact depends on the specific aspect of globalization—economic, social, or political—and the factors related to domestic policy and institutional context. Financial globalization and changes in productivity and efficiency are directly associated with trade and investment, while social globalization, captured through the flows of information, cultural experiences, and personal contacts, has potential effects on human capital and innovation. Lastly, political globalization associated with diplomatic relations and international cooperation can augment policy stability and governance with indirect macroeconomic implications.

Despite the growing importance of globalization, empirical evidence delineating the multidimensional impacts of globalization on macroeconomic performance in the SAARC region remains scant and ambivalent. Most studies examine individual countries or apply a narrow economic perspective on globalization while overlooking significant interactions among economic, social, and political dimensions of globalization and key macroeconomic indicators—encompassing aspects such as GDP growth and inflation. Additionally, encompassing multiple decades for the study time frame of 1980 to 2023 incorporates critical junctures—of which structural adjustment programs, financial liberalizations, regional integration attempts, and global crises (e.g., the 1997 Asian Crisis, the 2008 Global Financial Crisis, and post-pandemic recovery) likely condition how the globalization-growth-inflation nexus operates in potentially unique ways.

This study proposes to close this gap by examining the impacts of various dimensions of globalization, i.e., economic, social, and political dimensions, on macroeconomic performance in SAARC nations over the period of 1980-2023 using a comprehensive panel data set. We also incorporate two important mediating variables, FDI and trade openness, while controlling for inflation and other structural variables.

2. LITERATURE REVIEW

2.1 Theoretical Studies

Globalization, especially regarding financial markets, has a significant impact on macroeconomic performance in SAARC countries. This is primarily because the driving forces of globalization in these countries will lead to increased volatility, which heightens the potential for explosive economic stress from external shocks and results in significant disruptions to financial stability ([Santosa & Roselli, 2023](#)). Theoretically, globalization consists of increasingly complicated interactions that will determine the responsiveness of macroeconomic indicators and, when taken into account with other globalization components, such as international financial market activity, trade liberalization, and government policy changes, will dictate what structural connection (via globalization) will address the sensitivity of nominal national economies (and real national economies) toward globalization in general ([Sangha & Riegler, 2020](#); [Forhad, 2014](#)).

Prominently, [Das \(2004\)](#) identifies specific ways globalization assimilates national policies regarding markets, capital, labor, and technology and completely reconstructs economic policies. He identifies several key channels of economic globalization, including trade liberalization, foreign investment, and labor migration, which transform the domestic economic structures and national policies of both developing and developed countries. Extending [Das's \(2004\)](#) viewpoint, [Das \(2010\)](#) investigates the macroeconomic shifts from globalization. It expands into the effects of financial globalization by examining the impacts of increased capital availability and instant access to national market diversification, and the drawbacks, such as growing financial instability and limited economic autonomy for less developed economies. Similarly, [Mishkin \(2009\)](#) investigates the effects of globalization on macroeconomic management with emphasis on economic efficiencies and growth derived from trade and financial integration, which contribute to constraints on the monetary managers' policy autonomy, notably with respect to inflation control and the management of shocks from external economic influences. [Onaran \(2011\)](#) pursues a Keynesian critique of globalization with respect to income distribution and labor market dynamics, with attention to the limits of globalization and responsibility for redistributive policies that include targeting strong domestic demand as a counter-construct to the various cycles of globalization.

[Chattopadhyay and Bose \(2022\)](#) argue that globalization can lead to economic growth, but does not in itself guarantee just or sustainable development; instead, they say that economic growth can only be sustained if social and environmental policies accompany it. [Pereguda et al. \(2025\)](#) highlight this dual role globalization plays in reconfiguring economic systems and social structures, concurrently redoubling distinct economic systems but potentially undermining the social fabric on which these structures are based—requiring policies to reconcile economic objectives and social resilience.

The dissertation from the University of Colombo details the theoretical and empirical evidence regarding the intersection of financial globalization and macroeconomic policymaking in emerging economies. The authors note the importance of financial education to grasp the various aspects of capital mobility, inflation dynamics, and development policy in a globalized world. The authors [Diachenko et al. \(2024\)](#) note that globalization creates faster rates of economic and technological development, especially for countries pursuing open market policies. However, the authors emphasize that institutional quality and absorptive capacity are critical elements influencing a country's development. The authors [Teixeira et al. \(2024\)](#) identify that globalization may not be an irreversible process. They argue that economic nationalism, geopolitical tensions, and pandemics are creating tensions in the relationship between globalization and sustained economic growth. The author, [Oxelheim \(2010\)](#), posits that globalization promotes sustainable economic development through more transparency and

openness, while it simultaneously creates opportunities for greater exposure to global economic shocks, especially in less transparent firms.

The version from [TÜRK \(2025\)](#) investigates the role of economic freedom in globalization and development. The author concludes that countries with greater economic freedom—characterized by open markets, rule of law, and property rights—are in the optimal position to utilize globalization better than their counterparts for enhanced growth and human development. [Amjad \(2022\)](#) looks at globalization's effect on political development in the SAARC region by claiming that globalization promotes democratization, enhances institutional transparency, and strengthens governance reform efforts, among other things, because of improved international exposure.

2.2 Empirical Studies

2.2.1. Globalization and Economic Growth

Empirical studies indicate that globalization and financial integration have a powerful effect on economic growth. For example, [Ullah et al. \(2011\)](#) and [Akhtar and Javed \(2012\)](#) reported strong financial integration links that connect stock market performance with GDP growth in the case of Pakistan. [Sahoo and Sethi \(2023\)](#) similarly identified that economic globalization and trade openness are essential determinants of macroeconomic variables (GDP growth, inflation, and stock market performance) across SAARC economies.

[Ali et al. \(2025\)](#) bridged the empirical gap by considering how different forms of globalization affect the macroeconomic performance of SAARC countries using systematic panel data analysis. Their findings parallel [Wibowo et al. \(2019\)](#), which implied that deeper forms of globalization (through trade and foreign direct investment openness) positively affected GDP and investment in economies in ASEAN. However, sustainable effects depended on the existence of a strong policy framework. Moreover, [Tytell and Wei \(2004\)](#) documented that countries more horizontally exposed to financial globalization possess better governance of monetary and fiscal discipline, which in turn improves macroeconomic performance.

[Mumtaz and Younas \(2021\)](#) found that economic globalization had a positive impact on GDP growth in Pakistan, while social and political globalization had mixed positive and negative effects on macroeconomic variables. [Hasan \(2019\)](#) found that globalization, trade liberalization, and capital openness were positively related to GDP growth in South Asia. [Bahadur \(2011\)](#) emphasized that globalization positively affected education and health indicators when socially inclusive policies were in place.

2.2.2. Globalization, FDI, and Inflation

Numerous studies have explored the relationships between globalization, foreign direct investment (FDI), and inflation. [Ali et al. \(2019\)](#) said that globalization could induce economic growth and volatility in most macroeconomic outcomes, particularly inflation and exchange rates in economies with weak economic governance, at the same time. [Siddiq \(2023\)](#) highlighted that macroeconomic stability, which includes fiscal balance, inflation control, and exchange rate stability, endorses a positive association between globalization and economic growth in SAARC economies.

[Shahid and Khalil \(2019\)](#) stated that globalization can contribute to moderation in inflation by supporting competition and discipline in the monetary economy. However, they also claimed that macroeconomic risks could arise from high exposure to globalization because it may restrict central bank independence and may place undue influence, pressures, or expectations on central banks and their policies. [Awan et al. \(2021\)](#) reported that financial globalization causes increased output volatility in Asian countries, and especially in less diversified economies (like some SAARC economies that are most vulnerable to global shocks).

[Chattopadhyay and Bose \(2015\)](#) developed a composite macroeconomic index of performance based on GDP growth and inflation, which demonstrated that differences between countries in terms of structural and policy context framed a significant part of the reason for the performance gap between

advanced and developing economies. [Ohakwe and Wu \(2025\)](#) empirically demonstrated that macroeconomic stability is a precondition for efficient and resilient trade and logistics systems in developing economies.

2.2.3. Globalization and Broader Macroeconomic Dynamics

[Maroof et al. \(2019\)](#) used panel data to show that trade openness and FDI (Foreign Direct Investment) inflows are significant contributors to industrial development in South Asia, highlighting their role in technology transfer and market expansion. [Farooq et al. \(2021\)](#) showed that employment growth (driven by globalization) boosts economic performance and contributes positively to GDP within SAARC countries. [Hasan and Waheed \(2021\)](#) argued that economic and social globalization can enhance human development measures (literacy, life expectancy, etc.), although the extent of the benefits would vary by country.

[Sehraweat and Giri \(2016\)](#) argued that globalization can mitigate rural-urban income inequality when inclusive financial sector reforms are implemented. [Dada et al. \(2025\)](#) assessed Sub-Saharan African countries and reported that financial globalization has the potential to exacerbate macroeconomic volatility in countries with weak institutions, though good governance can shield them from its effects. Correspondingly, [Omang and Zambo \(2025\)](#) demonstrated that globalization could lead to economic instability by exposing less diversified or developing economies to external shocks.

[Naz et al. \(2023\)](#) identified GDP growth, changes in foreign exchange rates, inflation, and financial development as significant factors influencing trade openness among SAARC countries and recommended strong domestic policy reforms to benefit from globalization fully.

2.3 Methodological Gaps

Notwithstanding the considerable body of empirical work, various methodological limitations remain. First, many studies employ country-specific or short-panel studies, which do not capture the heterogeneity across SAARC economies. Second, most existing papers focus primarily on one dimension of globalization, typically either economic or financial, while ignoring social or political dimensions. Finally, comparatively few studies use comprehensive globalization indices, which combine all three dimensions of globalization into a single unit of analysis.

In recent work, [Ali et al. \(2025\)](#) have attempted to address these limitations by using systematic panel data analysis to investigate the multidimensional impacts of globalization on SAARC economies. Nevertheless, there continue to be limited comparative long-run studies that cover a broader period and utilize more than one globalization indicator. Therefore, we require more comprehensive empirical models to explore the intricate and subtle impacts of globalization on the macroeconomic performance of SAARC countries.

3. THEORETICAL FRAMEWORK, CONCEPTUAL FRAMEWORK, AND HYPOTHESIS

We are leveraging Endogenous Growth Theory ([Romer, 1994](#)) and the Neoclassical Open Economy Model for this chapter on globalization and growth. Economic globalization increases GDP through trade and foreign direct investment by promoting capital accumulation, facilitating technology spillovers, and increasing productivity. Social globalization can augment education, innovation, and human capital via cultural exchange and information. Political globalization helps institutional quality and policy stability. However, political globalization is only an indirect influencer of macroeconomic policy or performance. Trade openness can reduce inflation by increasing competition in the marketplace; FDI will push inflation up in the near term as FDI increases demand, leading to a wage-price spiral or wage inflation. In the case of the SAARC countries, the pathways from globalization to macroeconomic performance are complex and often nonlinear.

The conceptual framework in this chapter seeks to make apparent the theoretical links from the three components of globalization—economic, social, and political—to macroeconomic performance in SAARC countries, especially for GDP and inflation. The conceptual framework correctly separates the performance components of HERMNIN; economic growth potential is based on endogenous growth theory or open economy macroeconomics; hence, direct and indirect transmission mechanisms are examined to enhance our understanding of the three components of globalization and macroeconomic performance. The model provides a compass of sorts for empirical analysis. We hypothesize that economic globalization and social globalization will significantly and positively impact growth. Expectations regarding the inflationary effects of globalization are explicit with respect to trade openness, which lowers the price of inflation, while FDI will likely exert inflationary pressures in the short run. The model also accounts for country-specific structural differences and time-varying global shocks through fixed effects.

Table 1.Research Hypotheses Summary and Expected Signs

Hypothesis	Expected Sign
H1: Economic globalization positively affects GDP growth	+
H2: Social globalization enhances growth via knowledge spillovers	+
H3: Political globalization has a mixed/insignificant impact	±
H4: FDI amplifies the growth effect of globalization	+
H5: Trade openness reduces inflation through competition	–
H6: High FDI may increase inflation in the short run	+

The study identifies six central hypotheses along with the expected signs based on theory and prior evidence. H1 indicates that economic globalization has a positive effect on GDP growth, whereas H2 holds that social globalization increases economic growth because of knowledge spillovers. H3 assumes that political globalization has a positive and uncertain impact on economic growth. H4 suggests that FDI increases the globalization growth effects compared to those of trade. H5 posits that trade openness decreases inflation via increased competition in the markets, and H6 assumes that higher levels of FDI could result in short-run inflation (demand and cost-push).

4. DATA AND METHODOLOGY

Macroeconomic performance is measured when considering two leading indicators: GDP growth rate and inflation rate. The panel data econometric methods take advantage of both the cross-sectional variation and time series variation across SAARC member countries, which are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

4.1.Model Specification

To examine the relationship between globalization and macroeconomic performance, the given baseline panel regression models are specified:

Model 1: GDP Growth Model

$$GDPG_{it} = \alpha + \beta_1 ECO_GLO_{it} + \beta_2 SOCIO_GLO_{it} + \beta_3 POL_GLO_{it} + \beta_4 FDI_{it} + \beta_5 TO_{it} + \beta_6 INF_{it} + YX_{it} + \mu_i + \lambda_t + \varepsilon_{it} \dots \dots \dots (i)$$

Model 2: Inflation Model

$$INF_{it} = \alpha + \beta_1 ECO_GLO_{it} + \beta_2 SOCIO_GLO_{it} + \beta_3 POL_GLO_{it} + \beta_4 FDI_{it} + \beta_5 TO_{it} + \beta_6 INF_{it} + YX_{it} + \mu_i + \lambda_t + \varepsilon_{it} \dots \dots \dots (i)$$

Where: $GDPG_{it}$: Annual GDP growth rate (%); INF_{it} : Annual inflation rate (CPI-based, %); ECO_GLO_{it} , $SOCIO_GLO_{it}$, POL_GLO_{it} : KOF indices of economic, social, and political globalization; FDI_{it} : Net

foreign direct investment inflows (% of GDP); TO_{it} : Trade openness = (Exports + Imports) / GDP (%); X_{it}, Y_{it} : Vector of control variables (e.g., government expenditure, investment, population growth—where data permits); μ_i : Country-specific fixed effects (capturing time-invariant heterogeneity); λ_t : Time-specific fixed effects (controlling for global shocks and trends); ε_{it} : Random error term; Subscripts i and t denote country and year, respectively.

4.2.Data and Variables

The study uses annual panel data from 1980 to 2023 for seven SAARC countries. Data are collected from the following reputable international sources:

Table 2. Data Sources, Definitions, and Expected Signs of Variables

Variable	Definition	Source	Expected Sign
ECO_GLO (Economic Globalization)	Measures trade and financial flows, including restrictions, actual flows, and international investment	KOF Globalization Index – Swiss Economic Institute	+(for growth model)
SOCIO_GLO (Social Globalization)	Captures personal contact, information flows, and cultural proximity across countries	KOF Globalization Index – Swiss Economic Institute	– (for openness), ± (contextual)
POL_GLO (Political Globalization)	Reflects the degree of a country's political engagement at the international level (e.g., treaties, UN missions)	KOF Globalization Index – Swiss Economic Institute	+
GDP Growth Rate	Annual percentage change in real Gross Domestic Product (GDP)	World Bank – World Development Indicators (WDI)	+
Inflation Rate	Percentage change in the Consumer Price Index (CPI) over the year	World Bank – World Development Indicators (WDI)	±
FDI (Foreign Direct Investment)	Net inflows of investment to acquire lasting interest in an enterprise in another country (% of GDP)	World Bank – WDI; UN Comtrade; IMF WEO	+(growth), ± (inflation)
Trade Openness	Sum of exports and imports as a percentage of GDP	World Bank – WDI; UN Comtrade; IMF WEO	+(growth), – (inflation)

All variables are initially or log-transformed to maintain normality and ease of interpretation. Missing data (e.g., Bhutan years early) were treated with linear interpolation and balanced panel methods.

4.3.Econometric Approach

Considering its extended time frame ($T = 44$ years) and moderate cross-section ($N = 7$ countries), the data set is a large- T panel, ready for dynamic analysis. In general terms, the study operates in four stages. First, descriptive and correlation analyses are conducted using summary statistics, time-trend plots, and Pearson correlations to assess patterns and potential multicollinearity. Second, unit root tests for panels (LLC, IPS, and Fisher-ADF) suggest that all variables are $I(1)$, requiring first differencing to stationarity. Third, cointegration analyses using both Pedroni and Kao confirm long-run relationships among the variables. Finally, a Hausman test is used to choose between fixed effects and random effects

models, as fixed effects is appropriate when regressors correlate with the error term, producing consistent estimation.

4.4. Diagnostic and Robustness Checks

To guarantee the validity and reliability of the results, we perform the following diagnostic testing: Robustness is assessed by using another measurement for the key variables, dropping outlier countries affected by conflict shocks (e.g., Afghanistan), and trying other estimation methods (i.e., the PMG-ARDL model). These checks support the validity and reliability of the results.

Table 3. Diagnostic and Robustness Checks

Test	Purpose
VIF Test	Detect multicollinearity
Wooldridge Test	Autocorrelation in panel data
Modified Wald Test	Heteroskedasticity in FE model
Pesaran CD Test	Cross-sectional dependence
Hausman Test	FE vs. RE
Sargan/Hansen Test	Over-identifying restrictions (GMM)

The results show a positive and significant coefficient on economic globalization (ECO_GLO); that is, more economic globalization increases economic growth in the SAARC region. A negative coefficient on inflation for trade openness supports that open trade has a disciplined effect on domestic prices by creating competition and efficiency. Political globalization (POL_GLO) is statistically insignificant, which suggests that political relations alone with the international community have no significant direct bearing on macroeconomic outcomes. Foreign Direct Investment (FDI) has a dual effect, positively affecting growth but perhaps increasing inflation in the short run. Additionally, calculating the marginal effects or elasticities would provide clearer policy implications by measuring how the main variables react to changes in globalization and other factors.

5. EMPIRICAL RESULTS AND ANALYSIS

We analyze panel data for seven SAARC countries (Bangladesh, Bhutan, India, Sri Lanka, Maldives, Nepal, and Pakistan) from 1980 to 2023; however, some of these countries have limited data availability.

Table 4. Descriptive Statistics

Variables	Mean	Std. Dev	Min	Max	Observations
GDP Growth Rate (%)	5.24	5.37	-32.91	37.51	334
Inflation (%)	8.67	10.45	-1.69	49.72	318
ECO_GLO (Economic Globalization)	35.12	13.86	14.00	68.00	342
SOCIO_GLO (Social Globalization)	35.45	12.43	12.00	66.00	342
POL_GLO (Political Globalization)	54.33	18.67	9.00	92.00	342
FDI (% of GDP)	1.89	3.31	-6.01	16.78	326
Trade Openness (% of GDP)	44.21	21.54	9.97	121.04	342

Source: Data analysis by Stata/SE

The descriptive statistics demonstrate substantial variation across variables and between countries. The mean GDP growth rate of 5.24% has an extensive range of -32.91% to 37.51%, indicating a high amount of volatility. Mean inflation is 8.67% and the highest was 49.72%. The economic, social, and political globalization indices take on average a value of 35-54, indicating moderate levels of integration, but display a high range of dispersion. FDI inflow was on average 1.89% of GDP with a high of 16.78% and a low of -6.01%, and trade openness levelled off at 44.21% with a high of 121.04%,

indicating considerable cross-country differences in the levels of economic exposure. The data do indicate significant variation across countries. GDP growth is highly volatile, with the highest growth rates recorded in Bhutan (16.1% in 2007) and the Maldives (37.5% in 2021) during the period 2000-2022, while the Maldives also experienced the steepest below-average growth rate (-32.9% in 2020). Sri Lanka (49.7% in 2022) and Pakistan (30.8% in 2023) recorded the highest inflation rates. In the 1980s, India's trade openness was low (12%), but the Maldives' was high (over 100%). FDI inflows in the Maldives also reached a high in 2019 of 16.78% of GDP.

Table 5. Correlation Matrix (Key Variables)

Variables	GDPG	INF	ECO_GLO	SOCIO_GLO	POL_GLO	FDI	TO
GDPG	1.00						
INF	-0.12	1.00					
ECO_GLO	0.41	-0.08	1.00				
SOCIO_GLO	0.38	-0.05	0.72	1.00			
POL_GLO	0.21	-0.03	0.54	0.47	1.00		
FDI	0.33	0.18	0.46	0.44	0.39	1.00	
TO	0.39	-0.24	0.61	0.58	0.48	0.37	1.00

Source: Data analysis by Stata/SE

The correlation matrix indicates GDP growth is positively correlated with economic globalization (0.41), social globalization (0.38), trade openness (0.39), and FDI (0.33), and weakly negatively correlated with inflation (-0.12). Economic, social, and political globalization have moderate correlations with each other, further suggesting overlapping dimensions. Trade openness also has strong positive correlations with all of the globalization indicators, the strongest being economic (0.61).

Table 6. Panel Unit Root Tests (IPS Test – Most Reliable for Unbalanced Panels)

Variables	Level (P-Value)	First Difference (P-Value)	Order of Integration
GDP Growth	0.672	0.000	I (1)
Inflation	0.812	0.000	I (1)
ECO_GLO	0.543	0.001	I (1)
SOCIO_GLO	0.489	0.002	I (1)
POL_GLO	0.321	0.003	I (1)
FDI	0.701	0.000	I (1)
Trade Openness	0.602	0.000	I (1)

Source: Data analysis by Stata/SE

The Im-Pesaran-Shin (IPS) test is used to test for stationarity. The results suggest that all the variables are non-stationary at levels but become stationary when they are differenced once, indicating that they are integrated of order one or [I (1)]. We can then conduct the cointegration test.

Table 7. Panel Cointegration (Pedroni Residual Cointegration Test)

Test Statistics	Value	P-Value	Conclusion
Panel ADF Statistic	-3.21	0.001	Cointegration exists
Group ADF Statistic	-3.05	0.002	Long-run equilibrium

Source: Data analysis by Stata/SE

The long-run relationships are estimated using fully modified OLS. The Pedroni cointegration test (Panel ADF = -3.21, $p = 0.001$) rejects the null, indicating that there is a long-run equilibrium between globalization and FDI, globalization and trade, and globalization and macroeconomic performance. Both demonstrate the existence of cointegration and a long-term equilibrium.

Table 8. Model 1: GDP Growth Regression Estimation Results

Variables	Coefficient	Std Error	T-Value	P-Value	Significance
ECO_GLO	0.089	0.021	4.24	0.000	***
SOCIO_GLO	0.062	0.018	3.44	0.001	***
POL_GLO	0.012	0.013	0.92	0.358	ns
FDI	0.143	0.032	4.47	0.000	***
Trade Openness (TO)	0.038	0.010	3.80	0.000	***
Inflation (INF)	-0.021	0.015	-1.40	0.162	ns
Constant	1.245	0.452	2.75	0.006	**
Hausman Test (FE vs RE)	$\chi^2 = 28.41$ ($p = 0.000$) FE preferred				
Adjusted R ²	0.47				
F-test (joint significance)	$F(6, 327) = 24.33$, $p = 0.000$		√		

Source: Data analysis by Stata/SE

This study utilizes a Fixed Effects (FE) model with Driscoll-Kraay standard errors to capture the effect of cross-sectional dependencies in the data. With respect to the development hypotheses outlined above, the results presented in Table 3 demonstrate that a one-point increase in economic globalization (ECO_GLO) leads to a 0.089 percentage point boost in GDP growth. In terms of FDI, this was the most structured effect among the hypothesis variables. A 1% increase in FDI as a share of GDP led to a 0.143% increase in GDP growth. Trade openness (TO) appears to also influence GDP growth, suggesting that more open economies tend to grow faster. However, both political globalization (POL_GLO) and inflation (INF) were statistically insignificant, indicating that political ties and inflation have no direct impact on growth in this dataset. After this initial work, it appears the stated hypotheses, H1, H2, H4, and H5, are subsequently supported, while H3 is confirmed by suggesting that political globalization may be neutral or mixed toward growth.

Table 9. Model 2: Inflation Regression

Variables	Coefficient	Std Error	T-Value	P-Value	Significance
ECO_GLO	-0.031	0.029	-1.07	0.286	ns
SOCIO_GLO	-0.018	0.022	-0.82	0.413	ns
POL_GLO	0.009	0.015	0.60	0.549	ns
FDI	0.124	0.041	3.02	0.003	**
Trade Openness (TO)	-0.042	0.013	-3.23	0.001	***
Constant	7.862	1.034	7.60	0.000	***
Hausman Test	$\chi^2 = 19.33$ ($p = 0.004$) FE preferred				
Adjusted R ²	0.28				
F-test	$F(5, 312) = 10.76$, $p = 0.000$		√		

Source: Data analysis by Stata/SE

The Fixed Effects (FE) model, which uses Driscoll-Kraay standard errors, calculated that a 1 percent increase in trade openness results in a decrease in inflation of 0.042 percentage points, demonstrating that increased competition has a disciplining effect. The 1 percent increase in FDI as a share of GDP leads to an increase in inflation by 0.124 points, which may be caused by demand pressures, currency appreciation, or possibly cost-push factors. The Laspeyres globalization indices—economic, social, and political—did not have any significant direct effect with respect to inflation volatility. The results of the study supported H5, that trade openness decreases inflation, and H6, that FDI increases inflation. However, hypotheses H1–H3 were not significant in the inflation model.

Table 10. Diagnostic Tests

Test	Results	Inference
VIF (Mean)	2.14	No multicollinearity
Wooldridge Test (autocorrelation)	$F(1,7) = 9.43, p = 0.02$ < 0.05	Autocorrelation present → use robust SEs
Modified Wald (heteroskedasticity)	$\chi^2 = 412.3, p = 0.000$	Heteroskedasticity present → Driscoll-Kraay used
Pesaran CD Test	$CD = 4.87, p = 0.000$	Cross-sectional dependence → Driscoll-Kraay applied
Sargan Test (GMM, if used)	Not applied (FE sufficient)	—

Source: Data analysis by Stata/SE

The diagnostics indicate an average Variance Inflation Factor (VIF) of 2.14, indicating that the variables are not multicollinear. The Wooldridge test indicates that autocorrelation is present ($F = 9.43, p = 0.02$), which means we need to use robust standard errors. The Modified Wald test indicates that heteroskedasticity is present ($\chi^2 = 412.3, p = 0.000$), and the Pesaran CD test indicates that cross-sectional dependence is present ($CD = 4.87, p = 0.000$). Therefore, we will use Driscoll-Kraay standard errors due to the issues. We do not use the Sargan test for GMM since the fixed effects model is satisfactory.

Table 11. Robustness Checks

Change	Results	Conclusion
Exclude Maldives (outlier)	ECO_GLO coeff: 0.082***	Still significant
Exclude Afghanistan (missing data)	No change in sign/significance	Robust
Use lagged regressors	Similar results	No reverse causality bias
System GMM (dynamic model)	ECO_GLO: 0.078***, FDI: 0.131***	Confirms FE results

Source: Data analysis by Stata/SE

Robustness checks support the validity of the findings. This is evidenced by the coefficients for economic globalization ("ECO_GLO") falling slightly to 0.082 without the Maldives outlier while still being statistically significant. The results did not bend the sign or the level of significance when Afghanistan was excluded because of the missing data, indicating the results were robust as they remained consistent. Using lagged regressors produced comparable results, lessening our anxieties about reverse causality. Lastly, the robustness of the estimates using the dynamic system GMM model

confirmed similar results, with the original coefficients for ECO_GLO and FDI being significant, confirming the validity of the fixed effects estimates.

Table 12. Summary of Findings

Hypothesis	Outcome	Support
H1: Economic globalization $\rightarrow \uparrow$ GDP growth	$\beta = 0.089^{***}$	Yes
H2: Social globalization $\rightarrow \uparrow$ growth	$\beta = 0.062^{***}$	Yes
H3: Political globalization $\rightarrow$ mixed effect	$\beta = 0.012$ (ns)	Yes (insignificant)
H4: FDI amplifies growth	$\beta = 0.143^{***}$	Yes
H5: Trade openness $\rightarrow \downarrow$ inflation	$\beta = -0.042^{***}$	Yes
H6: FDI $\rightarrow \uparrow$ inflation	$\beta = 0.124^{***}$	Yes

Source: Data analysis by Stata/SE

The results of this study generally support the proposed hypotheses. Economic globalization (H1) was found to have a statistically significant and positive effect on GDP growth with a coefficient of 0.089. Social globalization (H2) also had a positive influence on growth, having a coefficient of 0.062. Political globalization (H3) produced a mixed effect, having an insignificant coefficient of 0.012, thereby verifying a neutral, no-effect outcome. Foreign Direct Investment (FDI) (H4) produced a strongly positive effect on growth, with the highest coefficient at 0.143. Trade openness (H5) produced a statistically significant and negative impact on inflation (-0.042), though FDI (H6) was associated with more substantial inflation with a coefficient of 0.124, which could suggest it acts in two ways: promoting growth while raising inflation.

6. DISCUSSION

The study's empirical implications are generally consistent with prevailing theoretical frameworks while also adding new insights of specificity into the SAARC region. The positive and significant effect of economic globalization on GDP growth, consistent with endogenous growth theory, is mediated by globalization's positive spillover effects on knowledge, the diffusion of technology, and capital accumulation ([Romer, 1990](#); [Diachenko et al., 2024](#)). The estimated elasticity indicates that an increase of one unit in ECO_GLO results in a 0.089 percentage point increase in GDP growth, confirming that trade liberalization and financial openness are key engines of development for South Asia, as demonstrated by the post-1990s developments in India and Bangladesh.

Likewise, the positive and significant effect of social globalization ($\beta = 0.062$) on positive growth is similar to the arguments made by [Diachenko et al. \(2024\)](#), who argue that globalization accelerates the development of technology and human capital. The increase in digital connectivity, cross-border education, and diaspora development facilitated the diffusion of innovation and skills across SAARC countries, especially in India, Sri Lanka, and the Maldives. This strengthens the theoretical link between socio-cultural globalization and enhanced productivity. This supports the arguments of [Pereguda et al. \(2025\)](#), who discussed globalization as a means of changing social structures and economic systems and noted that while globalization facilitates transformation, it does not guarantee the transformation will be inclusive and equitable. This implies that intentional policy design is required to ensure collective and long-lasting impacts of globalization for all citizens of South Asia.

The significant pro-growth impact of FDI ($\beta = 0.143$) resonates with a neoclassical understanding of capital, which is crucial for development. Open market policies are conducive to bringing productive investment to both developed and developing nations, especially when backed by quality institutions. But the inflationary impact of FDI ($\beta = 0.124$) provides a significant wrinkle. While FDI aids growth, it can also contribute to inflation via demand-pull pressures and an appreciating real exchange rate. This duality mirrors the concerns of [Santosa & Roselli \(2023\)](#) in that financial globalization makes emerging

economies vulnerable to volatility from outside shocks. For smaller, open economies, like the Maldives and Sri Lanka, large capital inflows in stronger monetary contexts have often led to overvalued currency and imported inflation. This is especially true when domestic monetary frameworks have weak constraints. Ultimately, our results promote the theoretical caution noted above that, while the upside of globalization is enormous, it is not guaranteed and relies heavily on the resiliency of the entire macroeconomic framework and coherence of policy.

The dual benefit of trade openness—enhancing growth while compressing inflation—provides substantial evidence in support of the "disciplining effect," which suggests that the competitive pressure of international markets limits the price-setting behavior in the domestic market. The impact of trade openness is clearly demonstrated in countries like Bhutan and Nepal, where incremental trade liberalization improved efficiency without inducing inflation. However, as previously mentioned, global commodity crises may undermine such disciplining effects. For example, in Sri Lanka in 2022, inflation reached nearly 50%, and Sri Lanka had a high trade openness; however, this case also illustrates the limits of the disciplining effect when external demand shocks dominate. These findings align with [Santosa & Roselli \(2023\)](#), who note that globalization may also raise the exposure to volatility outside of the country; therefore, governments will increasingly require strong fiscal and monetary buffers.

In contrast, the insignificant (POL_GLO) impact of political globalization on macroeconomic outcomes demonstrates a critical divergence away from conventional expectations. Both [Pereguda et al. \(2025\)](#) and [Chattopadhyay & Bose \(2022\)](#) infer that diplomatic integration has a positive impact upon the credibility of domestic policy, as well as increasing institutional stability. However, our results demonstrate that, in the SAARC region, if there are no economic ties between countries, political ties alone do not yield economic benefits. This implies that political integration will not significantly influence the economic outcomes associated with SAARC, as neither institution possesses effective transmission mechanisms, long-standing geopolitical tensions (such as the India-Pakistan rivalry) fluctuate, and regional economic cooperation is restricted. The SAARC free trade area and SAARC regional financial institutions remain undeveloped, despite their importance. Overall, we argue that political globalization is an impotent activity without economic and institutional convergence; in support of [Chattopadhyay & Bose \(2022\)](#), globalization cannot rationalize providing anyone with equitable or sustainable development, as structural reforms will be required to utilize it effectively.

Moreover, [Diachenko et al. \(2024\)](#) were specifically implicitly validated by the variation of outcomes across countries. India and Bangladesh have taken advantage of globalization more effectively than Pakistan or Sri Lanka, due in part to their increased macroeconomic management and financial literacy. The latter countries' crises in inflation and balance-of-payments positions highlight the importance of financial literacy and institutional capacity to support citizens in their adaptation to global integration, as was noted in the dissertation produced by the University of Colombo.

The results from the comparative analysis suggest that, even though economic and social globalization significantly lead to growth in the SAARC region, political globalization is largely ineffective. Economic globalization ($\beta = 0.089$) aids GDP growth via trade liberalization, technology diffusion, and capital accumulation, while social globalization ($\beta = 0.062$) aids innovation and human capital development ([Diachenko et al., 2024](#); [Pereguda et al., 2025](#)). Bearing in mind, while foreign direct investment (FDI) is inflationary under certain circumstances ($\beta = 0.143$), it is also growth-enhancing ($\beta = 0.124$), especially in small, open economies such as Sri Lanka and the Maldives ([Santosa & Roselli, 2023](#)). Trade openness aids growth and efficiency but exposes nations to shocks, such as the inflation crisis experienced in Sri Lanka in 2022. Conversely, political globalization has no significant effect on the economy due to poor institutional and economic integration ([Chattopadhyay & Bose, 2022](#)). In summary, the benefits of globalization in South Asia are contingent on strong institutions, prudent macroeconomic management, and robust political frameworks for inclusive growth.

7. POLICY IMPLICATIONS AND IMPLEMENTATION ROADMAP

The results reveal that globalization contributes to growth in the SAARC region but can only be sustained through regionally aligned, specific, and coordinated policy actions.

1. Revive SAFTA by Lowering NTBs (Non-Tariff Barriers): In the short term (1-2 years), SAARC members should identify and rationalize NTBs and customs procedures as a means of enhancing better trade performance. In the medium term (3-5 years), focus should turn to digital trade facilitation, standard harmonization, and the development of a regional trade dispute mechanism. In the long term (5–10 years), SAFTA should evolve into a South Asian Economic Partnership (SAEP) to deepen integration into services, e-commerce, and regional infrastructure.

2. Prioritize FDI in Manufacturing and Renewable Energy: In the short term, a policy framework should be created to attract FDI in productive sectors such as renewable energy and light manufacturing through temporary tax breaks and reduced approval processes. In the medium term, governments should establish regional investment promotion agencies to mobilize regional effort and technology transfer. The long-term goal should be the development of the South Asian Green Investment Framework to attract green and sustainable investment and promote energy security.

3. Establish a SAARC Stabilization Fund: A working group in the short term would design the fund's development and governance structure, and in the medium term, the fund would be implemented as a source of liquidity and balance-of-payments support following external shocks and ultimately evolve into a regional financial safety net for smaller economies such as Bhutan, the Maldives, and Nepal.

4. Move to Inflation Targeting in Nepal, Pakistan, and Sri Lanka: In the short term, it may require building capacity in inflation forecasting and transparency media, as well as, in the medium term, taking steps to adopt a flexible inflation-targeting framework, and ultimately, in the long term, gathering mechanisms for SAARC central banks to coordinate and create regional monetary stability and convergence.

8. LIMITATIONS

This study adds almost no value to the understanding of the subject, but it also has major limitations. First, there is the exclusion of Afghanistan, as relevant data were unavailable. The analysis covers only those member nations with sufficient data. We have used only balanced panels, and this restricts long-term trend analysis. Second, although we have selected scientific methods to limit and acknowledge endogeneity, there remains a potential concern regarding reverse causation (for example, could growth be driving globalization?). Residual endogeneity is possible due to omitted institutional variables. System GMM is also limited, as there are data constraints. Third, due to the unavailability of consistent historical data, we omitted institutional quality (like governance and corruption) variables. This could also have led to omitted variable bias. Future work that includes better data, instrumental variables, or examining sub-national units could help resolve many of these limitations. Regardless, the study provides a reasonable empirical base from which to understand the macroeconomic impacts of globalization in SAARC.

9. CONCLUSION

This study assessed the impact of economic, social, and political globalization on macroeconomic performance, primarily GDP growth and inflation, in the SAARC countries in the period from 1980 to 2023. Using data from 1980 to 2023 as a panel data study, the findings revealed that economic globalization makes the most significant contribution toward GDP growth ($\beta = 0.089$). This means that for a one-point movement in ECO_GLO, the GDP growth rate increases by 0.089 percentage points. The findings also demonstrated that social globalization positively influenced GDP growth ($\beta = 0.062$).

This demonstrates the influence of physical information exchange and cross-border innovation on economic growth in SAARC countries. The finding highlighted that FDI had the greatest impact in terms of driver of GDP growth, but also demonstrated that FDI had a positive influence on short-run inflation, specifically ($\beta = 0.143$) for GDP growth and ($\beta = 0.124$) for inflation. Trade openness was found to support GDP growth and help decrease inflation ($\beta = -0.042$), which aligns with theory demonstrating that growth in competitive markets (not monopolistic) leads to price growth reductions. Political globalization was not found to have a statistically significant improvement to GDP growth or inflation, and it is the author's opinion that global engagement without structural change at home has limited contribution potential.

In synthesis, economic and social globalization have the potential to generate economic growth in South Asia. Nevertheless, growth is not guaranteed by globalization, and this will only occur through strategic policy to attract quality FDI, develop trade ties (using SAFTA would provide benefits), and create supportive digital and institutional economic infrastructure, etc. The findings from this thesis offer valuable insight for policymakers pursuing inclusive and sustainable development in an increasingly interconnected global world. Future research could expand on the themes of institutions and the environment as they relate to research and support efforts to build economic growth within the region.

Data Availability Statement: The dataset is available from the corresponding author upon request; it will be archived in [Repository] upon acceptance.

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