



GLOBALIZATION AND ECONOMIC GROWTH: THE CASE STUDY OF DEVELOPING COUNTRIES



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ABSTRACT

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Panel data.

The aim of this study is to investigate the effect of dimensions of globalization on economic growth in 100 developing countries using panel data. The globalization index used is KOF and period of study is 1970-2014. The results show that the impact of political globalization on economic growth in upper middle income countries is negative and significant. Also, economic and social globalization has not significant effect on economic growth. Furthermore, the effect of total and political globalization on economic growth in developing countries with lower middle income is positive and significant but economic and social globalization factors have not significant effect, statistically.

JEL Classification

C23, F62, O47.

Contribution/ Originality: The paper's primary contribution is finding that examine the impacts of dimension of globalization i.e. social, economic and political globalization on economic growth in developing countries.

1. INTRODUCTION

Economic growth category and the causes of it have always been the important topics of economic science. Economic growth is a quantitative phenomenon that actually shows the increase of value of goods and services produced in an economy and are usually measured as a percentage of increase in GDP. Economic growth rate of some of these countries is high, while others not. Some economies are rich and some are poor. In other hand, globalization is among the issues and phenomena that have attracted much attention everywhere. The process has existed from the beginning of human history and with modernization and development of capitalist has been simultaneous and since then its effects has been growing, but recently a sudden acceleration is emerged in it. Waters defines globalization as: globalization is a social process in which the constraints of geography that are on social and cultural relations destroy and people increasingly aware of these restrictions' reduction. Anthony Giddens defines

globalization as: globalization means the expansion of social and economic relations throughout the world. In a global system, various aspects of life of people affected by organizations and social networks that are thousands of kilometers away from them, in this state, the world should be considered as a unit system (Ghaderi *et al.*, 2012). In general, globalization is created a status as one of the most important international variables that countries or political units in pursuing foreign policy are required to pay attention to its results and enter its dimensions and consequences in their approaches and performances. It is to say that globalization is a continuous process and affected many fields such as culture, politics and the economy. This process has always been associated with the pros and cons. As far as some consider it utopia to new civilization and some consider cultures alien ideologies.

Farlex (2009) believes that globalization is leading to brain drain from developing countries. In fact, opportunities that exist in developed countries attract talent from poor countries towards itself. In general, opponents believe that globalization is served the interests of developed countries and large companies to the detriment of non-developing countries and small companies. According to Tansey (2004) the process of globalization asks reform and removing public and legal supports, however, it seems not support this governmental and legal supports and labor and minimum wages but it could have extra costs for producers and government, as these supports are the origin of a percent of job losses.

In general, according to the theoretical principles of economic in the context of globalization and economic growth, impacts of globalization on economic growth are uncertain and in some countries, some of these factor is positive and in others negative. Also, various aspects of globalization also have different impacts on economic growth. This study is tried to investigate the effects of globalization of political, economic and social in the developing countries with low and high income in 2014-1970.

2. LITERATURE REVIEW

Djokovic and Vangelis (2008) has investigated how to measure globalization by a new approach and 21 variables, the study is conducted during 2005-1995 and the number of countries surveyed has been 70 countries. Bergh and Nilsson (2010) using normalized dataset investigated income distribution and Fraser Institute's Economic Freedom Index of two effects of globalization and economic freedom on income inequality in 80 countries during 1975-2005, the result of this study suggests a positive relationship between trade liberalization and income inequality. Bhaskara and Krishna (2011) have investigated the effect of globalization of political, economic, and social globalization on economic growth. The method used is panel data; the population included 21 low-income African countries during 2010-1992. The results show globalization has a positive and significant effect on growth (Bhaskara and Krishna, 2011). Rao and Vadlamannati (2011) have investigated the relationship between economic growth and globalization for 12 low-income African countries using panel data. The results show globalization has a small positive effect on economic growth in the long term.

Chang *et al.* (2013) investigated the effect of energy exports and globalization on economic growth using panel data for the period 2009-1990 for five countries of the South Caucasus. Results indicate that exports and globalization have a significant and positive effect on economic growth in the region. Gurgul and Lach (2014) emphasize in a study on the positive effect of globalization on growth of GDP in two decades in the countries of Central and Eastern Europe and they found this positive effect in relation to economic and social globalization has been stronger than political globalization.

Abrishami *et al.* (2006) using two methods of dynamic and generalized moments' dynamic of panel data, in the period (2002-1979) investigated the effect of liberalization on economic growth in developing countries. The results suggest that trade liberalization has increased exports about 190 percent. Mahdavi *et al.* (2010) using data from 57 different countries during (1990-2005) by econometric panel data technique concluded that in developed countries in terms of financial market, the impact of direct external investment is positive and significant but in less developed countries is not significant.

Fagheh and Afshar (2012) using data during 2009-1970 investigated the relationship between economic globalization and economic growth in 21 countries of MENA. The results show that, globalization has had a significant positive effect on economic growth in the Middle East and North Africa. Rafat and Beikzadeh (2012) during the period (2001 to 2009) investigated the effects of economic integration, economic growth and employment on each other in the ECO countries. They concluded that ECO unionization caused to increase 48% in trade and 63% increase in economic growth and 9% reduction in employment. Razavi and Salimi (2013) have investigated the effects of economic globalization on economic growth using vector autoregressive model (VAR) in order to separate short-term and long-term effects in Iran during 2011-1978. The results of this study show that trade liberalization and financial indicators have positive and significant effect on economic growth. Ashurizadeh *et al.* (2013) investigated the effects of economic globalization and foreign trade on economic growth by using VAR in order to separate short-term and long-term effects. The results of this study show that the globalization of the economy in the short term has weak effect on economic growth but in the long-term its effect on economic growth is 21%.

3. THEORETICAL FOUNDATIONS

3.1. Economic Growth

Theories of economic growth since writing the book of Adam Smith's "Wealth of Nations" (1776) are started and continue to emerge of new growth patterns in the second half of the 80th century. Perhaps it can be said that the modern theories of economic growth were started with the neoclassical article of Solow (1956) titled Theory of Economic Growth, but at the same time, he states in Nobel lecture in 1987 that growth theory not started with articles that I wrote in 1956 and 1957 and certainly did not end there, perhaps the growth theory of Adam Smith's Wealth of Nations (1776) or even before it is begun. In general, the origin of classical growth models is mainly the pattern of static equilibrium and short-term of Keynes (1956) that was done by Harrod-Domar during 1955 to 1956 separately and with similar results. Solow (1956) accepts all assumptions of Harrod and Domar except production function. Production function used in these growth patterns is linear homogeneous production function with constant returns to scale that has the particular form of Cobb Douglas Production Function.

In endogenous growth pattern in response to numerous shortcomings of neoclassical model, Romer (1986); Lucas (1988); Rebelo (1986) and other researchers have designed models in which steady growth can be achieved endogenously without the involvement of any exogenous technical progress. In these patterns, the steady growth rate depends on parameters of utility functions, production and tax policy. There are three different approaches in design endogenous growth patterns that emphasizing each of them is on one of the following three factors: External effects caused by the accumulation of physical capital, accumulation of human capital (skilled labor) and continued growth in the "projects" of new production which in turn facilitates the creation of new production projects. It seems that the third approach is the best factor that could be causing long-term growth (Abrishami *et al.*, 2006).

3.2. Globalization

Globalization by relying on technological developments has created unparalleled opportunities for economic development, increase welfare of human society and solve the problem of poverty and underdevelopment. But only countries can take advantage of the globalization process that create necessary capacities to exploit new opportunities and by establishing appropriate policies to minimize the negative consequences of this process. Some researcher has a quite positive view towards globalization and considers it a process that consists of many opportunities and the other group considers it negative and they believe that this phenomenon is designed from authorities in the world for their interests.

In general, three definitions can be provided for globalization: a) definition of the school of realism and its sub-categories that has its preliminary views with respect to the phenomenon of globalization. This view believes that the structure of the international system is based on government and logic and principles governing this globalized world

are more or less chaotic. B) Liberalism school; consider the structure of the international system as multicenter, principles and logic underlying it has the complexity and not irregularity and unlike the school of realism believe in distribution equal power. C) Marxism considers structure of the system as central world and called logic and principles governing it as the form and manner of commerce and historical production. Also he consider distribution of capabilities as unequal and believe where there is development, capacity is there. Marxism consider globalization with some as similar and some even consider it equal with the Americans (Omidvar and Daryabeigi, 2011).

3.2.1. Economic Globalization

The globalization Scholars believe that the integration of global markets in terms of trade, direct investment, displacement and movement of capital, labor and culture in the framework of capitalism and freedom of market will lead to the splitting of national borders and reducing from the sovereignty of the state. Essential element in this phenomenon is multinational corporations and transnational. opponents believe that globalization is unfettered competition in the global level, competitiveness that makes rich countries richer and poor countries poorer.

Evidence suggests that globalization is more an economic category, in such a way that one of the most significant developments in recent years is convergence and integration of national economies in the global economy. The main characteristics of this process are the high growth of global trade and trade liberalization in developing countries, transfer and fast development of technology, increase international competition and subsequently increase economic efficiency at domestic and international level, extent division of international labor, intensifying the flow of foreign direct investment, financial markets liberalization and privatization that each of them play a significant role in the economic development of communities.

Globalization in addition to the positive effects also has negative effects. In this context we can pointed out to economic crisis that include financial crisis and unemployment crisis. The second adverse effect of globalization is the worsening of environment position. Rich countries have the highest share in environmental pollution. Other negative effects of globalization are to intensify challenge between rich and poor countries (Taheri and Taheri, 1964).

3.2.2. Political Globalization

Globalization has created a drastic change in the politic. Traditionally, national governments have had the final task to maintain security and economic well-being of citizens as well as protection of human rights and the environment within their borders and policies of any country in the framework of its domestic political systems are drawn, the changes arising from globalization in a way has closed political decisions of the country to functioning of the international system and highlighted the role of international institutions and organizations (Ghaderi *et al.*, 2012).

In the view of proponents of globalization, this phenomenon will cause to create many possibilities for the consolidation of democracy and humans rights at the national level and the establishment of world peace. But in the view of opponent, this phenomenon causes to create conflicts in societies, self-centered leaders, personal benefit-seeking, undermining the rule of governments, increasing involvement of multinational companies and influence of foreign countries. The researchers believe that with globalization, activities and support policies of governments as an independent political unit limit their economic strength (Nahavandian and Ghanbari, 2004).

3.2.3. Socio-Cultural Globalization

Many intellectuals and analysts have considered phenomenon of globalization according to the cultural dimension and its social effects. The basis of analysis of global culture fans is based on this that increasing growth of technology and mass media, Internet and satellites caused compression of time and space and closing culture of countries and thus has formed the dominant culture in the global level.

Among the consequences or the impacts of culture globalization can point to inevitable expansion of communications and consequently increasing reduction of gaps, globalization of challenges and opportunities and

behavior patterns in different fields, the global spread of communications, identity categories and interact and affect them in worldwide and the emergence of global identity (Akhtar, 2007).

About social globalization it can be said social globalization could be underlying the growth and development of citizenship rights. Activities that although are individual but their estimation will help to progress of social status and lead to economic participations, public service, volunteerism activities and other social activities that improve the living position of all citizens that influence on economic growth of countries (Pishgah, 2002).

3.3. Indicators of Globalization

In this study, KOF index is used for globalization. First KOF index was introduced by Dreher in 2002 than updating and providing its details in 2008 by Dreher, Gaston and Martens have taken place. KOF index includes economic, social and political dimensions. Share of economic KOF is (36%), social (37 %) and political (26%) that economic KOF contains 50% of actual flow and 50% limitation that the actual flow includes 21% of trade, 28 % of foreign investment, 24% of the investment of portfolio and 27% of the income paid to foreign nationals. Limitation also includes 24 % of hidden barriers of imports, 27 percent average tariff, 26 % tax on international trade, 23 % capital account restrictions. Social KOF includes 34% of information about the person and 35% data related to flow of information and 31% data on proximity of cultures that information about the person, including 25% of telephone traffic, 3% of the transfers as a percentage of (GDP), 26 % international tourism, 21% foreign population (% of total population) and 24% of international mail (per capita). Data related to flow of information also includes 33 % of Internet users (per 1,000 people), 36% of TV (per 1,000 people) and 31 percent of trade in newspapers (% of GDP). Information on cultural proximity includes 45 % of McDonald's restaurants (per capita), 45 % of stores of Ikea (per capita) and 10% of trade in book (percent of GDP). Political KOF includes 25% embassies in the country, 28 % membership in international organizations, 22 percent of firm in the Security Council missions U.N, and 26 % international treaties. Overall, economic globalization reduces the distance of circulation of goods, capital and services as well as information. Political globalization indicates dissemination of government policies. Social globalization represents the spread of ideas, information, images and people. All indicators of globalization are placed in a range between zero to one hundred (higher values indicate greater globalization).

4. MODEL OF RESEARCH

According to previous studies and theoretical foundations, the following model is considered as the original model of research:

$$Y_{it} = \alpha HD_{it} + \beta L_{it} + \gamma GC_{it} + \delta INFL_{it} + \theta FID_{it} + \sigma M_{2_{it}} + \lambda G_{it} + \mu FD_{it} + \varepsilon_{it} \quad (1)$$

Where, Y is GDP (gross domestic product at constant prices of \$ 2005). In this study, GDP is market value of all goods and services produced by labor and properties supplied by the inhabitants of a country.

HD: Human Development Index.

FD: domestic credit provided by the financial sector (% of GDP).

FC: gross fixed capital formation (gross capital formation at constant prices of \$ 2005).

L: total labor force: total labor force includes human populations between 65-15 years that is the definition of International Labor Organization from the economic active population.

GC: government consumption (The cost of government final consumption at constant prices \$ 2005):

INFL: World Bank data is used for inflation in this study.

Also in this study, FDI and M2 and G, respectively are foreign direct investment, money and quasi-money and KOF index.

ε_{it} : Shows the error term.

5. MODEL ESTIMATION

To estimate the model, first the countries are divided into two parts with lower and upper middle income. This is due to different effect of globalization and its dimensions in countries with different incomes. Then, to evaluate the pool or panel of model, test of F Lemer is done on model. F Lemer test results for developing countries with upper middle income and for developing countries with lower middle income separately are in Tables (1) and (2):

Table-1. F Limer test results for developing countries with upper middle income

Kinds of model	Effects Test	Statistic	d.f.	prob
First model	Cross_section F	4.164711	(30.117)	0.000
	Cross_section chi_square	114.063839	30	
Second model	Cross_section F	4.281756	(29.114)	0.000
	Cross_section chi_square	112.728899	29	0.000
Third model	Cross_section F	3.481494	(30.117)	0.000
	Cross_section chi_square	100.165932	30	0.000
Fourth model	Cross_section F	4.152566	(30.117)	0.000
	Cross_section chi_square	113.827229	30	0.000

Source: Findings

Table-2. Test results of F for developing countries with lower middle income

Kinds of model	Effects Test	Statistic	d.f.	prob
First model	Cross_section F	4.007996	(37.107)	0.000
	Cross_section chi_square	120.710728	37	0.000
Second model	Cross_section F	2.993108	(31.107)	0.000
	Cross_section chi_square	92.414117	31	0.000
Third model	Cross_section F	3.893570	(33.107)	0.000
	Cross_section chi_square	118.324556	33	0.000
Fourth model	Cross_section F	3.949720	(33.107)	0.000
	Cross_section chi_square	119.50021	33	0.000

Source: Findings

The results showed that the null hypothesis for developing countries with upper and lower middle income in all four models is rejected, in other words confirms panel data versus pool data. So, to estimate the model, panel data method can be used. Hausman test is used to determine the fix or random effects for models estimation. If the null hypothesis is rejected, the method of fixed effects is compatible and method of random effects is incompatible and the model should be estimated using fix effects. Hausman test results in Tables (3) and (4) are:

Table-3. Hausman test results for developing countries with upper middle income

Kinds of model	Effects Test	Chi-sq. Statistic	Chi- sq. d.f.	prob
First model	Cross_section random	20.423356	9	0.0155
Second model	Cross_section random	27.617091	9	0.0011
Third model	Cross_section random	28.662671	9	0.0007
Fourth model	Cross_section random	22.135880	9	0.0085

Source: Findings

Table-4. Hausman test results for developing countries with lower middle income

Kinds of model	Effects Test	Chi-sq. Statistic	Chi- sq. d.f.	prob
First model	Cross_ section random	27.035513	9	0.0014
Second model	Cross_ section random	27.290426	9	0.0013
Third model	Cross_ section random	24.947658	9	0.0030
Fourth model	Cross_ section random	23.141114	9	0.0059

Source: Findings

According to above results, developing countries with upper middle income and developing countries with lower middle income in all four models are likely to be smaller than 0.05, so the null hypothesis is rejected and models have fixed effects.

Results of regression estimate for the period 2014-1970 for developing countries with upper and lower income in Tables (5) and (6) are provided:

According to the results obtained, coefficient of labor in both groups of developing countries with upper middle income and lower middle income is negative and it means that there is an inverse relationship between labor and GDP growth.

Coefficient of variable of gross fixed capital formation in developing countries with upper middle income is positive and about 5.5, meaning that if a percent of variable increases, GDP growth will increase 5.5 percent, this coefficient in developing countries with lower middle income is obtained positive and almost is nine, it means that there is a direct relationship between two variables assuming stability of others.

Coefficient of domestic credit provided by the financial sector for developing countries with upper and lower middle incomes has been negative, indicating an inverse relationship between these variables with GDP growth.

Coefficient of public expenditures for developing countries with upper middle income has been positive and about 0.3. This means that, if public expenditures increase, GDP growth will also increase. Variable coefficient for developing countries with lower middle income is negative, indicating an inverse relationship between public expenditures and GDP growth in these countries. It can be said that government intervention in developing countries with lower middle income can cause to weaken private sector and reduce economic growth.

Coefficient of human development index for developing countries with upper middle income and also for developing countries with lower middle income is negative which shows an inverse relationship between HDI and GDP growth in these countries.

Coefficient of inflation index for both groups of developing countries with lower and upper middle income is obtained negative. This means that, assuming stability of other conditions, there is an inverse relationship between inflation and GDP growth. This result is consistent with economic theories because higher inflation means greater economic instability. Coefficient of foreign direct investment in both groups of developing countries with upper and lower income in all four models is positive, indicating that, the relationship between GDP growth and foreign direct investment is direct. This coefficient in developing countries with upper middle income is about five and in developing countries with lower middle income is about six. Coefficient of growth of money and quasi-money in all four models of developing countries is with upper middle income and in all four models in developing countries with lower middle income is negative and has inverse relationship between GDP growth and mentioned variable.

Coefficient of economic KOF for developing countries is negative and about 0.3. This means that if KOF economic indicator increases, GDP growth decreases. But the coefficient of this index for developing countries with lower middle income is positive and about 0.1. That is, there is a direct relationship between index of economic globalization and economic growth in these countries. Coefficient of social KOF in developing countries with upper middle income is positive and about 0.03. It means that there is a direct relationship between social KOF and economic growth. That its reason can be this that communication services such as Internet that connections are increased and caused public relations and economic activities as well as the ease of trading and has accelerated the

growth process. But the coefficient of this index for developing countries with lower middle income is negative and about 0.03. Coefficient of political KOF for developing countries with upper middle income is negative i.e. there is an inverse relationship between political KOF and economic growth. But the coefficient for developing countries with lower middle income is positive and about 0.09. That its cause can be searched in international treaties of these countries that can cause political reforms in these countries and provide the background for economic growth. According to KOF coefficients, in developing countries with upper middle income, political KOF index is more effective and in developing countries with lower middle income, economic KOF indicator is more effective.

Coefficient of total KOF for developing countries with upper middle income is negative i.e. there is an inverse relationship between total KOF and economic growth, but the coefficient of this index for developing countries with lower middle income is positive, showing that indicating, with assuming stability of other conditions, there is a direct relationship between total KOF and economic growth in these countries.

Table-5. Results of estimate of models for developing countries with upper middle income

Variables	First model	Second model	Third model	Fourth model
C	-37.83501 (0.1062)**	-41.55304 (0.0089)*	-60.77313 (0.0018)*	-47.95189 (0.0198)*
LL	-2.912406 (0.0820)**	-2.716605 (0.0652)**	-1.570976 (0.3148)**	-2.462240 (0.1733)**
LFD	-.825426 (0.2705)**	-1.083507 (0.1149)**	-1.035738 (0.2585)**	-1.278772 (0.0266)*
LFC	5.263019 (0.000)*	5.291953 (0.000)*	5.455379 (0.000)*	5.54206 (0.000)*
GC	0.304651 (0.0948)**	0.304428 (0.1465)**	0.331259 (0.0991)**	0.305598 (0.1088)**
HD	-41.70904 (0.000)*	-45.3414 (0.000)*	-45.72649 (0.000)*	-55.85480 (0.000)*
IFNL	-0.001639 (0.000)*	-0.001629 (0.000)*	-0.001408 (0.000)*	-0.001377 (0.000)*
FDI	4.56 (0.0293)*	5.07 (0.0948)**	5.53 (0.0775)**	5.02 (0.1004)**
M2	-5.69 (0.0293)**	-8.29 (0.0170)*	-5.9 (0.1361)*	-9.22 (0.0048)*
F-Statistic	4.540431	4.909166	5.010773	4.824079
KOF Total	-0.100265 (0.1960)**	–	–	–
KOF Economic	–	-0.038851 (0.4917)**	–	–
KOF Political	–	–	-0.062664 (0.0133)*	–
KOF Social	–	–	–	0.035977 (0.3155)***
R ²	0.640771	0.620963	0.622504	0.616568

Source: Finding

* Statistically is significant at the level 0.05

** Statistically is not significant.

Table-6. Results of estimate of models for developing countries with lower middle income

Variables	First model	Second model	Third model	Fourth model
C	-174.17 (0.000)*	-169.0056 (0.000)*	-174.8949 (0.000)*	-177.3817 (0.000)*
L	-4.05 (0.3535)**	-5.39 (0.2843)**	-2.45 (0.5625)**	-4.48 (0.3437)**
FD	-0.057281 (0.0008)*	0.055133 (0.0036)*	-0.050457 (0.000)*	-0.040422 (0.000)*
LFC	9.216241 (0.0001)*	9.00101 (0.0001)*	8.84875 (0.000)*	9.188938 (0.000)*
LGC	-4.899143 (0.0008)*	-5.715042 (0.0325)	-3.711716 (0.0254)*	-4.044039 (0.0552)**
HD	-27.54161 (0.3661)**	-21.03643 (0.4547)**	-14.22935 (0.6111)**	-7.933889 (0.7916)**
LIFNL	-0.7486 (0.0011)*	-.746367 (0.0008)*	-0.746625 (0.0054)*	-7.58813 (0.0051)*
FDI	6.16 (0.6328)**	5.38 (0.705)8**	6.40 (0.5628)**	6.83 (0.5946)**
M2	-1.23 (0.000)*	-1.24 (0.000)*	-1.05 (0.000)*	-1.13 (0.000)*
F- Statistic	5.320818	4.284867	5.271243	5.016164
KOF Total	0.189181 (0.0479)*	–	–	–
KOF Economic	–	0.134120 (0.0715)**	–	–
KOF Political	–	–	0.098942 (0.0221)*	–
KOF Social	–	–	–	-0.034885 (0.3997)**
R ²	0.706769	0.654025	0.708362	0.698010

Source: Findings

* Statistically is significant at the level 0.05

** Statistically is not significant.

6. CONCLUSION

Globalization has several dimensions including the political, economic and social and each of these dimensions depending on the economy structure of the countries can have positive or negative effects on economic growth. In this study, the effect of different dimensions of globalization on economic growth of developing countries with lower and upper middle income classification in the period 1970-2014 using panel data econometrics is investigated. The results show that the political globalization on economic growth of upper middle income countries is negative and significant. Total globalization of economic and social not has a significant effect on economic growth of these countries. Also, the effect of total and political globalization on economic growth in developing countries with lower middle income is positive and significant but coefficients of economic and social globalization is not significant, statistically. Also, in developing countries with higher middle income, the coefficients of human development variables, inflation and money is negative and significant and coefficient of gross fixed capital formation is positive and significant. But other coefficients not have a significant effect on economic growth. Also, in the developing countries with lower middle income, coefficients of the variables of domestic credit provided by the financial sector, government spending, inflation and money and quasi-money has been negative and significant and coefficient of gross fixed capital formation is positive and significant. Other variables not had significant effect on economic growth.

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