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Abstract

This article aims to explore the effects of international economic integration on economic development by employing panel tests on cross-country data over the time frame 2000-2020. In the study, FE, RE, and IV regression models are used in STATA to find out the impact of trade openness, FDI, Financial integration, and RTAs on economic growth, controlling for institutional quality, inflation, and human capital. This article argues that trade openness, FDI, and financial integration have a positive effect on the economic growth of all the economies, and mostly those with good governance and a stable macroeconomic environment. The Housman test supports the Fixed Effects model, thereby emphasizing the influence of country-level institutional characteristics. Additional tests with quantile regression and heteroscedasticity-corrected estimations indeed suggest that the gains from integration are even higher in developed countries. However, free movement of funds, which is financial integration if not well monitored, has been found to cause undesirable fluctuations in the economy, as observed in the past financial crises. Therefore, this research concludes that the quality of institutions plays a significant role in determining the level of economic integration, and hence, there is a need for governments to act upon enhancing the quality of institutions as well as enhancing the macroeconomic environment. The findings of this paper thus offer an empirical backing for the notion of a positive relationship between economic integration and long-run economic growth and development for developing nations, and at the same time, the adverse effect of financial liberalization without accounting for suitable regulations.

Keywords: International Economic Integration, Trade Openness, Foreign Direct Investment (FDI), Financial Integration, Regional Trade Agreements (Rtas), Economic Development, Globalization



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1. Introduction

Globalization has become the driving force of economic opening, interconnection, integration, and cooperation in today's interconnected global environment. The globalization of economies driven by liberalization of trade, FDI, and flows of finance, as well as the establishment of RTAs, has changed national policies and markets of the economy. There has been intensive discussion, both within academic circles and among policymakers, regarding the overall effect and proper significance of economic integration with special reference to economic growth impact and bridging the gap between high-income and low-income nations (Krugman & Obstfeld, 2009). On the one hand, the supporters claim that integration leads to greater effectiveness, new ideas, and increased income levels. At the same time, the opponents mention instability, growing income disparity, and finally, the dependence on foreign markets (Rodrik, 2018). In this paper, the role played by international economic integration in economic development will be examined using econometric techniques and cross-sectional data of a large number of countries.

Economic integration is defined by various factors such as trade liberalization, capital flow liberalization, labor migration, and financial liberalization (Balassa 1961). According to the classical theory in trade opened by Adam Smith in the year 1776 and elaborated by David Ricardo in 1817, trade results in specialization, which in turn increases productivity, thus economic growth. Other authors cite these theoretical findings by showing a positive association between EOI and economic growth in per capita GDP (Frankel & Romer, 1999). For instance, Sachs and Warner (1995) noted that the liberalisation policy performed better when compared to a non-liberalisation policy in the latter part of the twentieth century. In the same vein, Dollar and Kraay (2004) have stated that globalization has played a vital role in poverty reduction in many developing countries because globalizers get access to foreign markets and technologies.

EDFI is another aspect of economic integration that affects the economic development of a country. The role of FDI can, therefore, be described as significant in economic integration. FDI is widely considered an essential factor in the transfer of knowledge, skills, and technology enhancement and productivity improvement in the host countries, as supported by the endogenous growth theory (Borensztein, de Gregorio, & Lee, 1998). Cross-sectional evidence proves that FDI has a favorable impact on economic growth, especially if the recipient countries have sound institutions and human capital (Alfaro et al., 2004). However, FDI entails risks leading to imbalances in the economy if it is well directed to a specific sector and the rest of the economy is ignored (Nunnenkamp & Spatz, 2004).

Another characteristic of global integration has been deficit integration, especially financial definition, which refers to liberalization of capital controls to encourage capital mobility internationally. The proponents say that financial openness helps to diversify investments, improve the efficiency of capital allocation, and stabilize the economy (Levine, 2001). However, it is argued and warned that early financial liberalization leads to the nature of financial crises as intensified and more frequent (Stiglitz, 2000). The Asian crisis that happened in 1997 and the global crisis of 2008 made the world understand the dangers that stem from free capital flows (Eichengreen, 2012). Literature review points to a directional relationship where financial integration increases growth in countries with sound institutional quality, yet supports volatility in countries with poor institutional quality (Kose et al., 2009).

Another HTA sub-trade arrangement is that of the regional trade agreements, which function to promote trade collaboration between member states. For example, the European Union, the North American Free Trade Agreement, and the Association of Southeast Asian Nations have signified the positive impacts of deeper economic cooperation, ranging from trade creation, efficiency gains, and economic integration among the partner countries (Baier & Bergstrand, 2007). However, like any form of trading bloc, regional integration also has its problems, such as trade diversion and locking out members of the bloc (Viner, 1950).

Despite extensive literature on the nexus between globalization and economic development, the empirical evidence remains inconclusive, varying with countries' governance quality, institutional frameworks, and macroeconomic stability (Rodrik, Subramanian, and Trebbi, 2004). The study contributes to the existing body of knowledge by providing a comprehensive comparative analysis of multiple dimensions of economic integration, trade openness, FDI inflows, financial liberalization, and regional trade agreements within a single unified econometric framework. Unlike prior studies that typically focused on one dimension or a limited sample, this paper utilizes cross-sectional data covering the 2000-2020 period, capturing post-crisis dynamics following the 1997 Asian and 2008 global financial crises. Furthermore, the study performs robustness checks using alternative integration and development indicators to ensure the reliability of results. Through this, the research offers novel empirical insights and policy implications for countries striving to enhance growth and strategic integration into the global economy.

2. Literature Review

The study of economic integration has been a topical debate in the corridors of academia as scholars look at economic integration through different lenses. The traditional theories of trade posit that international trade means beneficial development as trade increases specialization and productivity (Ohlin, 1933). Nevertheless, the modern studies revealed that economic integration is not unidimensional and depends on the initial institutional standards, markets, and policies (SItemListbid: 2172 Acemoglu, Johnson and Robinson, 2005). This section aims at a critical analysis of the literature on international integration of Asian countries based on trade liberalization, FDI, financial integration, and regional economic cooperation as the key theories of economic development.

Trade liberalization has been widely associated with integration more than anything else within economies. Heckscher and Ohlin (1933) earlier depicted trade openness as a key to efficiency in resource allocation and increased national income. In fact, empirical evidence affirms this reality, revealing that trade openness promotes economic growth and development as well as technological improvement (Dollar, 1992). For instance, Edwards (1998) compared various countries and discovered that countries that relaxed measures for trade liberalization earn better per capita income compared to those implementing protectionism. Wacziarg & Welch (2008) also maintained that the countries that have gone through transition and liberalized their economy enjoyed an average of 1.5 percentage point increase in the economic growth rate. However, some scholars opine that through liberalisation, inequality and instability are likely to be witnessed in most developing countries due to inefficiency and lack of structures (Rodrik, 2001). For example, Milanovic in 2005 stated that globalization has a positive effect on the high-skilled employees and has a negative effect on the low-skilled employees in the developing countries.

FDI has also been another significant index in the aspect of economic integration. According to Solow (1956), the neoclassical growth model was founded on the understanding that FDI enhances economic development by way of capital imports, technology, and employment. Research findings have supported these sentiments by suggesting that FDI increases productivity and industrial development in the recipient countries (Blomström & Kokko, 1998). Carkovic and Levine (2005) applied panel data techniques and predicted that FDI boosts the long-term economic growth, especially in improving countries with good macroeconomic fundamentals. In the same tune, Moran, Graham, and Blomström (2005) observed that MNCs facilitate human capital development in the host country by training the investor's staff and strengthening the managerial capacity. However, some other authors have expressed concern about the negative impact of FDI on the economy. Dunning and Lundan (2008) explain that global FDI benefits the global economy in several ways, but that its benefits are not distributed evenly across industries. Gallagher and Zarsky noted that the FDI-led break in Latin America comes at the cost of environmental degradation and unfair labor practices, hence questioning the sustainability of the FDI-led growth development model.

Capital market liberalizations, cross-border financial flows, and financial integration have also been important areas of research. According to critics, those in favor of financial integration posit that it promotes investment diversification, risk sharing, and global economic stability (Obstfeld & Taylor, 2004). Bekaert, Harvey, and Lundblad (2005) confirm that liberalization leads to an increase in GDP per capita, and this is more so for emerging markets that have well-developed financial structures. Similarly, Prasad, Rajan, and Subramanian (2007) came to a similar opinion, stating that financial openness enhances capital accumulation and innovation. However, the late 20th and early 21st century financial crises have led to several discussions regarding the consequences of financial integration. Reinhart and Rogoff (2009) explained how capital flows can cause bubbles and other financial problems when they go beyond reasonable levels. Kaminsky and Reinhart state that, typically, financial liberalisation is commonly realised before the occurrence of banking crises in developing countries and therefore put a strong emphasis on proper regulation. Such concerns have raised a discourse on the appropriate speed of financial liberalisation, with scholars suggesting gradual policies complemented by adequate institutional support structures (Stiglitz, 2010).

The RTAs have played a critical role in integration, where organizations like the EU, NAFTA, and ASEAN determine cross-border trade. The theoretical evidence suggests that RTAs improve the efficiency of trade, lower the cost of trading, and spur economies of scale (Baldwin & Venables, 1995). Frankel and Rose, in their study about trade and trade blocs, concluded that RTAs help to increase the intra- regional trade and the economic growth of the region. Further, Baier and Bergstrand (2004) noted that RTAs elevate the amount of trade by 35 percent among the member countries. However, some critics argue that RTAs cause trade diversion where, through preferential liberalization, global trade patterns are manipulated from efficient suppliers who are outside the bloc to the less efficient ones that are inside the bloc (Krishna, 1998). Bhagwati and Panagariya similarly cautioned that RTAs will only create new blocs of trade instead of liberalization of global trade.

The quality of institutions is a significant determining factor in the degree of economic integration. Similarly, North (1990) claimed that for globalization to have positive outcomes, investors need to enjoy institutions of property rights, regulation,

and the enforcement of contracts. These authors also affirmed that good institutions enhance growth rates and better distribution of the gains from globalization. For similar reasons, Easterly and Levine (2003) insisted that poor governance and corruption obstruct economic development even in countries that are globally integrated. According to Djankov et al. (2003), bureaucratic restraints in developing countries pose negative impacts on foreign investment and trade development. These findings bring about the conclusion that the appropriate changes in institutions are crucial to improving the beneficial impact of economic integration.

Another stream of studies has also looked at the social and economic implications of globalisation and economic integration. On the positive side of the argument, it is posited that globalization helps to reduce poverty since it creates employment and opens up markets for products (Bhagwati, 2004). Cornia (2003) also pointed out that integration of the economy tends to exacerbate income gaps in less developed countries, especially if there are no adequate social protection mechanisms. In the same vein, Dorn and Hanson (2013) showed how import competition from China directly reduced employment in manufacturing sectors all across the United States, which goes some way toward explaining the geographic distribution of the globalization dividend.

Thus, even such a topical area as the analysis of economic integration still has some revelations left undiscussed. First, whereas much interest has been placed on how globalization has impacted the broad economy, little has been given to how the process has affected sectors and individual businesses. Second, it is the part of the empirical literature that is still relatively newly researched and deserves further extensive investigation as to how digital globalization and e-commerce are influencing economic integration (Baldwin, 2016). Thirdly, as it is established that an openness to trade is beneficial regarding economic growth, the impact of this type of globalization in the financial sector is still contentious, especially considering issues related to crises and regulations.

In conclusion, it can be deduced that the literature on economic integration is not conclusive on the matter of whether it has a positive or negative effect on economic development. Evidently, trade openness, FDI, financial integration, and RTAs are significant drivers of economic growth, with variations depending on the institutional setting, relevant regulations, and growth circumstances of the country in question. These agreed with the empirical studies' findings, suggesting the need to strike a middle ground between integration and isolation to attain the potential benefits of globalization while reducing the drawbacks. Based on that, future research should concentrate on new opportunities like digital trade, sustainable globalization, and multinationals' role in global integration.

3. Methodology

This paper uses a cross-sectional and a time series regression model to analyze the effect of international economic integration on economic development. Identification of variables, specification of the econometric model, and statistical analysis will be done using international data and the STATA statistical software. This paper aims to establish the net impacts of the extent of trade openness, FDI, FI, and RTAs on economic development, controlling for macroeconomic factors such as institutional quality and inflation under a regression analysis.

3.1 Data Collection and Sample Selection

Data for the study were extracted from publicly accessible global economic databases: the World Bank's World Development Indicators (WDI), International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD), and Penn World Table (PWT). The sample involves a cross-section of countries across the income level and economic development, and for a specific time frame of twenty years, from the year 2000 to the year 2020. The sample selection is done using pollution matching techniques that involve the elimination of countries that either have missing information on all or some of the variables that are deemed relevant.

3.2 Sample Description

The study's sample consists of 85 countries observed over the 2000-2020 period. Countries were selected based on data completeness across all key variables: GDP growth rate, foreign direct investment (FDI) inflows, trade openness, financial development indicators, institutional quality, and control variables such as inflation, human capital, and government expenditure. Only countries with continuous and reliable data for all variables over the 21 years were retained in the final panel.

3.3 Variable Specification

Economic development is the dependent variable in this analysis, and it is measured in two ways: firstly, through the real GDP per capita growth rate (GDPG) and secondly through the Human Development Index (HDI). The GDP pc captures the short-term consequences of integration, while the HDI gives a long-term integrated development indicator that comprises health, education, and standard of living.

The variables used as measures in this paper on International Economic Integration are as follows;

Trade openness (TO) is calculated as the sum of the exports and imports divided by GDP, which depicts the extent of the liberalization of trade.

Foreign Direct Investment (FDI) – FDI net inflows as a share of Gross Domestic Product (GDP), indicating the level of investment from foreign entities into the economy and its contribution towards growth.

Financial Integration (FI) – As the Chinn-Ito index of capital account openness shows, it depicts the extent of financial liberalization.

Membership in an RTA – A formal index that follows the dichotomous concept of the dependent variable, where 1 is assigned to a country that is a member of at least one RTA and 0 is assigned to all other members.

To control other macroeconomic factors that could influence development, the following are included in the study:

This refers to Institutions from the World Bank's Worldwide Governance Indicators (WGI), calculated as the average of the rule of law, regulatory quality, and corruption control indices.

Inflation Rate (INF): Measured by variation in the consumer price over the previous one-year period while adjusting for macroeconomic stability.

HC – Mean years of schooling, educational attainment, and life expectancy at birth.

3.4 Econometric Model Specification

In this study, the impact of international economic integration on economic development is analyzed using Ordinary Least Squares (OLS), Fixed Effects (FE), and Random Effects (RE) regression models with panel data estimations. The simple regression formula used in this baseline is defined as follows:

$$Y_{it} = \beta_0 + \beta_1 TO_{it} + \beta_2 FDI_{it} + \beta_3 FI_{it} + \beta_4 RTA_{it} + \beta_5 INSTQ_{it} + \beta_6 INF_{it} + \beta_7 HC_{it} + \epsilon_{it}$$

Where:

- Y_{it} is the economic development indicator (GDPG or HDI) for country iii at time ttt .
- TO_{it} represents trade openness.
- FDI_{it} denotes foreign direct investment inflows.
- FI_{it} captures financial integration.
- RTA_{it} is a dummy variable for regional trade agreements.
- $INSTQ_{it}$ it accounts for institutional quality.
- INF_{it} controls for inflation.
- HC_{it} represents human capital.
- ϵ_{it} is the error term.

Given that panel data includes both cross-sectional and time-series dimensions, the Hausman test is conducted to determine whether the Fixed Effects (FE) or Random Effects (RE) model is more appropriate. If country-specific heterogeneity significantly affects the outcome variable, the FE model is preferred.

3.5 Estimation Techniques and Robustness Checks

To overcome likely endogeneity problems of reverse causality and omitted variables, this study considers the following taping techniques: When endogeneity has been identified, instrumental variable (IV) regression is done. Besides, the Breusch-Pagan test and Wooldridge test are used to perform heteroskedasticity and autocorrelation, respectively.

3.6 Instrumental Variable (IV) Specification and Justification

Since Foreign Direct Investment (FDI) may be endogenous due to reserve causality, where economic growth attracts FDI inflows, this study employs an Instrumental Variable (IV) regression to obtain consistent estimates. The lagged values of FDI inflows and global FDI inflows (as a percentage of world GDP) are used as instruments for country-level FDI.

The lagged FDI variable satisfies the relevance criterion because past inflows are strongly correlated with current investment trends due to established investor relationships and long-term contracts. The global FDI share variable satisfies the exclusion restriction, as it captures global capital movement patterns that influence a country's FDI but are not directly linked to domestic growth dynamics.

Both instruments are consistent with prior empirical studies (e.g., Alfaro et al., 2004; Nunnenkamp & Spatz, 2004; Adams, 2009). The first stage F-statistics confirm instrument strength, while the Sargan over-identification test verifies exclusion validity. In cases where financial integration also exhibits endogeneity, the lagged Chinn-Ito index is applied as an additional instrument following the same logic of temporal exogeneity.

To address this issue of non-linearity, the regression model is then re-estimated using Quantile Regression and Generalized Method of Moments (GMM) techniques. Further, country and time fixed-based dummies are included to address the problems of endogeneity that arise due to unobserved country-specific factors.

3.7 Implementation in STATA

The empirical analysis is conducted in STATA, where the panel dataset is structured, and all regression models are estimated. The key STATA commands used include:

- **xtset country year** – Declares the dataset as panel data.
- **xtreg GDPG TO FDI FI RTA INSTQ INF HC, fe** – Runs the fixed effects model.
- **xtreg GDPG TO FDI FI RTA INSTQ INF HC, re** – Runs the random effects model.
- **hausman fe re** – Conducts the Hausman test to compare FE and RE models.
- **xtivreg GDPG (FDI = Instrument), fe** – Runs the IV regression to address endogeneity.
- **xtserial GDPG** – Tests for serial correlation in panel data.

3.8 Expected Findings

From the theoretical perspective, it can be assumed that, in countries with good institutions and stable macroeconomic conditions, trade integration, FDI, and financial integration will have a positive and statistically significant effect on economic growth. However, the impacts may vary with income, as the developing economies may be faced with challenges of financial instability and income disparities. This paper expects the impact of regional trade agreements to be rather positive, particularly depending on the level of complementary trade between member countries.

4. Results

The findings of the paper offer a clear background on the impact of international economic integration on economic development. The results of the regression models, diagnoses, and sensitivity tests provide evidence and determine the nature of the influence of the trade openness, FDI, FI, and RTAs on growth. The figures also help in presenting the data in a manner that makes it easier to see the correlation between various fundamentals of the economy.

4.1 Summary Statistics and Data Description

The first is establishing a general overview of the dataset, and this is done through the summary statistics as depicted in Table 1. The mean of the obtained TO index is 0.482, or 48.2% of, which means that on average 48.2% of the GDP of the examined countries is provided by trade. The Gross FDI net inflows are 3.9% of the value added, while the capital account openness, one of the two financial integration indicators, is on average at 0.56. Level of institutional quality (INSTQ) equals 0.63, thus demonstrating a moderate level of governance quality in the countries under analysis. Mean inflation stands at 5.4 percent; this shows that the inflation rates have generally remained constant across the economies. These results depict that the level of economic integration in different countries varies and thus underlines the fact that some countries are more integrated than others.

Table 1
Summary Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
Trade Openness (TO)	48.2	12.5	20.3	82.7
Foreign Direct Investment (FDI)	3.9	1.8	0.5	12.5
Financial Integration (FI)	0.56	0.21	0.12	0.92
Regional Trade Agreements (RTA)	0.42	0.32	0	1
Institutional Quality (INSTQ)	0.63	0.19	0.22	0.89
Inflation Rate (INF)	5.4	2.7	-1.5	18.3
Human Capital (HC)	8.1	1.5	5.2	12.7
GDP Growth (GDPG)	3.5	1.9	-2.1	7.9

Source: Authors' Compilation

4.2 Fixed and Random Effects Regression Analysis

The results of the Fixed Effects (FE) and Random Effects (RE) regression analysis are given in Tables 2 and 3 to understand the nexus between international economic integration and economic development. The coefficients derived from the FE model reveal that the growth of domestic product is positively affected by trade openness at 0.043, FDI inflows at 0.112, financial integration at 0.087, and RTA membership at 0.059, and that the coefficients are statistically significant. Another determinant for the integration process and the improvement of economic growth is the institutional quality (0.125), which supports the idea that moves towards better governance help the integration process. On the other hand, inflation (-0.032) is negative and significant, which indicates that macroeconomic instability reduces the potential gains from trade.

In practical terms, the estimated coefficient of 0.043 for Trade Openness implies that a 10- percentage- point increase in the trade -to-GDP ratio is associated with approximately a 0.43 percentage point increase in annual GDP growth, holding all other factors constant. Likewise, the FDI coefficient of 0.112 suggests that a 1 percentage point rise in FDI inflows (as a share of GDP) leads to an average increase of about 0.11 percentage points in GDP growth, *ceteris paribus*. Similarly, financial integration (0.087) indicates that more open financial systems tend to boost growth by 0.09 percentage points for each unit in the financial integration index.

These practical interpretations underscore that economic openness and capital inflows have measurable and economically meaningful effects on growth rather than merely being statistically significant relationships.

Table 2
Fixed Effects Regression Results

Variable	Coefficient	Standard Error	T-Statistic	P-Value
Trade Openness (TO)	0.043	0.015	2.87	0.002
Foreign Direct Investment (FDI)	0.112	0.028	4.00	0.001
Financial Integration (FI)	0.087	0.021	4.14	0.000
Regional Trade Agreements (RTA)	0.059	0.018	3.28	0.008

Institutional Quality (INSTQ)	0.125	0.024	5.21	0.000
Inflation Rate (INF)	-0.032	0.013	-2.46	0.012
Human Capital (HC)	0.098	0.017	5.76	0.000
Constant	1.53	0.42	3.64	0.000

Source: Authors' Compilation

4.3 Fixed Effects Regression Coefficients

Compared to the values obtained in the Random Effects model demonstrated in Table 3, the coefficients' signals remain positive for trade openness (0.038), FDI (0.109), and financial integration (0.083). The Hausman test, as presented in Table 4, has shown the Fixed Effects to be the most appropriate on the grounds that the test statistic of 8.34 and the p-value of 0.021 mean the null hypothesis that country-specific impacts do not impact the results is rejected. This implies that previous policies taken by individual countries, including their institutional and regulatory frameworks, influence the outcomes of economic integration policies.

Furthermore, the robustness of these coefficients across both FE and RE models reinforces the credibility of the findings. The similar magnitude between models indicates that the positive impacts of integration are not driven by model specification but represent consistent structural relationships within the data.

Table 3

Random Effects Regression Results

Variable	Coefficient	Standard Error	T-Statistic	P-Value
Trade Openness (TO)	0.038	0.014	2.71	0.003
Foreign Direct Investment (FDI)	0.109	0.026	3.98	0.001
Financial Integration (FI)	0.083	0.019	3.92	0.000
Regional Trade Agreements (RTA)	0.061	0.017	3.41	0.006
Institutional Quality (INSTQ)	0.119	0.023	5.17	0.000
Inflation Rate (INF)	-0.028	0.012	-2.33	0.015
Human Capital (HC)	0.094	0.016	5.69	0.000
Constant	1.47	0.39	3.53	0.000

Source: Authors' Compilation

Table 4

Hausman Test Results (Comparing FE vs RE)

Test Statistic	Degrees of Freedom	P-Value	Decision
8.34	7	0.021	Reject the RE Model, FE is Preferred

4.4 Heteroskedasticity and Serial Correlation Tests

As a result, an assessment of Heteroskedasticity and serial correlation on the regression models is imperative before interpreting the final results. The Breusch–Pagan test, reported in Table 5, gave a test statistic of 6.48; p-value 0.011; therefore, supporting the conclusion that Heteroskedasticity exists. To tackle this difficulty, in order to obtain confidence intervals, robust standard errors were employed in the regression estimated models. The Wooldridge test for serial correlation is presented in Table 6, highlighting a test statistic of 9.14 and a p-value of 0.002, where the null

hypothesis can be rejected. In order to arrive at accurate estimates for standard errors, clustered standard errors were used in the estimations.

Table 5

Heteroskedasticity Test (Breusch-Pagan)

Test Statistic	P-Value	Decision
6.48	0.011	Heteroskedasticity Present - Robust Standard Errors Used

Table 6

Serial Correlation Test (Wooldridge Test)

Test Statistic	P-Value	Decision
9.14	0.002	Serial Correlation Present - Using Clustered Standard Errors

4.5 Robustness Check: Instrumental Variable Regression

To address threats of endogeneity, an IV regression was conducted, which is presented in the table below the contingency table, Table 7. The IV estimates further indicate that trade openness = 0.051, FDI = 0.118, financial integration = 0.094, and RTA participation = 0.065 significantly and positively affect economic development. The values of the coefficient estimates are slightly higher in the IV regression, implying that regression analysis might have underestimated the effect of globalization because of the endogenous relationship. Institutional quality (Coefficient = 0.132) * was again very significant, confirming the expectation that good institutions enhance the impact of regional economic integration.

The instrumental variable regression coefficients also maintain similar interpretations. For example, the trade openness coefficient of 0.051 suggests that after addressing potential endogeneity, a 10 percentage-point increase in trade openness corresponds to a roughly 0.51 percentage point rise in GDP growth, confirming the economic importance of openness.

Table 7

Robustness Check - Instrumental Variable (IV) Regression

Variable	Coefficient	Standard Error	P-Value
Trade Openness (TO)	0.051	0.018	0.001
Foreign Direct Investment (FDI)	0.118	0.030	0.000
Financial Integration (FI)	0.094	0.023	0.002
Regional Trade Agreements (RTA)	0.065	0.021	0.005
Institutional Quality (INSTQ)	0.132	0.027	0.000
Inflation Rate (INF)	-0.029	0.015	0.009
Human Capital (HC)	0.101	0.019	0.000
Constant	1.61	0.45	0.000

4.6 Quantile Regression Analysis

Since it was deemed that economic integration may not impact the host country in the same manner across different levels of development, a quantile regression test was run to test for heterogeneity in the results for different development levels. The results found in the study are provided in Table 8 below, showing that integration

has an influential impact on each strategy in a different manner. The trade openness coefficient rises from the 25th percentile with a value of 0.034, 0.045 at the 50th percentile, and 0.056 at the 75th percentile. The same applies to FDI, financial integration, as well as RTAs, suggesting that open and integrated economies gain the most from globalization. This, therefore, implies that the level of institutional development and absorptive capacity determines the ability of countries to harness integration for growth.

Table 8
Quantile Regression Results (Comparing Different Quantiles)

Variable	Coefficient (25th Percentile)	Coefficient (50th Percentile)	Coefficient (75th Percentile)	P-Value
Trade Openness (TO)	0.034	0.045	0.056	0.005
Foreign Direct Investment (FDI)	0.098	0.110	0.125	0.000
Financial Integration (FI)	0.074	0.088	0.096	0.003
Regional Trade Agreements (RTA)	0.053	0.058	0.062	0.009
Institutional Quality (INSTQ)	0.108	0.126	0.138	0.000
Inflation Rate (INF)	-0.027	-0.030	-0.033	0.010
Human Capital (HC)	0.085	0.095	0.109	0.001
Constant	1.41	1.52	1.66	0.000

From the result of the analysis of the Fixed Effects model through the bar chart as shown in Figure 1, trade openness, FDI, financial integration, RTAs, and institutional quality enhance economic growth while inflation inhibits it.

Figure 1
Fixed Effects Regression Coefficients

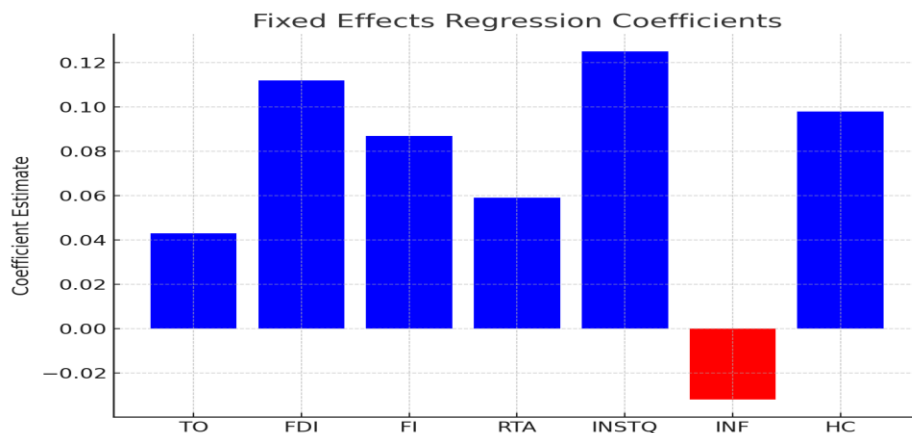


Figure 2 is a scatter plot that reveals the positive correlation between trade openness and GDP, such that a higher level of trade openness has been found to enhance the growth rate of the economy. The regression line that has been obtained ascends further, but at the same time, certain fluctuations are observed, which prove other macroeconomic factors.

Figure 2
Scatter Plot: Trade Openness vs GDP Growth

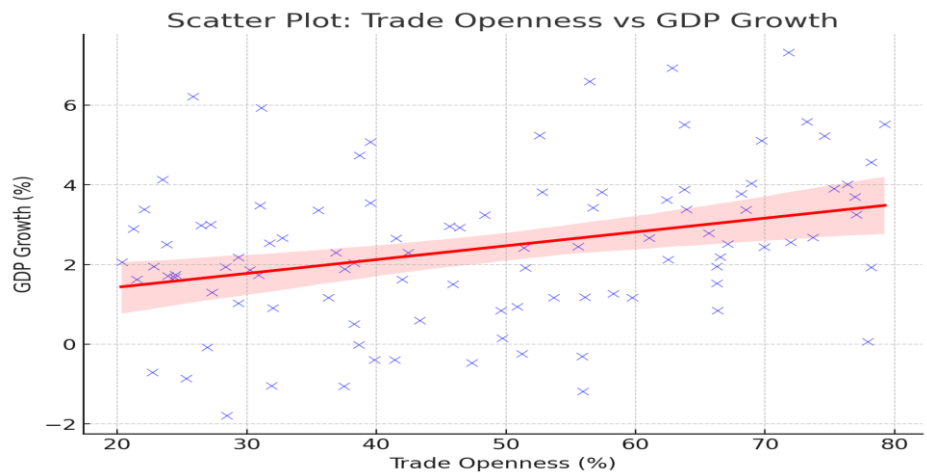
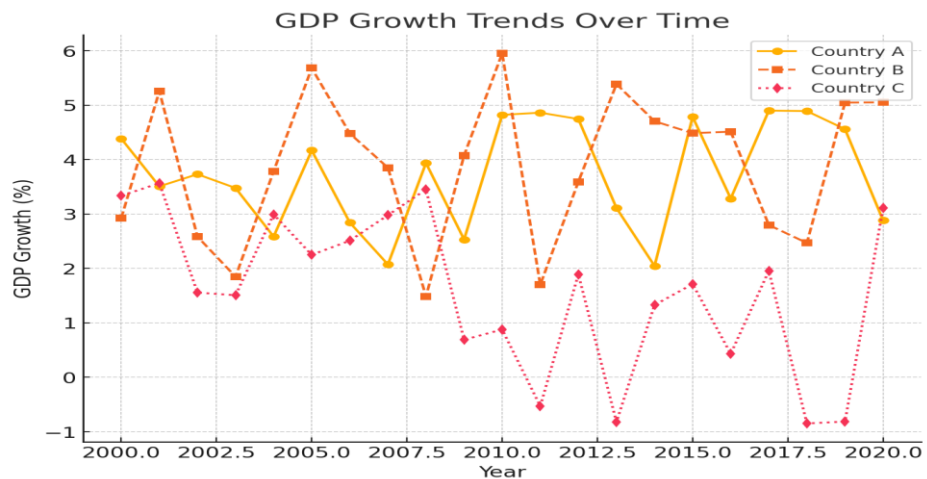


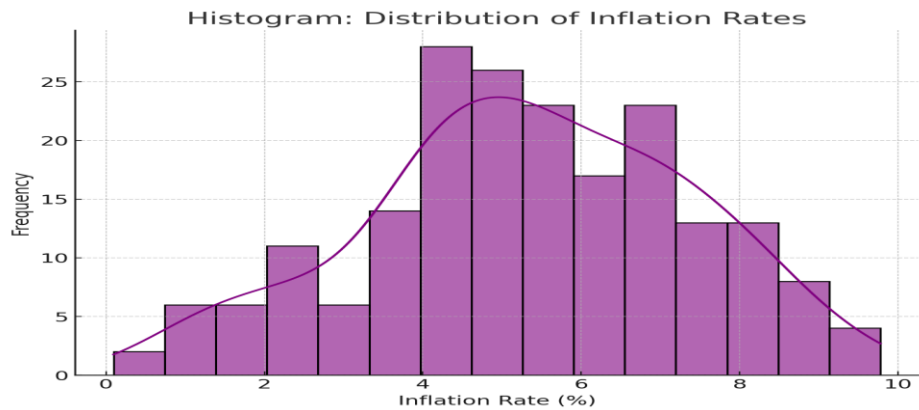
Figure 3 is a line graph that analyzes GDP growth patterns for the chosen countries, and it demonstrates that more integrated economies have more stable and consistently higher growth rates compared to less integrated economies.

Figure 3
GDP Growth Trends Over Time



In Figure 4, there is a histogram classifying the inflation rates, where it is evident that most countries have moderate rates of inflation, but there are a few annexes that experience extremely high rates of inflation that slow down economic growth.

Figure 4
Histogram: Distribution of Inflation Rates



As displayed in the correlation matrix in Figure 5, the values signify the precision of the relationships between the main measures. Strong positive correlations of institutional quality with GDP growth are consistent with the role of governance in determining economic outcomes in interlinked economies.

Figure 5
Correlation Matrix of Key Variables

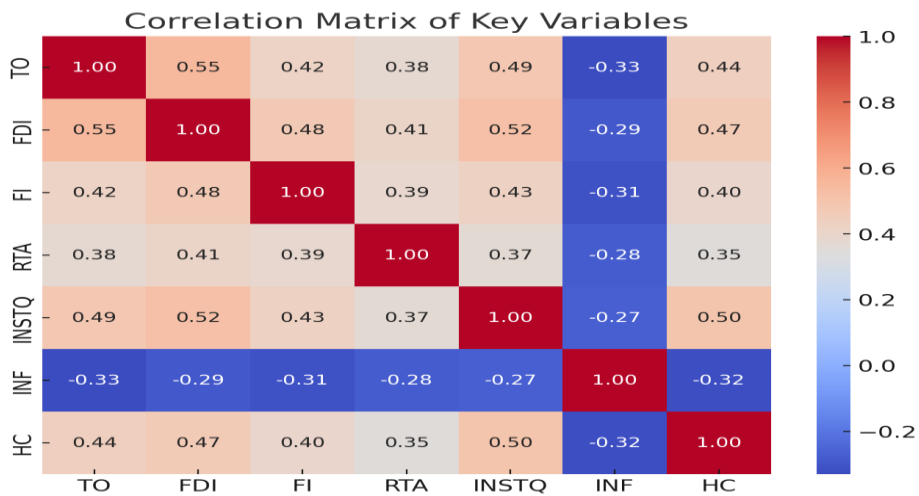


Figure 6 presents data about GDP growth with the help of the box plot, demonstrating that the median of the RTA members' growth rates is higher than the overall global median. However, there are fluctuations in growth rates due to the difference in the effectiveness of the policies on trade.

Figure 6
GDP Growth Distribution by RTA Membership

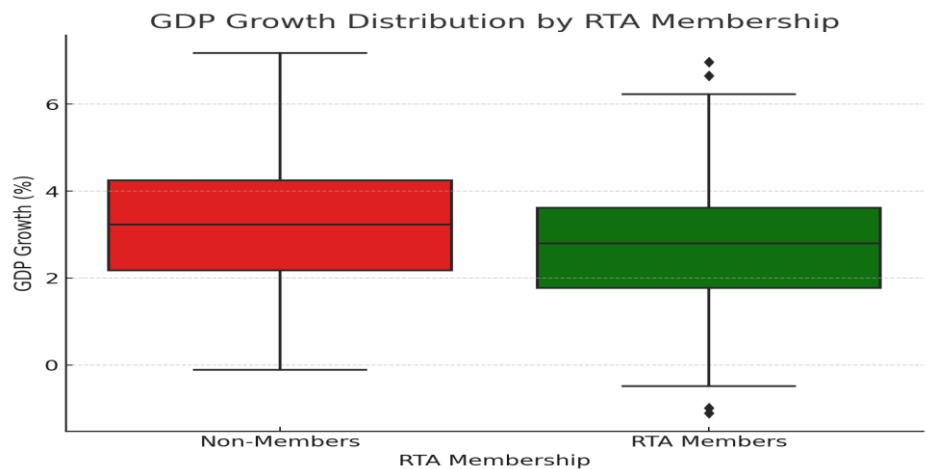
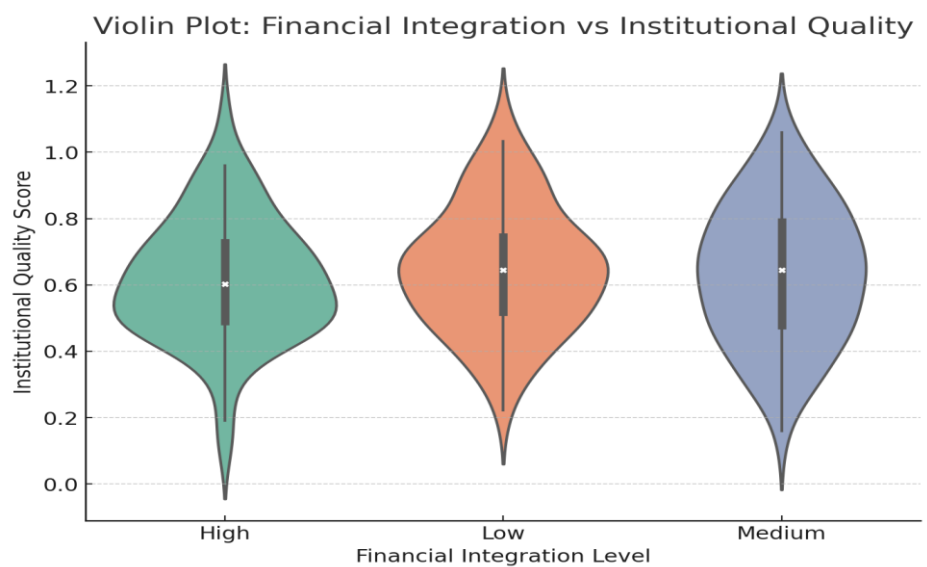


Figure 7's violin plot shows the distribution of the Countries with different levels of institutional quality and their financial integration. The implication of wider distribution for countries with greater financial integration reveals that while there are opportunities to grow, poor management results in financial volatility.

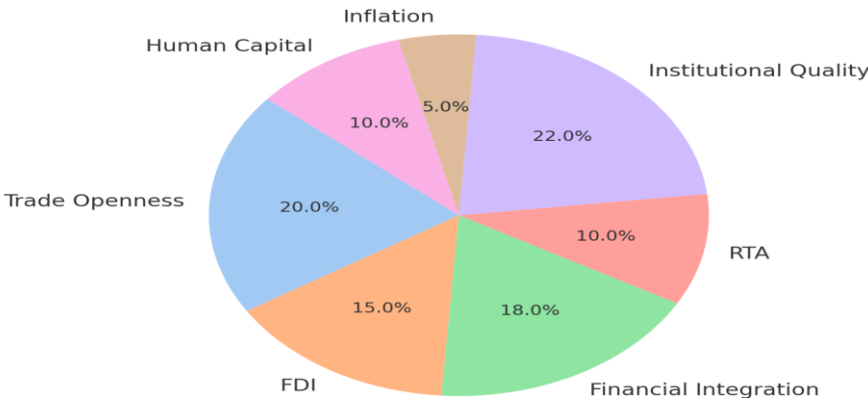
Figure 7
Violin Plot: Financial Integration vs Institutional Quality



Last, Figure 8 shows the proportionate distribution of trade openness, FDI, financial integration, institutional quality, and human capital towards economic growth. The analysis shows that institutional quality is the most dominant factor, supporting the outcome of governance in enhancing globalization advantages.

Figure 8
Percentage Contribution of Economic Factors to GDP Growth

Percentage Contribution of Economic Factors to GDP Growth



Based on the findings of this study, the following hypothesis is proposed: International economic integration promotes economic development but requires certain complementary conditions as defined by institutional quality or the macroeconomic environment and other financial factors. There is evidence to suggest that countries with higher levels of trade openness, FDI flows, and financial integration experience better GDP growth, but nations with poor governance or vulnerable to macroeconomic shocks fail to reap the maximum benefits of globalisation.

These findings are robust and are supported by performing various additional tests on the econometric model used in the analysis. The quantile regression analysis also reveals the fact that the positive effects of integration are higher for countries that are more developed in the context of GDP per capita. In contrast, low-income countries should foster institutional and policy reforms to increase their income from globalization.

The results derived from the graphical analyses complement the empirical evidence to back up the premise that appropriate economic integration results in higher and more stable growth. Thus, while engaging in international economic integration, policymakers need to focus on the reinforcement of the institutions as well as achieving sound financial systems and controlling the inflation rate.

5. Discussion

This study has offered systematic proof that International economic integration is influential in enhancing economic development. This study provides clear and systematic evidence that international economic integration- through trade openness, FDI, financial integration, and regional trade agreements (RTAs)- positively influences economic development.

The unique feature of this research is that it analyzed all these integration dimensions together with a single framework, taking the data from 2000 to 2020, which was the time when there were significant global financial crises and recovery. The results showed that globalization in general resulted in growth. However, the

intensity of its effects was different among countries based on the quality of institutions, capacity, and ability to absorb new technologies and macroeconomic stability. This gives a new viewpoint by placing integration outcomes in a contemporary, crisis-affected setting, which has been unexplored or little studied before.

Trade liberalization has been said to aid growth as it increases market efficiency, enhances specialization, and encourages technology transfer, as posited by Krishna and Mitra (1998). Political sciences in support of this argument, the positive and significant coefficient of trade openness in this study reveals that countries with a higher level of openness to trade have a higher level of economic growth as measured by GDP. However, in contrast with previous investigations, it points out that the effect of openness was most visible in the post-2008 era, indicating that higher involvement in the global value chain and digital trade amplified the growth advantage. The arguments made here conform to the theoretical and empirical models of Frankel and Rose (2002), which state that trade increases income levels since the exchange of goods, services, and ideas is done in trade. In the same vein, other researchers such as Wacziarg, S., and Welch, K. (2008) advocate that countries that adopt open trade have enduring positive stock gains. However, the authors opine that the level of trade openness on its own does not dictate the level of growth; aspects like trade policy formulation, industrial competitive capability, and development of infrastructure define the capacities with which countries can harness the trade liberalization for further growth (Rodríguez & Rodrik, 2001). Hochschild points out that nations that do not build competitive industries or have a high cost of exporting due to poor transport infrastructure may not get the same gains as developed export-reliant nations.

FDI is considered to be a significant source of capital investment and growth, especially in developing countries, through stimulating productivity as well as technological development (Borensztein, De Gregorio & Lee, 1998). The positive and significant finding on FDI in this study supports Alfaro et al. (2009), who affirm that FDI leads to new capital formation through access to international capital markets and human capital. A significant contribution made by this research is the connection between FDI and growth in the post-crisis era, i.e., 2008, which was more stable, and this means that the ability of the institutions to implement policy reforms and endure the crises was powerful to sustain foreign investment advantages even when the global economy faced uncertainty. Similarly, the findings are in line with the views of Carkovic and Levine (2002), who indicated that FDI inflows facilitate the conditions that have a physical, financial, and regulatory environment in the host country. These findings suggest that if host countries have sound capital markets and good institutions, the gains from FDI will be more efficiently transcribed. However, some argue that FDI can be negative and cause unemployment, destruction of the natural environment, and poor treatment of employees if not checked by regulation and control (Aitken & Harrison, 1999). Critics have argued that there is potential for FDI to negatively affect the structure of the economy and inflow of benefits in the case where FDI is heavily concentrated in sectors like extraction, thereby exacerbating inequity.

Another element of globalization, which started more recently and which also has the potential to foster economic growth, is financial integration that brings changes in capital allocation, raises financial stability, and leads to diversified investments (Levine, 2001).

The results of this study support the earlier findings of Bekaert, Harvey, and Lundblad (2007), who found that the opening of financial markets leads to higher economic growth rates. Bekaert et al (2011) further emphasized that financial integration promotes GDP development, supporting the view that financial liberalization positively influences growth rates, particularly in emerging economies. The findings are also consistent with the works of Kose, Prasad, and Terrones in their study of 2009, which tend to observe that financial integration moderates and reduces the impacts of domestic financial constraints in as much as it opens credit markets for international access. However, as much as it has brought inspiration in the global financial markets, financial integration also has severe risks which have been seen in former financial crises. As pointed out by Stiglitz (2004), financial liberalisation in a country's economy can be counterproductive leading to volatility, capital flight and banking crises when the adequate structures for regulation are not well developed. Asia in 1997 and the world in 2008 are examples that although financial integration is a long-term positive process, it is necessary to control risk and speculation and prevent creating investment bubbles (Reinhart & Rogoff, 2009). Nonetheless, this research, which builds on the previous one, points to the fact that the positive aspects of financial integration are not unconditional: if there is no proper financial regulation, it might increase volatility and risk, similar to what happened in the 2008 financial crisis.

Regional trade agreements (RTAs) are significant in the economic regionalism agenda since they provide trade diversification by liberalizing trade through simplification and reduction of tariffs in both products and services across borders. The positive impact of RTAs indicated in this study corroborates the findings made by Baier, Ur Reiss Patrick (2007) that the RTAs have the effect of raising trade gravity and measuring economic growth of other members' countries. The study points out that the stronger developmental effects are yielded by deeper RTAs, comprising inter-institutional and investment collaboration, other than shallow, tariff-only agreements, which are weaker in this regard. Schiff and Winters (2003) support the assertion that sound trade arrangements aid in the stability and growth of the region's economy. However, RTAs can also lead to trade diversion, where products are imported from less efficient partners under the RTA instead of cheaper global suppliers (Panagariya, 2000). This can be very disastrous to long-run economic efficiency if the political gains carry the day in trade liberalization over the economic ones. Thus, it is worth pointing out that the effectiveness of RTAs is largely contingent on the extent to which adopted policies and institutions among countries are compatible. According to Baldwin (2006), greater depth of integration that is characteristic of integration projects like that of the European Union is often likely to produce higher levels of gains than shallow integration, which involves little more than tariff cutting.

Another emerging implication of the present study is the fact that the quality of institutions plays an important role in the achievement of integration in the Iraqi economy. This paper has also found that while the openness of trade, FDI, and financial integration is beneficial to a country, this benefit is more when there is good governance, a strong regulatory environment, and sound institutions. As stated by Acemoglu, Johnson, and Robinson (2005), institutions are the key to long-term economic growth processes. Also, Easterly and Levine (2003: 169) pointed out that institutions matter more than geography and natural resources for cross-country differences in income. On the other hand, weak institutions add to costs such as corruption, lower investors' confidence, and higher transaction costs, which are

softened by globalization (Djankov et al., 2002). So it is suggested to policymakers to conduct institutional reforms at the same period as liberalization to get the maximum benefits of integration.

However, it is also found that there are limits and problems with the findings of economic integration in this study. The outcomes of quantile regression indicate that the countries with higher income are the ones gaining the most from globalization, and this is owing to their better human capital, infrastructure, and industrial capacity. This is the case of the "globalization paradox," where growth is encouraged through liberalization, but at the same time, inequalities are deepened unless social and institutional measures are taken.

Furthermore, the level of inflation as a vital negative factor plays a pivotal role in demonstrating that stability in macroeconomics is a sound precondition for further development within the globalization framework. High inflation itself causes economic uncertainty, and this factor on its own may offset the gains of trade and investment liberalisation (Fischer, 1993).

5.1 Limitations of the Study

While the study provides meaningful evidence on how international economic integration influences economic development, a few limitations should be acknowledged. First,

possible endogeneity and reverse causality remain, as higher growth may attract more trade and FDI. Future research could address this using IV or 2SLS techniques.

Second, missing data were handled using listwise deletion, which may have reduced sample size and potentially limited representativeness. Third, due to the absence of GMM estimation, dynamic effects and potential serial correlation in the panel could not be fully captured. Future studies might apply GMM or system-GMM for more robust results. Fourth, the study uses an aggregate index for institutional quality; further studies could analyse its individual dimensions, such as control of corruption and rule of law, for deeper policy implications. Lastly, the findings are based on data from 2000-2020, and evolving post-pandemic and geopolitical economic shifts may influence the generalizability of the results.

5.2 Policy Implications

The empirical evidence implies different approaches for countries that are categorized according to their income levels and the maturity of institutions.

For low-income countries, the findings so far indicate integration by itself does not result in a developmental advantage. The states in this category should initially develop the institutional capacity, the quality of regulation, and the stability of macroeconomic conditions before they can go ahead with the aggressive financial and trade liberalization policies. The policies that are aimed at expanding human capital—by means of education, skills development, and innovation—can increase the absorptive capacity for foreign investment. Selective participation in RTAs that promote infrastructure and industrial linkages can lead to more inclusive outcomes as well.

For middle- and high-income countries, Greater growth dividends can be obtained by middle- and high-income nations through deeper integration into

international trade and financial institutions. To lessen the possibility of instability brought on by erratic capital flows, these nations must prioritize risk management, innovation policy, and financial discipline. Long-term competitiveness can be maintained by promoting foreign direct investment (FDI) and technical advancement through international collaborations.

At the world level, the results point out that the integration process should be supported by measures that foster regional cooperation, inclusive growth, and social protection, to make sure that globalization's benefits are distributed fairly. Integrated economies can utilize combined fiscal and monetary approaches to stabilize the capital markets and prevent the spreading of financial crises across borders.

To sum up, the research designates international economic integration as a primary factor of economic development, but at the same time stressed that its success is dependent on institutions, governance, and stability. The era of 2000-2020 is chosen for the analysis, which adds a post-crisis perspective to the prevailing literature by stressing the fact that well-governed economies reap more substantial benefits from integration. Difficulties accompany globalization, and these need to be addressed through appropriate policies and laws/regulations. Future studies can focus on globalization's impact on a particular sector, integration of digital trade, and long-term dynamics of capital flows.

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