Economic Globalization and Governance: The Role of Social Globalization

Nabamita Dutta and Deepraj Mukherjee

Abstract

Recent decades have experienced a marked acceleration in the process of globalization. This remarkable proliferation in globalization has been associated with significant consequences felt in economic, social and political well-being around the globe. In this context, this paper analyzes the role of economic globalization in improving different governance issues that are of particular importance for developing nations. We contribute to the literature by exploring the role of economic globalization, comprising of different aspects of internationalization like trade openness, FDI inflows, and portfolio investments, in affecting different dimensions of governance. While a large part of globalization implies greater trade and FDI inflows, it also implies integration of culture, ideas and vision. Keeping this in mind, we delve into the role of a different aspect of globalization where emergence of neo transnational capital played a pivotal role in changing different social mindsets across the world into a more cosmopolitan one (social globalization). In particular we analyze if social globalization acts as a moderator in the relationship between economic globalization and governance. Thus, our contributions in the paper are twofold. First our results show that economic globalization enhances most indicators of governance like rule of law, government effectiveness, reducing corruption, regulatory quality and voice and accountability. Second, our results importantly show that indeed social globalization acts as a moderator. The estimated marginal impacts show that countries with low levels of social globalization, fail to benefit from economic globalization. Yet, this impact is enhanced for countries with higher levels of social globalization.

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Corresponding Author; Department of Economics, College of Business Administration
University of Wisconsin, La Crosse; Email: ndutta@uwlax.edu
Department of Economics, Kent State University; Email: dmukherj@kent.edu

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1. Introduction

The need for good governance has been stressed enough in the context of growth, investment, entrepreneurship and poverty alleviation (see, for example, Klapper et al., 2010; Busse and Hefeker, 2007; Fogel, Hawk, Morck, and Yeung , 2006; Kaufmann et.al., 1999; Brunetti, Kisunko, and Weder, 1998; Knack and Keefer, 1995, to mention a few). Thus, it is important to study what factors can lead to better governance? Although the impact of governance on various development outcomes has been extensively researched, factors that can lead to a better governance have not been adequately studied in the literature. In this context, a strand of literature have looked into the relationship of trade restrictions on corruption (Kreuger, 1974; Bhagwati, 1982; Gatti, 2004; Dutt, 2006; Mukherjee, 2015). Marhubi (2004) undertakes an empirical analysis to investigate the determinants of governance. Following this strand of literature, the paper undertakes an empirical analysis investigating the extent to which globalization, in different forms, affect several indicators of governance.

We live in an ever increasing globalized world and given the importance of governance, it is crucial to analyze the role played by globalization in affecting the governance infrastructure. As mentioned above, the literature is scanty in this regard apart from a few studies. Studies have mostly focused on how globalization affects corruption levels of a nation, a critical element of governance. Yet, other than corruption, other forms of governance like voice and accountability, rule of law and regulatory quality can potentially be affected by globalization. For instance, research by Kapur et. al. (2010) states that since the process of liberalization began in India, the dalits, labeled as one of the inferior castes of India, have been able to participate more in the business climate. The DICCI (Dalit Indian Chambers of Commerce and Industry) has about 3000 members nationwide and they are very successful in the new globalized business world. Dalits could succeed in the new business climate brought in by globalization since it is caste neutral in

origin. This, in turn, can enable them to possess greater voice and accountability. Further, in a globalized nation, norms are ruled relatively more by the market and the government has to make itself transparent and accountable to both individuals and business. Thus, it has the responsibility to implement sound policies and make itself independent from political pressure. Thus, government effectiveness should rise. For example, the establishment of the World Trade Organization (WTO) in 1995 was an important step in the process of global liberalization. Along with providing incentives for countries to trade more with each other, one of the major functions of the WTO is to cooperate with the World Bank and the IMF and achieve greater coherence in economic policymaking. Thus, individual nations have to abide by such rules that in turn, should transform their state of governance. Additionally, greater membership in international treaties makes a country go through a transformation in its governance structure as well.

Some others forms of governance might actually be degraded due to greater globalization. Globalization may lead to unequal distribution of income because of the relative differences in mobility of labor and capital. According to economic theory, labor is relatively less mobile than capital since workers find it difficult to move across borders but investors can move the capital quickly across borders to evade regulatory or tax regimes. Thus, there might be discrepancies in the income gains between the capitalist and the labor group post globalization that can lead to social inequality. This in turn might lead to mass grievance and, thus, mass uprising. Thus, globalization might actually lead to higher political instability. Government under the pressure of foreign competition needs to be more receptive to the needs of private sector development. Yet, it can negatively affect regulatory quality if the government caters to promote policies that help the development of certain big businesses ignoring the benefit of populace of a country. For example, in 2008, the government of West Bengal, India tried to conduct an eminent domain takeover of huge amount of land in collaboration with a big business of India. The big business's attempt to

build a big factory failed due to mass uprising against the government and business. This is a perfect example where regulatory quality and political stability deteriorated, but voice and accountability might have improved. Thus, theoretically globalization can affect both positively and negatively and we reply on empirical analysis to come to a robust conclusion.

Additionally, we emphasize different forms of globalization. We propose that the impact of economic globalization on governance is very much shaped by social globalization. The emergence of neo transnational capital played a pivotal role in changing different and varied social mindsets across the world into a more cosmopolitan one. People in different parts of the world are undergoing transformation in terms of food, clothing, and developing a common mindset that is a fusion of multiple cultures. As a society gets integrated in terms of culture, the evolving informal institutions can merge better with formal institutions like increased globalization in terms of trade and portfolio investment and, thus, can lead to a better governance. We base this argument on North (1991) who has stressed that formal institutions can work the best when they are backed by efficient informal institutions.

Our contribution to the literature is three fold. We contribute to the relatively less explored question of the impact of globalization on governance. We focus on multiple aspects of governance rather than focusing only on corruption. This is important to consider since globalization, as evident from the examples above, can improve voice and accountability at the cost of regularly quality or political instability. We incorporate different notions of globalization – be it in the form of greater trade or FDI or greater internet penetration. Second, we consider measures of governance that captures perceptions in the society from all players. Thus, the measures capture the perceptions of the government, the business and the citizens. This is important as globalization affects everyone in a society and the benefits and/or costs of globalization should be borne by all the stakeholders in the society. Thus, our empirical research captures whether globalization, in any

form, affects all players in a society equally rather than focusing only on some beneficiaries like the firms. Third, we explore if social globalization can act as a moderator in the relationship between economic globalization and governance.

Our results support out hypothesis. The first set of results show that economic globalization enhances the various indicators of governance. Further, our second set of results point out that countries with low levels of social globalization fail to benefit from improvements in economic globalization with regard to its impact on governance. Yet, as social globalization improves, economic globalization can work in favor of improving governance. For example, for a country like Sudan with poor social globalization, a standard deviation rise in economic globalization will lower its voice accountability by 0.37 percentage points. But the same rise in economic globalization for Lebanon with better social globalization will improve its voice and accountability by 0.11 percentage points which is a 129 percent increase compared to Sudan.

Section 2 talks about the existing literature and builds up the hypothesis further. Section 3 describes data to be used in the paper. Section 4 explains the empirical methodology. Section 5 presents the benchmark results and Section 6 elaborates on robustness analysis. Finally, Section 7 summarizes.

2. Economic Globalization, Social Globalization and Governance

"Globalization" is a loosely used signifier that has invoked intellectual curiosity in the recent economic and political discourse. Before proceeding further, this paper will make an attempt to provide some definitional clarity of this used measure. The predominant version of globalization associates it with the profound restructuring of world capitalism that began in the 1970s. However, we possess a view that globalization is not a new process, but the near culmination of the century-long process of the spread of capitalist production relations around the world and its displacement

of all other economic systems by the end of 20th century. The capitalist system since its inception has been expanding in two directions, extensively and intensively. The final phase in capitalism's extensive enlargement started with the wave of colonization of the late nineteenth and early twentieth century and concluded in the 1990s with the reincorporation of the former communist regimes in the aftermath of the collapse of Soviet Union.

Under globalization, the system is undergoing a dramatic intensive expansion. Capitalist production relations are replacing what remains of all relations around the globe. Capital has achieved a newfound global mobility and its reorganizing production worldwide in accordance with the whole gamut of political and factor cost considerations. This involves the worldwide decentralization of production together with the centralization of command and control of the global economy in transnational capital. The era of the primitive accumulation of capital is coming to an end. In this process, those cultural and political institutions that fettered capitalism are swept aside, paving the way towards the "unification" of social life worldwide. This "unification" implies a path for the global community that converges in a cultural commonality.

In our paper we explore two facets of globalization: Economic, and Social. The idea of economic globalization has been well researched. Economic globalization can be in the form of FDI inflows to a nation, extent of trade openness or capital openness of a nation. Using principal component analysis for 13 risk factors like bureaucratic red tape, corruption, political instability and so on, Wheeler and Mody (1992) found no effect of such institutions for U.S. manufacturing FDI. Other studies like Brunetti and Weder (1998) find a negative correlation between institutional uncertainty and private investment. Wei (2000) stresses that higher corruption level for a country has negative impact on FDI inflows for a nation. Several studies have established the importance of democratic institutions in the context of FDI inflows (see, for example Busse, 2004; Jensen, 2003; Harms and Ursprung, 2002). On the other hand, Li and Resnick (2004) find that democracy

boosts FDI via indirect channel, the channel of property rights protection. The most pioneering in the context of the role of institutions on globalization has been by North (1991). North stresses that institutions, defined as constraints that shape human actions, critically affect the decision to invest in an economy.

But, can economic globalization affect institutional structure in a country? With greater globalization, we can expect that along with income and economic development, a country's institutions should undergo significant transformation. Most empirical and theoretical studies have emphasized the role of institutions in attracting greater globalization in the form of trade openness, FDI inflows or capital account liberalization. The reverse causation channel of the impact of globalization on governance has been relatively less explored. For example, Kwok and Tadesse (2006) show that MNCs in nations may lower corruption for the host country via the regulatory pressure effect, the demonstration effect and the professionalization effect. The behavior of the MNC in a host country is constrained by the regulatory behaviors of the home country as well as the international business community. A few studies have investigated the impact of trade openness on corruption. The pioneer work in this regard is that of Krueger (1974) who, based on a theoretical model, shows that greater trade restrictions caters to the generation of greater rent and, thus, higher corruption. Bhagwati and Srinivasan (1980) show how corruption can thrive more in countries with higher tariffs, due to the attempts by special interest groups to expropriate tariff revenues. In terms of empirical papers, Ades and Di Tella (1999) show that economics engaging in lower global competition, experience higher levels of corruption.

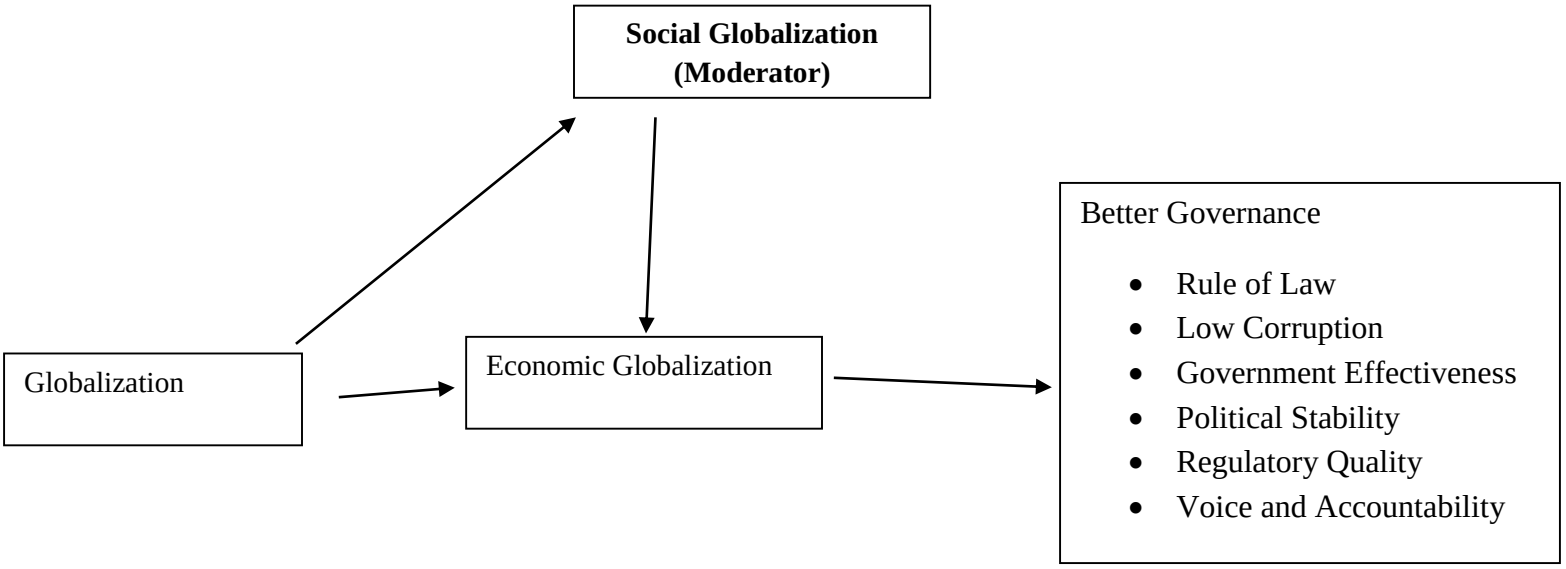
Yet, other than corruption, other forms of governance like voice and accountability, regulatory quality, bureaucratic quality should also be affected as globalization sets international norms that countries need to abide by to maintain their status in the global world. Globalization creates a world of uniform standards that erases discrimination among races or gender (Kapur et.al.

2010). Further, internationalization of countries also mean stricter monitoring based on global standards. International organizations like WTO, the World Bank, the IMF provides assistance in policy making in a constant effort to increase monitoring, transparency and accountability. Capital inflows like aid are many times conditioned on improving democratization (Dunning 2004; Knack, 2004; Goldsmith 2001). Thus, all of these suggest that countries should be undergoing through a transformation in all forms of governance as they experience all forms of globalization. This leads us to our first hypothesis - *Economic Globalization results in better governance of the host country.*

We further propose that social globalization acts as a moderator to the relationship between economic globalization and governance. This hypothesis is based on North's theory who stresses that formal institutions are effective only when they are backed by informal institutions. Likewise, formal institutions in the form of economic globalization like trade, FDI and portfolio investment can effectively affect governance when backed by informal institutions in the form of social globalization. To our knowledge, the implication of social globalization has not been previously analyzed, although it may offer interesting implications. The emergence of neo transnational capital played a pivotal role in changing different and varied social mindsets across the world into a more cosmopolitan one. In recent decades such ideological current has gained prominence and it complements economic globalization. The term like "liberal internationalism", are used to eloquently describe this mindset which believes in a single human race, peacefully united by free trade and common legal norms, and run by states that advocate civic liberties and representative institutions. Such liberal internationalism aimed at creating a global order of a sort of political and economic union with a code of conduct among states within the Westphalian system, i.e., states have jurisdiction in their own territories.

Liberal cosmopolitanism aims at creating a global order that governs important political and economic aspects of internal and external behavior of states. It does not advocate world government to decide on vital international issues. Rather, it proposes a set of disciplinary regimes, i.e., global governance, that penetrate deep into the economic, social, and political life of nation-states, and safeguards international flows of trade and finance. In that the state prosperity through trade and finance is restricted by this global community and is conditional, which can be withdrawn if a state fails to meet the domestic or foreign standards of behavior set by the requirements of liberal governance. Hence, economic globalization through transnational flow of capital and labor is further boosted and gains strength by this changing social fabric in the participatory societies. Such integration of societies across the globe constructs the idea of social globalization and in turn should act as a moderator in enhancing the role of economic globalization on improving the country level governance issues. Consequently, we reach our second hypothesis- *The role of economic globalization in improving different governance indicators in enhanced by the formation of "international community" captured through social globalization.*

Role of Globalization on Governance



3. Data Description

Our main measure of governance comes from Worldwide Governance Indicators (WGI-2013) prepared by Kaufmann, Kraay and Mastruzzi. As defined by them, governance captures the institutions and traditions based on which authority is exercised in a country. This includes various important aspects of a good governance – accountability, transparency and inclusiveness. Other than scholarly journal articles who have used the indicators extensively to test major theoretical propositions such as the relationship between governance and growth (e.g., Kurtz and Schrank 2007a, 2007b; Kaufmann et al. 2007a; Kaufmann and Kraay 2002), they have been used by World Bank publications as well to identify and describe governance trends around the world (e.g., World Bank 2007). As stated by Kaufmann and Kraay (2002), since these indicators are aggregated by combining, organizing and summarizing multiple sources, they minimize measurement errors. Williams and Siddique (2008) also point to the popularity of these indices from a policy perspective. The Millennium Challenge Corporation, for instance, identify countries that qualify for its assistance using WGI measures. The Worldwide Governance Indicators report six broad

dimensions of governance for 215 countries over the period 1996-2013: The six measures are voice and accountability, rule of law, regulatory quality, political stability and absence of violence, government effectiveness and control of corruption. These indicators encompass the views of a large number of enterprises, citizens and expert survey respondents in industrial and developing countries. The WGI uses different types of source data including surveys of households and firms, commercial business information providers, non-governmental organizations, and public sector organizations.

One of the first indicators, voice and accountability, is based on the 'perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media'(WGI, 2013). Perceptions about the quality of public services and civil services and the extent of their independence from political pressures, is captured in government effectiveness. It also includes perception about the quality of policy formulation and implementation and the credibility of government to be able to commit to such policies. Regulatory quality is linked with government effectiveness in the sense that it takes into account the perceptions about the ability of the government to 'formulate and implement sound policies and regulations that permit and promote private sector development' (WGI, 2013). Rule of law assesses the perceptions of the citizens in a society about law and order. Thus, it includes factors like the quality of contract enforcement, property rights, the police and the courts as well as the likelihood of crimes and violence. The prevalence of perceptions of the likelihood of the government being overthrown is assessed by the political stability and absence of violence indicator. Finally, control of corruption assesses perceptions of corruption, conventionally defined as the exercise of public power for private gain.

Our benchmark measure of globalization is economic globalization from KOF index of globalization that has been complied by Dreher (2006) and updated by Dreher et. al. (2008).

Instead of using trade or foreign direct investment (FDI) measures separately, the advantage of using the KOF measure is the comprehensive nature of the index. In addition to capturing actual flows like trade, FDI, portfolio investment and income payments to foreign nationals, it also encompasses barriers to such flows by including mean tariff rates, hidden import barriers, taxes on international trade and capital account restrictions. The index ranges from 0 to 100 with higher values representing a more open situation. Apart from economic globalization, our second independent variable of interest is social globalization which is also taken from the same database. The KOF index classifies social globalization in three categories. The first category covers personal contacts capturing factors like telephone traffic, international tourism and foreign population as percent of total population. The second category includes data on information flows encompassing internet and television users as well as trade in newspapers. Finally, the third category measures cultural proximity in terms of number of McDonalds, number of Ikea and trade in books. Similar to economic globalization, social globalization also ranges from 0 to 100, where higher values denote higher degree of globalization.

We follow the existing literature while choosing controls. As pointed out by Kaufmann and Kray (2002), governance and income per capita are strongly correlated. While the general conclusion in the literature points to a positive correlation, the authors stress a negative correlation. We control for GDP per capita in logarithm form from WDI. We control for quality of political institutions by including the variable polity2 from Polity IV. More democratic institutions have been shown to support freedom of speech, generate efficient checks and balances and lead to greater transparency. Thus, they should lead to a better governance (Kapstein and Converse, 2008; Keefer, 2006). Apart from income and polity2, we control for the share of urban population over total population and educational attainment. A high percentage of urban populace will be more

aware of the need for a good governance and, thus, will demand one. Similarly, greater percentage of educated people will do the same.

We present some data in Table 1 before proceeding to rigorous empirical analysis in the following sections. Average values of both economic globalization and governance of countries over the sample period, 1996 to 2012, are presented in the tables. Table 1A lists 10 countries that are sorted based on best economic globalization scores. Similarly, Table 1B presents the same but the bottom 10 countries in terms of their economic globalization scores. We find that countries with high levels of economic globalization also have good governance in all dimensions. On the other hand, countries with low globalization scores have mostly negative scores, signifying low level of governance. While, these tables point to a mere correlation, they still provide a baseline for our empirical analysis. In Table 2, we present the correlation coefficient of governance measures and the globalization variables at the 5% level of significance. As we can see from the table, not only economic globalization, social globalization is also positively correlated with most governance indicators.

4. Empirical Methodology

Our empirical analysis is aimed at exploring the following questions

a) How does economic globalization affect the different dimensions of governance?
b) Is the effect of economic globalization on different dimensions of governance conditional on social globalization?

In order to answer (a), we estimate the following reduced form model

$$\text{Govern}_{it} = \beta_0 + \beta_1 \text{Govern}_{it-1} + \beta_2 \text{Eco Glob}_{it} + \sum_{j=1}^{J} \alpha_j X_{jit} + \beta_2 \gamma_i + \beta_3 \theta_t + \epsilon_{it} \qquad (1)$$

where Govern_{it} is the measure of governance considered for country i in time t. Govern_{it-1} is the measure of governance lagged one period. It captures the persistence of the dependent variable and, thus, enables us to estimate a linear dynamic panel-data (DPD) model. Eco Glob_{it} is the measure of globalization for country i in time t. X_{ijt} is the matrix of control variables, γ_i is the country fixed effect, θ_t is the time specific effect and ϵ_{it} is the random error term. We estimate equation (1) employing a fixed effect model. In order to make sure that our estimates are only capturing the variation within countries over time, it is important to use country fixed effect which control for the time invariant specific factors like legal origin, colonial origin, extent of ethnic diversity and so on. For the fixed effect estimates, we control for endogeneity concerns to some extent by considering lagged globalization (Glob_{it-1}). As described below, we also use GMM estimation to address endogeneity and omitted variable concerns.

In order to address (b), we estimate the following model by introducing interaction term of the two dimensions of globalization – economic and social.

$$\text{Govern}_{it} = \beta_0 + \beta_1 \text{Govern}_{it-1} + \beta_2 \text{Eco Glob}_{it} + \beta_3 \text{Soc Glob}_{it} + \beta_4 (\text{Eco Glob} * \text{Soc Glob})_{it} + \sum_{j=1}^{J} \alpha_j X_{jit} + \beta_5 \gamma_i + \beta_6 \theta_t + \epsilon_{it} \quad (2)$$

β_4 captures the interactive effect of economic globalization and social globalization on governance. We are interested in exploring how different levels of social globalization affect the impact of economic globalization on governance. For this we need to estimate the overall impact of economic globalization on governance. The point estimate for this is given by $\frac{\delta \text{Govern}_{it}}{\delta \text{Glob}_{it}} = \beta_2 + \beta_4 \text{Soc Glob}_{it}$. We are interested in the sign and magnitude of β_2 and β_4, the former capturing the direct impact of economic globalization on governance and the latter captures the indirect effect

of the same through social globalization. Based on whether both β_2 and β_4 are $>, = or\ < 0$, as well as the magnitude of $\text{Soc Glob}_{\text{it}}$, $\frac{\delta\ \text{Govern}_{\text{it}}}{\delta\ \text{Eco Glob}_{\text{it}}}$ will be $>, = or\ < 0$.

Based on the discussion in the previous sections, both economic globalization and social globalization should be endogenous since studies have pointed out how institutions can effect globalization of nations. Endogeneity can be dealt by undertaking two stage least square (2SLS) analysis. Yet, as pointed out by Baum (2008) and Murray (2006), the finite-sample properties of IV estimates are problematic and in the presence of weak instruments, IV estimators may not be an improvement over OLS estimators (Clemens et al., 2012). Additionally, as pointed out by Persson and Tabellini (2006), when controlling for country fixed effects, it is difficult to find efficient, time varying instruments that are strictly exogenous. An alternative approach to using IV estimates is GMM estimators. GMM estimation takes into account endogeneity concerns by generating instruments via moment conditions. Dynamic panel estimators allow us to address the endogeneity issues by not having to find strictly exogenous instruments. Such estimators have become popular for recent empirical panel studies [see, for instance, Cooray, Mallick and Dutta (2014), Dutta, Leeson and Williamson (2013); Asiedu and Lien (2011); Asiedu, Jin and Nandwa (2009); Djankov, Montalvo, and Reynal-Querol (2006), to mention a few]. Roodman (2008) suggests that both System and Difference GMM estimators are suited to handle several panel data challenges.

We estimate equation (2) using System GMM estimators. Due to the presence of unobserved panel-level effects that are correlated with the lagged dependent variable, DPD models suffer from inconsistent estimators (see, Asiedu et. al., 2009). Arellano and Bond (1991), in this

context, suggested the use of General Method of Moments (GMM) [1] estimators that take care of the inconsistency. The Difference GMM estimator, proposed by Arellano and Bond, takes care of endogeneity and omitted variable bias concerns by employing lagged levels of the first differences of the endogenous variables as instruments. An improved[2] estimator, known as the System GMM estimator and suggested by Blundell and Bond (1998), uses additional moment conditions to obtain a system of two equations – one in difference and one in level. The use of the extra moment conditions result in reduced and greater precision over Difference GMM estimates. Thus, we use System GMM estimators as our benchmark estimator.

The next section elaborates on our empirical results. As mentioned above, we use fixed effect specifications with two way fixed effects as a starting point of our analysis. Subsequently, we move to the System GMM estimators. Our panel consists of an extensive set of countries over the period 1996 to 2012. Since the governance indicators do not go back beyond 1996, we are unable to check our results with a panel that dates back further. Yet, the large number of countries and a time period over 16 years provides us with sufficient data points.

5. Benchmark Results

5.1. Fixed Effect Estimates

In Table 3, we present the results for equation (1) estimates. We consider GDP per capita and polity as our benchmark controls. In the subsequent tables, we add more controls. The results for the different indicators are presented in separate columns. We should mention here that over the

[1] According to Roodman (2009), GMM dynamic panel estimators are apt to handle small "T" (fewer time periods) and large "N" (many individual or country) panels subject to country fixed effects, a linear functional relationship that is dynamic in nature, independent variables that are not strictly exogenous and are correlated with present as well as past realizations of the error term and presence of heteroskedasticity and autocorrelation within countries.
[2] Arellano and Bover (1995) suggested that lagged levels are often poor instruments in the case of Difference GMM estimators.

sample period 1996 to 2002, every other year is considered in the sample to be at par with the dependent variable. As we mentioned in the data section, over this sample period, governance data is available for every other year and then the data is available annually from 2002 onwards. Our panel is constructed accordingly.

As we can see from the results, governance lagged one period has a positive and significant impact for all the different indicators. The coefficient of our variable of interest, economic globalization, is positive and significant for all indicators of governance except political stability. Thus, our initial results point to a significant positive impact of economic globalization on governance. We consider economic globalization along with all controls in lagged form which minimizes endogeneity concern to some extent. In terms of economic significance, for example, a standard deviation rise in economic globalization will raise control of corruption score by 0.04 percentage points which, based on the variable range, amounts approximately to 1% rise in the score. The impact is similar for government effectiveness, regulatory quality or voice and accountability. It is smaller in the case of rule of law. GDP per capita considered in logarithm form and lagged one period, has a positive impact on government effectiveness, political stability, regulatory quality and rule of law. The impact of democracy is also positive and significant for most of the indicators.

5.2. System GMM Estimates

Our System GMM estimates are presented in Table 4 where we provide the estimation results for equation (2). One thing to note here is the construction of the panel used for the System GMM estimates. We follow Acemoglu, Naidu, Restrepo and Robinson (2014) in this regard. We focus

on a four year panel where we consider an observation[3] every 4 years. As the authors note, creating such a panel is better than panels based on averages since the latter would bias the estimates by resulting in a complex pattern of serial correlation. We use the same set of benchmark controls as Table 3 along with adding social globalization and the interaction term. For our estimations, economic globalization, social globalization, the interaction and GDP per capita are treated as endogenous. As we see from the table, lagged governance, as expected, positively affects present governance levels. The coefficient of our interaction term, $\text{Eco Glob} * \text{Soc Glob}$, is positive and significant in case of control of corruption, governance effectiveness, regulatory quality and voice and accountability. Thus, the sign of the coefficient of the interaction term suggests that with increased social globalization, the impact of economic globalization on governance is enhanced. Yet, unless we estimate $\frac{\delta \text{ Govern}_{it}}{\delta \text{ Eco Glob}_{it}}$ for different levels of social globalization, we cannot say anything about the overall impact of globalization on governance. How does a country with low levels of social globalization differ from a country with higher levels of the same in terms of being able to benefit from a similar improvement in economic globalization? The marginal estimates help us to provide such analysis. We estimate the marginal impacts in Table 6A. In terms of the controls, polity has a positive and significant impact on control of corruption and voice and accountability. p values from Sargan test show that overidentification restrictions are met. However, as suggested by Asiedu and Lien (2011), such tests lose power when number of instruments is large relative to the sample of countries. r = the ratio of countries to instruments is >1 for all our specifications suggesting that our estimates are not susceptible to Type I error.

[3] It is worth mentioning in this regard that for the governance indicators, we have data every other year over the period 1996 to 2002. Therefore, the variables are available for 1996, 1998, 2000 and 2002.

Before, presenting the marginal estimates, we include additional controls in Table 5 so that we can control omitted variable bias to a greater extent. These controls are urban population as a percentage of total population and logarithm of secondary school enrollment. Bad governance like corruption has been shown to be dependent on percentage of urban population (see, Billger and Goel, 2009). The interaction term, $\text{Eco Glob} * \text{Soc Glob}$, is positive and significant in the case of control of corruption, government effectiveness, regulatory quality and voice and accountability. The direct impact of globalization is negative and sometimes significant. The negative impact does not mean much in the presence of the interaction term. The only scenario in which the negative coefficients of economic globalization for the different specifications will be meaningful, is when social globalization = 0. For our sample, social globalization score ≥ 0. Thus, we turn to the marginal impacts via which the overall impact of economic globalization can be meaningfully analyzed.

In Table 6A, we report the marginal estimates of economic globalization for the various governance indicators for different levels of social globalization. We follow the methodology employed by Asiedu, Jin and Nandwa (2009) and Asiedu and Lien (2011) and then used in subsequent papers (see, Dutta, Cooray and Mallick, 2014) . The estimates $\widehat{\beta_2}$ and $\widehat{\beta_4}$ are obtained from Table 5. Based on the means for $\widehat{Soc\ Glob}$, we estimate $\frac{\delta\ \text{Govern}_{\text{it}}}{\delta\ \text{Eco Glob}_{\text{it}}}$ at the 10th, 25th, 50th, 75th, 90th and 95th percentiles[4] as well as the mean of social globalization. We provide country names corresponding to each of the percentiles that helps us to put the coefficient estimates into perspective. For example, as evident from Table 6A, Sudan lies at the 10th percentile indicating it's a country in the lowest level of social globalization. Comoros belongs to the next group of

[4] The percentiles as well as the mean are based on the means of social globalization for all the countries in the sample.

countries in terms of social globalization and, thus, lies at the 25th percentile. Countries like Luxembourg and Sweden are in the top 90 and 95 percent of the sample respectively. The marginal estimates show that with higher levels of social globalization, the impact of economic globalization on governance indicators is enhanced. When countries suffer from low levels of social globalization, improvement in economic globalizations fails to improve governance. In fact, in some case like control of corruption and voice and accountability, governance might actually be worsened. Based on the marginal estimates, countries need to improve their social globalization beyond the median level (based on our sample median) to be able to derive benefit from improvements in economic globalization. This is, further, reinforced from Table 6B. In Table 6B, we present the tipping points for social globalization. At the critical level of social globalization, $Soc\ Glob^* = -\frac{\widehat{\beta}_1}{\widehat{\beta}_2}$, the impact of economic globalization on governance is zero. When $Soc\ Glob > Soc\ Glob^*$, then $\frac{\delta\ \text{Govern}_{\text{it}}}{\delta\ \text{Eco Glob}_{\text{it}}} > 0$. In general, we find that to have a positive and significant impact of economic globalization, countries need to be at the median or a higher level of social globalization.

6. Robustness Analysis

We perform several robustness tests to ensure the validity of our results. We start by checking our results with the sub-components of social globalization. As mentioned earlier, social globalization consist of personal contact, information flows and cultural proximity. The idea is to check whether the different sub-dimensions of social globalization affect the impact of economic globalization on governance in a significant manner or not. While personal contact captures personal information among people from different parts of the world in a country, information flow captures the flow of ideas and images. Cultural proximity measures "the domination of U.S. cultural

products" (Dreher, 2006). The results for each of these sub-groups are presented in Table 7. We report the results only when the relevant coefficients of interest are significant and, thus, results for specific indicators of governance may not be reported. Columns (1) to (5) presents the results for the sub-component, cultural proximity. The results for the other two – information flows and personal contact – are presented in columns (6) to (8) and columns (9) to (11) respectively. Cultural proximity seems to be affecting the maximum number of governance dimensions. Government Effectiveness, Regulatory Quality and Voice and Accountability[5] are affected by all components of social globalization.

Table 7 reports the marginal estimates based on cultural proximity. These results further reiterate the conclusions from our benchmark findings. As we can see in Table 7, beyond median levels of cultural proximity, economic globalization has a positive impact on most governance indicators. Cultural proximity increases tie with western democratic beliefs, the ideas of democratic institutions delegitimize overtly bureaucratic-authoritarian regimes and improve governance. We also check the marginal estimates with the other sub-components of social globalization – personal contact and information flows. Keeping space constraint in mind, we do not report the marginal estimates but the results reiterate our main conclusions.

In Table 8, we test our results to the inclusion of additional controls other than the ones included already. Government consumption as a percentage of GDP is included to proxy for government policy. Government policy, arguably, should have the ability to affect governance. Additionally, we include internet users per 100 individuals as a measure of overall communication infrastructure. With better communication, the need for better governance can be spread among masses easily and that should lead to better governance eventually. Our coefficients of interest, β_2

[5] In the case of information flows, the p value for the interaction term $Eco * Inf.Flows$ is 0.10

and β_4 retain sign and significance. Keeing space constraint in mind, we do not report the marginal estimates but they are available on request.

7. Conclusion

Examining a sample of 215 countries covering from 1996-2013, we find robust empirical support that economic globalization do indeed help in improving a country's governance measures. Our results further show that social globalization i.e. global convergence towards a set of norms and values do act as a moderator in this relationship. The estimated marginal impacts show that countries with low levels of social globalization, fail to benefit from economic globalization. Yet, this impact is enhanced for countries with higher levels of social globalization.

The measure of economic globalization and the interaction of economic globalization with social globalization used in this study are highly significant in most specifications and has been shown to be quite robust to the inclusion of potentially relevant covariates in the regression as well as different estimation methods. The results supports that, the absence of restrictions on trade and capital, and culture convergence through many pervasive pores of globalization, improve governance. KOF use imported and exported books (relative to GDP), as suggested in Kluver and Fu (2004) as a measure for cultural proximity. As an additional proxy KOF captured cultural proximity by including the number of McDonald's restaurants located in a country. For many people, the global spread of McDonald's became a synonym for globalization itself. McDonald's took the transformation of traditional cultural expressions into its product line (such as Egyptian McDonald's restaurants serving their patrons McFalafel or their Indian counterparts serving their clientele McMaharaja). In our opinion, such incorporation of different cultures accelerates the process of cultural convergence where the porous global mobility ensures that democratic values, improved transparency, better governance further gets strengthened. Countries like Rwanda or

Zimbabwe have insulated themselves from the world economy. Hence, there isn't any surprise to see those having poor institutions leading to lack of governance which repress growth and fails to eradicate poverty.

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Table 1A: Top 10 countries in terms of Economic Globalization

Country	Economic Globalization	Government Effectiveness	Corruption	Regulatory Quality	Voice & Accountability	Political Stability	Rule of Law
Ireland	94.81615	1.571868	1.600899	1.703705	1.394919	1.214918	1.624786
Netherlands	92.04846	1.90142	2.154344	1.797547	1.578838	1.103787	1.747069
Belgium	91.56846	1.737629	1.382177	1.274541	1.392235	0.882296	1.30165
Luxembourg	95.39384	1.822186	1.968874	1.73392	1.518765	1.414904	1.795968
Austria	86.07307	1.837177	1.930577	1.536019	1.395642	1.136397	1.85235
Estonia	87.85	0.924266	0.763795	1.354304	1.040146	0.655847	0.899991
Sweden	87.41385	1.993401	2.252436	1.557532	1.580505	1.258145	1.862891
Denmark	86.33154	2.15224	2.449392	1.813683	1.608771	1.165153	1.907966
Bahrain	86.74077	0.499115	0.332598	0.707482	-0.87071	-0.17711	0.495569
Singapore	96.12769	2.147618	2.246493	1.910297	-0.08511	1.10476	1.562319

Table 1B: Bottom 10 countries in terms of Economic Globalization

Country	Economic Globalization	Government Effectiveness	Corruption	Regulatory Quality	Voice & Accountability	Political Stability	Rule of Law
Guinea-Bissau	30.73615	-1.19883	-1.06096	-1.09334	-0.85525	-0.78499	-1.41527
Niger	26.96692	-0.82803	-0.84889	-0.59692	-0.59243	-0.48718	-0.70283
Guinea	32.41462	-1.04697	-0.9151	-0.97284	-1.22995	-1.54795	-1.37131
Cent. Afr. Rep.	31.08462	-1.44943	-1.07485	-1.13168	-1.03227	-1.64976	-1.43272
Burundi	24.76923	-1.3014	-1.07005	-1.27009	-1.09448	-1.88772	-1.31238
Rwanda	26.33	-0.5109	-0.2801	-0.69976	-1.32148	-1.00748	-0.84351
Ethiopia	29.73	-0.71191	-0.70888	-1.04829	-1.17493	-1.41301	-0.7736
Iran, Islamic Rep.	27.32923	-0.52091	-0.5994	-1.52155	-1.29423	-0.98199	-0.78133
Bangladesh	27.03846	-0.70826	-1.08534	-0.93275	-0.41905	-1.23562	-0.88288
Nepal	25.80308	-0.70411	-0.55907	-0.56973	-0.63799	-1.57619	-0.63782

Table 2: Correlation Coefficient

	Eco Glob	Social Glob	Pol Glob	Control of Corr	Govt. Effect	Pol Stab	Reg Quality	Voice & Acc	Rule of Law
Eco Glob	1								
Social Glob	0.7920*	1							
Pol Glob	0.2977*	0.5302*	1						
Control of Corr	0.6810*	0.7973*	0.4865*	1					
Govt. Effect	0.7311*	0.8493*	0.5755*	0.9359*	1				
Pol Stab	0.6043*	0.6507*	0.2830*	0.7344*	0.7114*	1			
Reg Quality	0.7599*	0.8359*	0.5937*	0.8676*	0.9325*	0.6770*	1		
Voice & Acc	0.6234*	0.7089*	0.5752*	0.7833*	0.8211*	0.6443*	0.8563*	1	
Rule of Law	0.7031*	0.8312*	0.5323*	0.9425*	0.9521*	0.7701*	0.9129*	0.8191*	1

*significance at the 5% level

Table 3: Fixed Effect Specifications: Impact of Economic Globalization on Governance Indicators

	(1) Control of Corruption	(2) Government Effectiveness	(3) Political Stability	(4) Regulatory Quality	(5) Voice & Accountability	(6) Rule of Law
Governance (Lag1)	0.555***	0.634***	0.597***	0.606***	0.596***	0.692***
	(0.0180)	(0.0177)	(0.0195)	(0.0180)	(0.0200)	(0.0163)
Eco Glob. (Lag 1)	0.00201**	0.00202***	0.000390	0.00216***	0.00160**	0.00119**
	(0.000829)	(0.000659)	(0.00129)	(0.000733)	(0.000747)	(0.000590)
Log GDP p. c.(Lag 1)	1.12e-05	0.0668**	0.111**	0.143***	-0.0575*	0.0483**
	(0.0332)	(0.0271)	(0.0529)	(0.0301)	(0.0299)	(0.0240)
Polity (Lag 1)	0.00492**	0.00304*	0.0122***	0.00255	0.00522**	0.000583
	(0.00198)	(0.00157)	(0.00315)	(0.00174)	(0.00206)	(0.00143)
Constant	-1.559***	-2.317***	-2.639***	-2.919***	-1.119***	-2.263***
	(0.297)	(0.237)	(0.469)	(0.263)	(0.270)	(0.212)
Country Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Time Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,666	1,666	1,666	1,666	1,666	1,666
R-squared	0.410	0.508	0.427	0.505	0.470	0.577
Number of countries	140	140	140	140	140	140

Note: Standard errors in parentheses;*** p<0.01, ** p<0.05, * p<0.1

Table 4: System GMM Specifications: Impact of Economic Globalization on Governance Indicators, in the presence of Social Globalization

	(1) Control of Corruption	(2) Government Effectiveness	(3) Political Stability	(4) Regulatory Quality	(5) Voice & Accountability	(6) Rule of Law
Governance (Lag 1)	0.688***	0.709***	0.625***	0.519***	0.613***	0.862***
	(0.0637)	(0.0563)	(0.102)	(0.0544)	(0.0777)	(0.0553)
Economic globalization	-0.0200**	-0.0102*	0.0127	-0.0168***	0.000820	-0.00205
	(0.00946)	(0.00567)	(0.0110)	(0.00600)	(0.00784)	(0.00551)
Log GDP per capita	0.193**	0.0670	0.144	0.00739	-0.00986	0.0400
	(0.0766)	(0.0760)	(0.164)	(0.0708)	(0.0966)	(0.0696)
Social Globalization	-0.0149	-0.0221***	-0.0137	-0.0229***	-0.0173*	-0.00459
	(0.00909)	(0.00765)	(0.0124)	(0.00728)	(0.00918)	(0.00572)
Eco*Social	0.000284*	0.000361***	5.42e-05	0.000506***	0.000244*	9.09e-05
	(0.000145)	(8.99e-05)	(0.000172)	(8.57e-05)	(0.000134)	(0.00001)
Polity	0.0213***	0.0103	0.0144	0.00735	0.0361***	0.00292
	(0.00794)	(0.00640)	(0.0115)	(0.00673)	(0.00976)	(0.00802)
Constant	-0.844*	-0.150	-1.685	0.447	-0.140	-0.328
	(0.469)	(0.429)	(1.073)	(0.419)	(0.653)	(0.470)
Country Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Time Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	417	417	417	417	417	417
Number of countries	140	140	140	140	140	140
Number of Instruments	29	29	29	29	29	29

Note: Standard errors in parentheses;*** p<0.01, ** p<0.05, * p<0.1

Table 5: System GMM Specification with Additional Controls

	(1) Control of Corruption	(2) Government Effectiveness	(3) Political Stability	(4) Regulatory Quality	(5) Voice & Accountability	(6) Rule of Law
Governance (Lag 1)	0.740***	0.611***	0.308***	0.467***	0.482***	0.828***
	(0.0705)	(0.0645)	(0.105)	(0.0765)	(0.0790)	(0.0632)
Economic globalization	-0.0121	-0.0358***	0.00628	-0.0166**	-0.0271***	-0.00238
	(0.00974)	(0.00598)	(0.0171)	(0.00745)	(0.00913)	(0.00589)
Log GDP per capita	0.000575	0.192	0.945***	0.0490	0.230**	-0.0745
	(0.116)	(0.119)	(0.333)	(0.0933)	(0.0968)	(0.0941)
Social Globalization	-0.0217	-0.0490***	-0.0525*	-0.0253*	-0.0444***	0.00383
	(0.0145)	(0.0102)	(0.0293)	(0.0134)	(0.0120)	(0.00891)
Eco*Social	0.000336**	0.000738***	0.000208	0.000524***	0.000538***	0.000132
	(0.000164)	(0.000117)	(0.000308)	(0.000134)	(0.000149)	(0.000102)
Polity	0.0165	0.0175**	0.0416**	0.0191**	0.0633***	-0.021***
	(0.0103)	(0.00827)	(0.0163)	(0.00819)	(0.0137)	(0.00766)
Urban population	0.00424	-0.00328	-0.0148	-0.00620	0.00569	-0.00555*
	(0.00304)	(0.00598)	(0.00941)	(0.00500)	(0.00410)	(0.00320)
Log secondary enroll.	-0.00198	0.244***	0.0609	0.0112	0.110*	0.0256
	(0.125)	(0.0746)	(0.137)	(0.0917)	(0.0669)	(0.0723)
Constant	0.393	-0.444	-6.724***	0.412	-1.121*	0.518
	(0.652)	(0.829)	(1.910)	(0.563)	(0.642)	(0.605)
Time Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	203	203	203	203	203	203
Number of countries	96	96	96	96	96	96
Number of Instruments	31	31	31	31	31	31

Note: Standard errors in parentheses;*** p<0.01, ** p<0.05, * p<0.1

Table 6A: Marginal Impact of Economic Globalization on Governance Indicators at different levels of Social Globalization

$\frac{\delta Gov_{it}}{\delta Eco\ Glob_{it}} = \hat{\beta}_1 + \hat{\beta}_2 * Soc\ Glob$, evaluated at various values of internet users. $\hat{\beta}_1$ and $\hat{\beta}_2$ correspond to estimates from Table 5.

Value of Soc Glob	Percentile $\widehat{Soc\ Glo}$	Corresponding Country	Control of Corruption	Government Effectiveness	Political Stability	Regulatory Quality	Voice & Account.	Rule of Law
18.6	10th	Sudan	-0.005	-0.02***	0.01	-0.006	-0.02***	0.0001
			(0.007)	(0.004)	(0.011)	(0.01)	(0.01)	(0.004)
25.6	25th	Comoros	-0.003	-0.017***	0.012	-0.003	-0.013***	0.001
			(0.006)	(0.004)	(0.01)	(0.005)	(0.005)	(0.003)
42.2	50th	Kyrgyz Republic	0.002	-0.005	0.015***	0.006	-0.004	0.003
			(0.004)	(0.003)	(0.005)	(0.004)	(0.003)	(0.003)
62.5	75th	Lebanon	0.008**	0.01***	0.019***	0.016***	0.006**	0.006**
			(0.004)	(0.003)	(0.005)	(0.005)	(0.003)	(0.003)
80.3	90	Luxembourg	0.01***	0.02***	0.022***	0.025***	0.016***	0.008**
			(0.005)	(0.005)	(0.01)	(0.006)	(0.005)	(0.004)
84.5	95	Sweden	0.016***	0.03***	0.024**	0.027***	0.018***	0.009**
			(0.006)	(0.006)	(0.01)	(0.006)	(0.005)	(0.004)
45.4	Mean	Georgia	0.003	-0.002	0.016***	0.007*	-0.003	0.004
			(0.004)	(0.003)	(0.006)	(0.004)	(0.003)	(0.003)

Note1: These marginal impacts have been estimated based on the estimates from Table 5.
Note2: Standard errors in parentheses;*** p<0.01, ** p<0.05, * p<0.1

Table 6B: The Tipping Points - The critical level of Social Globalization

Setting $\frac{\delta Gov_{it}}{\delta Eco\ Glob_{it}} = 0$, we have $\hat{\beta}_1 + \hat{\beta}_2 * Soc\ Glob = 0$.

Thus, $Soc\ Glob^* = -\frac{\hat{\beta}_1}{\hat{\beta}_2}$. $Soc\ Glob^*$ is the threshold social globalization level.

Dependent Variable	$Soc\ Glob^*$	$\frac{\delta Gov_{it}}{\delta Eco\ Glob_{it}}$ for $Soc\ Glob > Soc\ Glob^*$
Control of Corruption	40	positive
Government Effectiveness	50	positive
Political Stability	---	Always positive
Regulatory Quality	32	positive
Voice and Accountability	54	positive
Rule of Law	2.3	positive

Table 7: System GMM Specifications: Impact of Economic Globalization on Governance Indicators, in the presence of different dimensions of social globalization

	Cultural Proximity					Information Flows			Personal Contact		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	CC	GE	PS	RQ	VA	GE	RQ	RL	GE	RQ	VA
$Governance_{t-1}$	0.65***	0.617***	0.298***	0.522***	0.505***	0.715***	0.580***	0.707***	0.514***	0.613***	0.510***
	(0.082)	(0.0728)	(0.0841)	(0.0751)	(0.0827)	(0.0631)	(0.0842)	(0.0860)	(0.0776)	(0.0973)	(0.0877)
Eco. Glob.	-0.013	-0.014***	-0.00502	-0.00114	-0.0110*	-0.034***	-0.00759	0.00117	-0.0249**	-0.00331	-0.0180*
	(0.01)	(0.005)	(0.009)	(0.006)	(0.006)	(0.00599)	(0.00888)	(0.00744)	(0.00986)	(0.00853)	(0.00944)
GDP p.c. (log)	0.0740	0.273**	0.436**	0.186**	0.224**	0.0988	0.0876	0.259**	0.467***	0.0317	0.188
	(0.127)	(0.121)	(0.204)	(0.0830)	(0.0993)	(0.150)	(0.0737)	(0.122)	(0.130)	(0.0954)	(0.153)
Soc Glb. comp	-0.03**	-0.023***	-0.043***	-0.0250**	-0.0165*	-0.04***	-0.016*	-0.02***	-0.036***	-0.019*	-0.023***
	(0.014)	(0.00873)	(0.0157)	(0.0115)	(0.00944)	(0.008)	(0.009)	(0.008)	(0.00902)	(0.00972)	(0.00896)
Eco*Soc Glob	0.001**	0.0004**	0.0005***	0.0004***	0.0003**	0.0006***	0.0003**	0.0002*	0.0005***	0.0003***	0.0004**
	(0.0002)	(0.00011)	(0.000188)	(0.0001)	(0.000119)	(0.0001)	(0.0001)	(0.0001)	(0.0002)	(0.0001)	(0.000150)
Polity	0.023**	0.0268**	0.0237	0.0188*	0.0615***	0.0209**	0.0128*	-0.0143	0.0212**	0.00137	0.0527***
	(0.0106)	(0.0104)	(0.0149)	(0.00962)	(0.0145)	(0.00867)	(0.00765)	(0.0110)	(0.00964)	(0.00797)	(0.0166)
Urban pop.	0.00480	-0.020***	-0.0157**	-0.00829	-0.00512	0.000228	0.00133	-0.00189	-0.000799	0.000571	8.71e-05
	(0.0034)	(0.00711)	(0.00798)	(0.00788)	(0.00679)	(0.00569)	(0.00315)	(0.00478)	(0.00519)	(0.00330)	(0.00452)
Sec. Enrol.	-0.0440	0.141**	0.117	-0.0844	0.0547	0.254***	-0.0998	-0.0405	0.0304	-0.184*	-0.0723
Country F. E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant											
	(0.759)	(0.847)	(1.234)	(0.453)	(0.657)	(1.066)	(0.575)	(0.926)	(1.114)	(0.635)	(1.158)
Observations	203	203	203	203	203	203	203	203	203	203	203
Number of countries	96	96	96	96	96	96	96	96	96	96	96

Note: Standard errors in parentheses;*** p<0.01, ** p<0.05, * p<0.1

Table 8: Marginal Impact of Economic Globalization on Governance Indicators at different levels of Cultural Proximity

Value of Cult. Prox.	Percentile $\widehat{Cultural\ Prox}$	Countries	CC	GE	PS	RQ	VA
1	10th	Chad	-0.012	-0.014***	-0.004	-0.0007	-0.01*
			(0.01)	(0.005)	(0.001)	(0.006)	(0.006)
4.8	25th	Cote d'Ivoire	-0.01	-0.012***	-0.002	0.001	-0.009*
			(0.008)	(0.004)	(0.009)	(0.009)	(0.006)
31.2	50th	India	0.002	-0.001	0.01**	0.01***	-0.003
			(0.005)	(0.003)	(0.006)	(0.003)	(0.004)
45.2	75th	Turkey	0.009*	0.005	0.018***	0.017***	0.0008
			(0.004)	(0.003)	(0.006)	(0.004)	(0.004)
87.4	90th	Hungary	0.0028***	0.023***	0.04***	0.03***	0.01*
			(0.008)	(0.007)	(0.01)	(0.008)	(0.006)
91.3	95th	Netherlands	0.03***	0.025***	0.042***	0.036***	0.012*
			(0.005)	(0.008)	(0.01)	(0.007)	(0.007)
32.1	Mean	Nicaragua	0.002	-0.0005	0.01**	0.01***	-0.002
			(0.01)	(0.004)	(0.006)	(0.006)	(0.004)

Appendix 1: List of countries in our sample

Afghanistan	Djibouti	Kyrgyz Republic	Romania
Albania	Dominican Republic	Lao PDR	Russian Federation
Algeria	Ecuador	Latvia	Rwanda
Angola	Egypt	Lebanon	Saudi Arabia
Argentina	El Salvador	Lesotho	Senegal
Armenia	Equatorial Guinea	Liberia	Sierra Leone
Australia	Eritrea	Libya	Singapore
Austria	Estonia	Lithuania	Slovak Republic
Azerbaijan	Ethiopia	Luxembourg	Slovenia
Bahrain	Fiji	Macedonia, FYR	Solomon Islands
Bangladesh	Finland	Madagascar	Somalia
Belarus	France	Malawi	South Africa
Belgium	Gabon	Malaysia	Spain
Benin	Gambia, The	Mali	Sri Lanka
Bhutan	Georgia	Mauritania	Sudan
Bolivia	Germany	Mauritius	Suriname
Bosnia & Herzegovina	Ghana	Mexico	Swaziland
Botswana	Greece	Moldova	Sweden
Brazil	Guatemala	Mongolia	Switzerland
Bulgaria	Guinea	Morocco	Syria
Burkina Faso	Guinea-Bissau	Mozambique	Tajikistan
Burundi	Guyana	Myanmar	Tanzania
Cambodia	Haiti	Namibia	Thailand
Cameroon	Honduras	Nepal	Togo
Canada	Hungary	Netherlands	Trinidad and Tobago
Central African Republic	India	New Zealand	Tunisia
Chad	Indonesia	Nicaragua	Turkey
Chile	Iran, Islamic Rep.	Niger	Turkmenistan
China	Iraq	Nigeria	Uganda
Colombia	Ireland	Norway	Ukraine
Comoros	Israel	Oman	United Arab Emirates
Congo, Dem. Rep.	Italy	Pakistan	United Kingdom
Congo, Rep.	Jamaica	Panama	United States
Costa Rica	Japan	Papua New Guinea	Uruguay
Cote d'Ivoire	Jordan	Paraguay	Uzbekistan
Croatia	Kazakhstan	Peru	Venezuela, RB
Cuba	Kenya	Philippines	Vietnam
Cyprus	Korea, Dem. Rep.	Poland	Yemen, Rep.
Czech Republic	Korea, Rep.	Portugal	Zambia
Denmark	Kuwait	Qatar	Zimbabwe