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Effects of globalization on peace and stability: Implications for governance and the knowledge economy of African countries

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ABSTRACT

We argue that there exists an indirect link between globalization and the knowledge economy of African countries in which globalization influences 'peace and stability' and peace and stability affects governance, and through governance the knowledge economy. We model the link as a three-stage process in four testable hypotheses, which permits an empirical analysis without sacrificing economic relevance for statistical significance. The results indicate that the impacts on governance of peace and stability from globalization defined as trade are stronger than those of peace and stability resulting from globalization taken to be foreign direct investment. We conclude that foreign direct investment is not a powerful mechanism for stimulating and sustaining the African knowledge. However, since the effects of globalization on peace and stability can influence governance both positively and negatively, we also conclude that the prospect for the knowledge economy in African countries may be realistic and attainable, as long as these countries continue to engage in the kind of globalization that enhances peace and stability.

1. Introduction

Andrés et al.'s (2015) analysis of the impact of formal institutions through the enforcement of intellectual property rights (IPRs) on the knowledge economy (henceforth KE) of 22 Middle East and North African (MENA) and Sub-Sahara African (SSA) countries concluded that IPRs were necessary, but inadequate, determinants of the KE. We claim that 'peace and stability' resulting from globalization may affect the KE through governance.[1] The claim permits us to close an existing gap in the understanding of KE in Africa.

We put forward four hypotheses, and apply a three-stage regression technique to estimate and test those hypotheses. In the first stage we associate peace and stability with trade and foreign direct investment (FDI) as measures of globalization (openness). In the second stage, peace and stability influences three indicators of governance: general governance (GG), economic governance (EG), and institutional governance (IG). Finally, we relate governance to measures of KE: Education (Educatex), information and communication technologies (ICTex), innovation (Innovex), and economic incentives (Creditex). Analysis finds positive and negative correlations among indicators of peace and stability and those of KE via governance, suggesting that for this group of countries trade openness is a more effective mechanism for innovation than FDI openness.

In the light of the above, the purpose of this paper is to assess the linkages between and among globalization, peace and stability, governance, and the knowledge economy. The corresponding research question is: *What is the relationship between globalization and stability, and how does such a relationship affect governance and thereby influence KE in African countries? The rationale and motivation for asking and pursuing the research question is that there is a clear gap in the current literature on a subject that is critical to technological progress and social change in African countries*. For example, increasing international competition brought

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[1] We use the terms 'stability', 'peace and stability', 'peace and political stability', and 'no violence', interchangeably. In that sense 'peace and stability' *is* a singular noun. Asongu et al. (2016a) have established that globalization affects political stability. (ii) From intuition, such stability provides enabling conditions for institutional and economic governance. In essence, the effective delivery of public commodities (or economic governance) is more feasible when there is relative political stability and non-violence in a country. Moreover, the respect by the State and citizens of institutions that govern interactions between them (or institutional governance) is facilitated by peace and stability. (iii) It is also logical to postulate that such peaceful conditions for economic and institutional governance facilitate the drive towards knowledge-based-economies, notably, in terms of education, good information and communication infrastructure, innovation and economic incentives.

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about by the pace of globalization raises concerns regarding whether or not a KE is possible for African countries.

This line of inquiry contributes to the extant literature by articulating interconnections between macroeconomic variables and other phenomena which drive KE in Africa. We examine the interconnections by considering the four dimensions of the World Bank's KE index, namely: education, innovation, economic incentives and institutional regime and information and communication technology (ICT). Such a positioning opens up another angle for both policy and research by steering clear of the growing body of KE literature which has focused only on one or two dimensions of KE as in Lin (2006), Rooney (2005), Anyanwu (2012) broadly; Butcher (2011) on ICT; Amavilah (2009a) on the production value of doctoral dissertations; Ford (2007); Weber (2011), and Wantchekon et al. (2015) on education; Oyelaran-Oyeyinka and Sampath (2007), and Carisle et al. (2013) on innovation; and Cogburn (2003), Asongu and Le Roux (2017), Letiche (2006), Asongu and Nwachukwu (2016a, 2016b) on economic incentives and institutional regime. Moreover, we focus on the indirect link between globalization and knowledge economy because a direct link has been documented in the extant literature (see Brown and Lauder, 2006; Zadja, 2015; Andrés et al., 2015; Asongu et al., 2016a).

The paper is organized as follows: Section 2 provides a background to the research, including key relationships among globalization, peace and stability, governance, and KE (cf. Tchamyou, 2016). Section 3 outlines the methodology: (a) variables and data, (b) the theoretical framework, (c) hypotheses, and (d) estimation technique. The empirical results and their implications for policy and further research are discussed in Sections 4, while Section 5 concludes.

2. Background

2.1. Globalization, and peace and stability

Globalization is essential to peace and stability, and hence to governance[2] (Asongu et al., 2016a). Bonaglia et al. (2001) found that globalization as trade openness reduces corruption. Lalountas et al. (2011) and Asongu (2014a) have confirmed the positive role of globalization in governance in developing nations, including African countries, as it relates to mitigating corruption. While the preceding references postulate a positive relationship between peace and stability and globalization, another strand of literature has asserted a negative correlation between globalization, and peace and stability as evident from the conflicts line of research. A good example of line of work is Rodrik (1997) who measures conflicts as latent frictions particular to any community relative to its institutional capability for managing such frictions. He represents globalization with external shocks transmitted through the mechanism of foreign trade, and shows that for developing countries both external shocks (globalization) and latent frictions (conflicts) have negative effects on economic growth, the former because of the poor quality of institutions and the latter because of declining terms of trade.

Messer and Cohen (2006) also provide evidence of the correlation between globalization and conflicts. They argue that external market forces tend to increase fluctuations in, and unpredictability of, crop export prices. Such price fluctuations and unpredictability have led to food insecurity and conflicts. In a related area, Olzak (2011) observed that economic and cultural globalization are associated with deaths from internal armed ethnic conflicts, and that socio-cultural globalization increases ethnic conflicts, but reduces non-ethnic conflicts. By implication, globalization stimulates intra-ethnic competition for scarce resources, but it also creates a new understanding that diffuses inter-ethnic frictions. This finding is reasonable; peace and stability is highly correlated with measures of democracy. In a study of 28 SSA countries over 1980-2005 years V.C. Jaunky (2013) shows that there is a direct correlation between economic growth and democracy in the short-run which turns into a bi-directional causation between the two in the long-run (cf. Barro, 1996).

Since globalization defuses inter-ethnic conflicts by promoting democracy, then one can argue that under conditions of peace and stability not all conflicts would affect governance and KE negatively. Hence, Rodrik's observation does not mean the absence of conflict, but the existence of the capability to manage conflicts effectively. To this interpretation, Tidwell and Lerche (2004) add that globalization and conflicts are complex and inter-active, and their marginal (short-run) effects on economic performance are likely ambiguous, because not all conflicts are violent, and not all violent conflicts have necessarily bad consequences. In the same vein Moahi (2007) has added another insightful perspective. He describes a situation in which the spread of globalization and the growth of KE tend to unbalance power relations between developed and developing economies. In the absence of appropriate IPRs globalization and conflicts harm indigenous knowledge and knowledge systems, such that that globalization can lead to economic growth and yet hurt KE if it upsets the relationship between governance and peace and stability. There is clearly a link between globalization and conflicts, and so of opposite sign between globalization and peace and stability.

2.2. Governance, conflicts, peace and stability, and globalization

Neo-liberal economists have tended to over-stress the negative relationship between governance and conflicts (cf. Rodrik, 1997). Their logic is that conflicts weaken the quality of institutions of governance. Weak institutions are then unable to manage latent frictions of the kind Rodrik refers to, which in turn lead to even more severe conflicts. While such arguments are reasonable, they are nonetheless linear in form and static in content for ignoring the effects of globalization on peace and stability, and the indirect effects through peace and stability of globalization on governance as emphasized next.

Globalization affects governance indirectly through peace and stability as well as directly. Culturally, globalization spreads new ideas, technologies, tools, attitudes, and social networks, and these have direct effects on governance. Also, many countries are sensitive to international relations (e.g., trade, remittances, FDI, aid, education, health, international law, and diplomacy), which are aspects of globalization. Indeed, Bonaglia et al. (2001) show ‘how globalization improves governance’ by asking whether ‘there is an effect of globalization on governance’ – the title of their paper. They specify the variables that affect institutional change, and assess whether or not such variables reduce corruption (cf. Acemoglu et al., 2001). They found that high-level measures of globalization correlate with low-level indicators of corruption, although mineral exports, and in some cases trade liberalization, work against governance.

2.3. Globalization, peace and stability, governance, and KE

Although weak according to Andrés et al. (2015), the connection between KE and governance is obvious. It is also hard to measure due to the lack of specificity with which to represent KE. Khan (2007) observes that liberal economists tend to think of governance as “market-enhancing capabilities that reduce transaction costs and enable markets to work more efficiently, [whereas for] … heterodox economists governance is the capacities to overcome entrenched market failures” (pp. 8–16). In this case governance is important to economic growth for two different reasons. First, economic growth happens when markets

[2] It is important to note that governance can be political (political stability/no violence and voice & accountability); economic (government effectiveness and regulation quality) and institutional (corruption-control and rule of law) (see Asongu et al., 2016a). Moreover, within the framework of the study, governance exclusively embodies the economic and institutional dimensions of governance because one dimension of political governance (i.e. political stability/non violence) is considered as exogenous to economic and institutional governance in the first hypothesis.