

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Economic globalization is the process of integrating the national economy into the global economic system. This process played by the TNCs (Transnational Corporations), WTO (World Trade Organization), IMF (International Monetary Fund), and World Bank actors. Economically, each countries in the world is dependent on international trade, production, and finance. Therefore, each countries is vulnerable to international pressures and globalization. (Suprijanto, 2011).

Based on Edison H.J (2002) Globalization increases financial integration. Where financial integration is an integration between the economy of one country and the economy of another country. So the economic situation in one country can affect the economy of the other country. The degree to which an economy allows cross-border transactions is known as international financial integration (IFI). IFI, according to certain ideas, promotes risk sharing and so increases production specialization, capital allocation, and economic growth. (Edison H.J, 2002).

The advantage of financial integration is that it increasing the chance of a country to stabilize the level of consumption growth. If the output of a country continues to decline, the country can no longer maintain its level of consumption, except if the country together with other countries, agrees to share risks in the face of fluctuations in output. Every country will not be able to meet the needs of goods and services that are only produced domestically. For this reason, international trade is the key to meeting needs through the exchange of goods and services based on the specialization and comparative advantage of each country.

Globalization occurs when the establishment of a new global social formation marked by the global implementation of a trade mechanism through the creation of a free trade policy, with the successful signing of an international agreement on trade in April 1994 in Marrakesh, Morocco.

International trade is known as the General Agreement on Tariff and Trade (GATT). GATT is a set of international rules governing intergovernmental trading behavior. GATT is also a forum for intergovernmental trade negotiations, as well as a court to resolve trade disputes between nations. The agreement is built on the assumption that an open trading system is more efficient than a protectionist system, and is built on the belief that free competition will benefit a country that applies the principles of effectiveness and efficiency (Suprijanto, 2011). The actions of multinational corporations (MNCs) that cross national borders gave birth to globalization of production. This globalization is fueled by increased economic competition, which motivates every corporation to seek out low-cost raw resources or labor in the developing world as a source of competitive advantage. Meanwhile, production activities in developed countries are mostly driven by strategies to avoid trade barriers and market proximity (Suprijanto, 2011).

In 1995, a world trade control and trade control organization known as the World Trade Organization (WTO) was founded and this global organization has since taken over GATT. The WTO is not designed as a monitoring organization for countries that do not comply with the GATT. However, the WTO will act on the complaints submitted by its members. Thus, the WTO is one of the most important actors and forums for negotiations between trades of globalization mechanisms. If the WTO is a forum for trade agreements at the global level, at the regional level a similar forum to set trade policies has also been established. There are several agreements with smaller areas, for example, ASEAN, ACFTA and RCEP. All of these agreements constitute WTO-like forums on a smaller and local scale (Suprijanto, 2011).

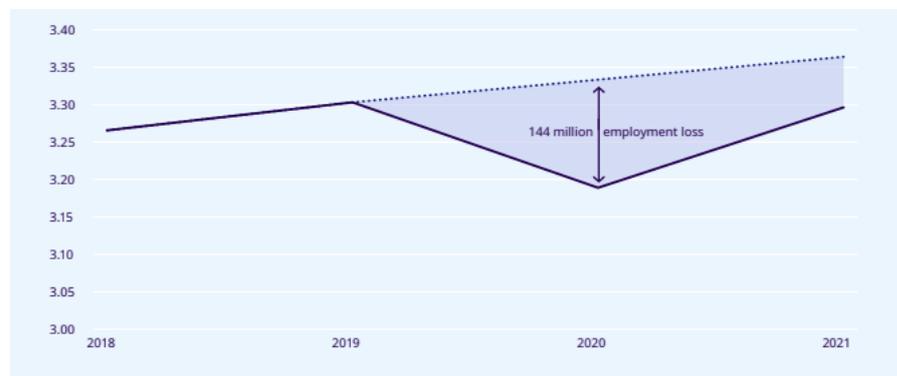
Theoretically, the ability of globalization to influence state behavior is very dependent on how international institutions are formed, whether forced, negotiated, or spontaneous, and how the routes of these international institutions affect a country. International institutions will be

able to influence the state if they have effectiveness, namely the ability to influence the behavior or policies taken by the state.

In response to increasingly dynamic national and international developments. All of the countries and the citizen have to deal with the global community because the increasingly global development of the world placed the countries in the world closer and almost without borders. As the reflection of globalization is the formation of RCEP (Regional Comprehensive Economic Partnership) as a highly integrated regional organization. As the largest trading bloc in the world, based on Kompas.com (safitri, 2020). This includes 30% of the world economy, 30% of the world's population, and no less than 2.2 billion potential customers, based on Theconversation.com (theconversation.com, 2020).

RCEP promises to reduce or eliminate industrial and agricultural product rates and establish regulations for data transmission. Also to eliminate several tariffs between members. The RCEP members consist of 10 ASEAN countries, plus China, Japan, South Korea, Australia, and New Zealand. The RCEP agreement negotiations began in 2012 and were finally signed on Sunday, November 15, 2020. RCEP is expected to contribute to economic recovery after the Covid-19 pandemic, as the worst global recession since the Second World War (Gatra, 2019). Where unemployment is one of the economic problems during Covid 19, that must be solved.

**Figure 1 Global employment loss relative to the “no pandemic” scenario, 2018–21**



**Source: [www.ilo.org](http://www.ilo.org)**

Based on the data from [www.ilo.org](http://www.ilo.org), During the pandemic in 2020, global unemployment has risen by 33 million to 220 million, with the jobless rate rising by 1.1 percentage points to 6.5 percent. This growth is far more than that seen during the global financial crisis at 2009. (0.6 percentage points). Unlike the global financial crisis, the COVID-19 crisis has impacted global labor markets, resulting in greater job losses and unemployment hikes everywhere (ILO, 2021). In face this problem, each countries in the world need to work together to solve this problem.

The openness of a country's economy will create mutually beneficial relations between each country, it will open trade transactions such as expanding exports and imports. If the export of a country's leading commodities increases, it will lead to increased production, which will have an impact on the opening of wider employment opportunities and increased economic growth.

But, even though economic integration has stimulated economic activity through an increased flow of goods and easier access to sources of capital, on the other hand, economic integration has made the domestic economy more vulnerable to external influences. It is undeniable that increasing economic integration has also made developing countries increasingly affected by shocks that have occurred in other countries, such as soaring world commodity prices and the recent global financial crisis also in unemployment (Wildani, F, 2017). So in this research we focus on

how economic globalization effect the unemployment in fifteen RCEP countries.

## **1.2 Research Question**

Research question in this research are as follow:

1.2.1 What is the relationship between financial globalization and trade globalization on unemployment rate in the RCEP countries?

1.2.2 What is the relationship between Foreign Direct Investment and unemployment rate in the RCEP countries?

1.2.3 What is the relationship between population growth with unemployment rate in the RCEP countries?

1.2.4 What is the relationship between political stability and unemployment rate in the RCEP countries?

1.2.5 What is the relationship between GDP per capita with unemployment rate in the RCEP countries?

1.2.6 What is the relationship between inflation and unemployment rate in the RCEP countries?

## **1.3 The Purpose and Urgency of the Research**

Unemployment is a problem that must be addressed immediately. Decent work and economic growth are goals number eight of the Sustainable Development Goals that must be achieved in the world. Every country must be prepared with a demographic bonus, which peaks in 2025, where the age of the workforce is very abundant, so it is necessary to prepare as early as possible to face the demographic bonus. So in the future, the allocation of labor and its utilization can be carried out more efficiently. That can help us to maximize the positive impact of the demographic bonus. Based on the problems that have been formulated, this study aims to analyze how globalization is towards unemployment and to assess whether the relationship depends on the level of Political Stability, GDP per capita, Foreign Investment, Inflation and Population Growth. So that the state can increase the strength that they have to

maximize the benefits also the opportunities and minimize the risks that will be caused.

## **1.4 Research Advantages**

### **1.4.1 For Policy Makers**

This research is expected to provide the government to be a consideration in fixing national regulations and legal instruments to welcome the realization of RCEP. Likewise with human resources and research and development.

### **1.4.2 For Researcher**

In conducting research, strong literature is needed. So in the process of this study, the researcher gained knowledge about how globalization affects macroeconomic variables

### **1.4.3 For Economics Students**

This research is expected to provide knowledge to economics students, especially students who take the concentration of monetary economics and international trade.

## **1.5 Limitation of Study**

This research only focuses on the analysis of the impact of globalization in RCEP member countries. Consists of 10 ASEAN countries (Indonesia, Malaysia, Filipina, Singapura, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar, Kamboja), plus China, Japan, South Korea, Australia, and New Zealand. The data used are secondary data obtained from the World Bank and ETH Zurich. The data used in this research is panel data years 1996-2018.

## 1.6 Systemic Writing

This systematics aims to give an overall picture of this research. The following systematic writing:

### **CHAPTER I: Introduction**

The introductory chapter consists of six sub-chapters, namely: background, research problem, research objectives, research advantages, limitation of the study, and systemic writing.

### **CHAPTER II: Literature Review**

This chapter contains a literature review that supports and relates to the variables studied which are also supplemented by previous research which is related to the title of the study and hypothesis.

### **CHAPTER III: Research Methodology**

This chapter contains the type and sources of data, the definition of variables, sampling techniques, and the research model.

### **CHAPTER IV: Empirical Results and Analysis**

This chapter outlines the results of the research found from statistical descriptive analysis.

### **CHAPTER V: Conclusion**

This section is the final part of the research which contains conclusions and recommendations obtained from the publications in the previous chapters.