Study of Response Analysis of Youth Unemployment Rate in Economy Globalization In Asean

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A B S T R A C T

Unemployment is a variable of concern to many countries. The unemployment rate has a negative nature on economic growth in a country. So that various policies were formed in an effort to minimize the increase in the number of unemployed. This study focuses on the Youth Unemployment Response to economic globalization in ASEAN by using secondary time series data from 2010 to 2019. In this study, it was found that the economic globalization aspect gave rise to several different responses to Youth Unemployment in ASEAN. Changes in trade globalization for the period one to ten gave rise to a positive response, while in the aspect of financial globalization it was responded negatively by the youth unemployment rate. In the aspect of youth unemployment responsiveness, the variables of financial and trade globalization have contributed greatly to the increase in the number of youth unemployed in ASEAN. This can be a recommendation for the government, especially Indonesia, in boosting young unemployed people to stay in a safe position. But on the other hand, it does not rule out the flow of economy globalization.

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INTRODUCTION

Unemployment is an issue of economic globalization for researchers. The definition of economic globalization according to Kılıçarslan & Dumrul, (2018) is a process of uniting the domestic economy with the global economic structure. Therefore, economic globalization makes an economic system integrated between countries (Verter & Osakwe, 2015). These conditions resulted in economic interdependence, thus creating competition in the sphere of foreign trade, production, finance and investment. Increasing interdependence relations between countries means more open economic activities. After the second world war, a country's economy was increasingly open, so that economic globalization increased. The development of economic globalization is marked by the GATT cooperation agreement. GATT is a multilateral agreement whose contents concern regulations for the implementation of international trade. This in turn can lead to economic globalization in both developing and developed countries.

According to Hasan & Sasana (2020) the causes of youth unemployment are, firstly, due to structural problems, secondly, arising from the rigidity of the labor market, and thirdly, several ASEAN countries are undergoing economic transformation which has resulted in their inability to manage a young workforce. The average ASEAN unemployment rate. Cambodia has the lowest youth unemployment rate in ASEAN. The average youth unemployment rate in the country is 0.9 percent. This means that many young workers in Cambodia are being absorbed. This condition means that Cambodia has provided enough jobs for young people so that the empowerment of each young age can be optimized. Indonesia is the second country after Brunei Darussalam to have a high youth unemployment rate. According to the World Bank (2019) Indonesia's high youth unemployment comes from rural and urban areas. The youth unemployed in Indonesia are unemployed and looking for work, including those who have recently left jobs of their own accord and those who have lost their jobs.

Economic globalization through financial openness can affect the unemployment rate. Financial openness creates competition with domestic and foreign companies. The domestic government is concerned that the economic power of foreign investors is greater than domestic, which will reduce the operational efficiency of domestic companies. With this power, it can dominate the market as a whole, thereby increasing prices in the market based on the company's policy, which has a negative impact on the economy of the host country (Palat, 2011). This will cause youth unemployment to increase.

Research conducted by Soomro, et al, (2012) on economic globalization on unemployment rates in Pakistan during the period 1971-2001 used the KOF globalization index. The results of this study are that there is a significant positive effect of economic globalization on the unemployment rate in Pakistan which has reached 45 percent over the last twenty years. In line with this, Gozgor, (2017) also conducted research on economic globalization with unemployment in 87 countries with the period 1991-2014. The results of this study indicate that economic globalization does not have a significant impact on unemployment. It turns out that the economic growth variable has a significant negative impact on unemployment in several research models. The background above raises the idea of an analysis of how youth unemployment responds to economic globalization in ASEAN. The era of globalization has resulted in various aspects becoming more open and free. The aim of the research is to test and analyze the response of young

unemployed if there is a change in the economic globalization variable. In this research, the author focuses on aspects of trade openness and capital openness in influencing youth unemployment in ASEAN.

METHODOLOGY

This research uses youth unemployment and economic globalization variables. The data used are time series and secondary data types for 2010-2019 sourced from the World Bank. Cross Section ten ASEAN countries including Brunei Darussalam, Indonesia, Cambodia, Laos, Myanmar, Malaysia, Philippines, Singapore, Thailand and Vietnam. The selection of ASEAN is motivated by the paradigm that the aim of ASEAN integration is to maintain economic stability and improve the welfare of the nation. The purpose of this integration will be the focus of this research, where there are still unresolved unemployment problems, especially youth unemployment in ASEAN. The research method uses VAR Panel analysis with Eviews 9 which aims to identify and analyze the response of youth unemployment due to economic globalization in ASEAN. Following are the specifications for the VAR Panel analysis model;

$$YU_{it} = \alpha + \sum_{j=1}^{n} \beta_j YU_{it-j} + \sum_{j=1}^{n} \gamma_j TO_{it-j} +$$

$$\sum_{j=1}^{n} \theta_j FO_{it-j} + \sum_{j=1}^{n} \pi_j lnICT1_{it-j} +$$

$$\sum_{j=1}^{n} \tau_j LnICT2_{it-j} + \sum_{j=1}^{n} \rho_j ICT3_{it-j} +$$

$$\sum_{j=1}^{n} \vartheta_j INF_{it-j} + \sum_{j=1}^{n} \gamma_j EG_{it-j} + u_{it}$$

Information:
YU : Youth Unemployment (%)
TO : Trade Openness (%)
FO : Capital Disclosure (%)
ICT1 : Mobile Cellular (per 100 people)
ICT2 : Fixed Broadband (per 100 people)
ICT3 : Internet Users (%)
INF : inflation
EG : Economic Growth
Ln : natural logarithm

The thing that will be done first in data processing or before conducting the VAR panel is to perform a stationarity test on the panel data. The stationarity of a data is very important, because it can be known whether it will produce spurious regression or not (Winarmo, 2011).

The stationary data test in this research model is based on Levin Lin-Chu. Panel data is stationary or not stationary, it is carried out using the unit roots test (Baltagi, 2013). The results of the estimation of p-value in the Levin-Lin-Chu and Im-Pesaran-Shin methods will be compared with an alpha value of 5%. If the p-value is smaller than the alpha value, then H1 is accepted, meaning the data is stationary. And conversely if the p-value is greater than the alpha value of 5% then Ho is accepted, meaning that the data is not stationary. The next step is to find out whether the observed data has a long-term balance between variables. If the variables in the model have cointegration then there is a long-term relationship and vice versa if there is no cointegration between variables then there is no long-term relationship. In this study, the panel data cointegration test used the Kao cointegration test. According to Baltagi (2005), the Kao approach is based on the residuals of the DF and ADF tests to test cointegration in panel data by adopting the step procedure carried out by Eagle-Granger. If the probability value on the cointegration Kao test exceeds the 5% significance level then H0 is accepted, meaning there is no cointegration, and if

the probability value does not exceed the 5% significance level then H0 is rejected and H1 is accepted, meaning there is cointegration. The VAR panel approach is used to see the intensity of the response of each variable in the study. The PVAR model is widely used because it is able to capture the dynamic relationship between observational variables which are not limited to the same time but continue over time.

The VAR panel uses IRF analysis and variance decomposition to identify variables. IRF analysis shows how the response of each endogenous variable over time to shocks from the own variable and other endogenous variables. IRF provides the direction of the relationship and the magnitude of the shock effect of the endogenous variables on other endogenous variables and the variables themselves. Furthermore, the analysis of variance decomposition in the VAR panel is used to compile an estimate of the error variance of a variable, namely how big the difference is between the variance before and after the shock, both the shock

originating from oneself and the shock from other variables. In other words, the variance decomposition is used to see the relative effect of research variables on other variables.

RESULT AND DISCUSSION

The country's unemployment fluctuations have different fluctuations, especially in Brunei Darussalam which has the highest youth unemployment rate in ASEAN. In line with this, Indonesia is in second place as a country with the highest youth unemployment. When viewed from globalization in the trade aspect, Singapore has the highest trade fluctuations, which means that Singapore has the most open foreign trade system compared to the others. On the other hand, the youth unemployment rate in Singapore is at a low level. Even when viewed from the aspect of financial globalization, Singapore has a high level of open finance. Singapore's financial sector is one of the best globally and can withstand large-scale global financial market volatility.
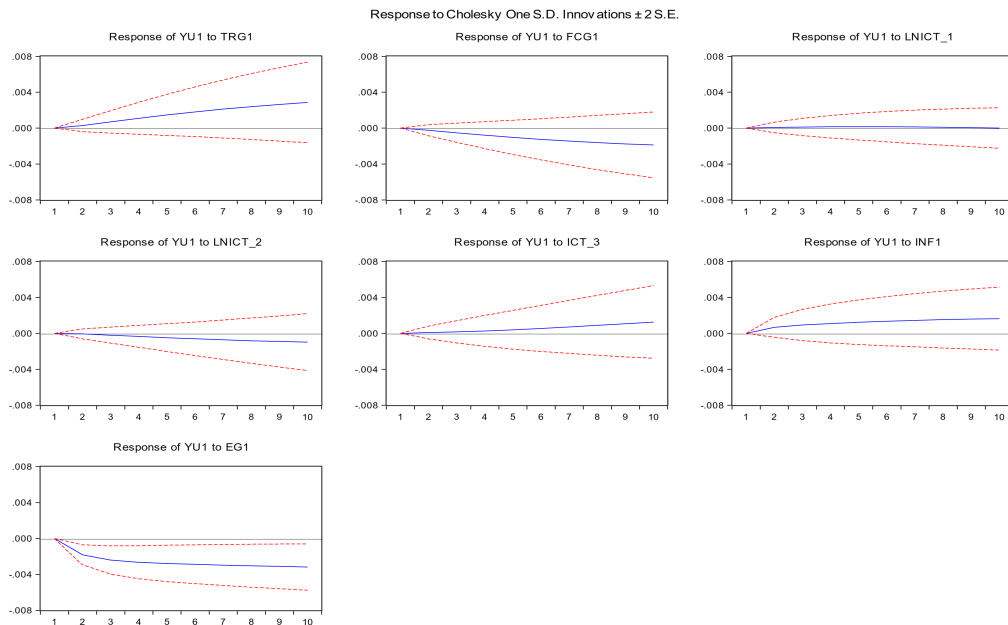

Figure 1
Impulse Respon

Impulse Response Test is used to determine the level of response to youth unemployment due to globalization in terms of trade and financial aspects. Changes in trade globalization from period one to period ten received a positive response. If interpreted, the variable of economic globalization has a significant negative effect on youth unemployment. The more open the trade, the higher the youth unemployment rate will be responded to. Changes in financial globalization are responded negatively by the youth unemployment rate. This means that increasing capital openness can reduce youth unemployment in the ASEAN region. Changes in capital openness are immediately responded to at the beginning of the period, but in subsequent periods the response is around the balance line.

Globalization of trade and globalization of finance has contributed significantly to changes in youth unemployment. The contribution of trade globalization is greater than that of financial globalization. The contribution of these two variables continues to increase from period 1-10. In period 5, the contribution of trade globalization has reached 1.39 percent, but financial globalization still reaches 0.73 percent. Up to period 10, the contribution of trade globalization was 4.74 percent, while financial globalization was 2.18.

The youth unemployment rate which is still quite high in the ASEAN region means that the objectives that have been set have not been optimally fulfilled. Therefore, it can be said that ASEAN has not been optimal in providing employment for young people (Hajji and Nugroho, 2013). In fact, the governments in each country provide policies that are good enough to reduce youth unemployment, but it is still relatively high, so it becomes a problem for ASEAN countries (Tello, 2015).

The globalization of trade has received a positive response from youth unemployment in ASEAN. The relationship between international trade and unemployment is still controversial. Pro-international trade economists do not believe that international trade is an important factor in influencing unemployment rates, while foreign trade economists believe that one of the important effects of trade is the destruction of jobs, leading to unemployment (Dutt et al., 2009). The Ricardian model analyzes that more open trade will affect the reduction of unemployment, in this case youth unemployment, and the Heckscher-Ohlin model analyzes that more open or free trade actually causes higher unemployment. The Heckscher-Ohlin model criticizes Ricardo's model, showing that the conditions described in Ricardo's model only occur if the country is rich in labour.

Awad & Youssof, (2016) suggest that the globalization of trade tends to increase the unemployment rate in the short term. Globalization of trade reduces barriers resulting in an increase in unemployment as a result of trade liberalization, because basically workers working in the import sector will lose their jobs, while jobs in the export sector will require adjustments in the long term. This is because in achieving employment in the export sector, the labor force needs time to increase its skills capacity. Every country that trades, whether it is abundant in capital or labour, will have a different impact. In this case, the effect of the H-O theory tends to be positive for countries with an abundance of capital, and negative for countries with an abundance of labor. The unemployment rate increases in the short run due to trade openness, but then unemployment will decrease in the long run. It shows open trade can destroy jobs. Financial globalization has a negative response to youth unemployment. This means that financial globalization in ASEAN countries can reduce unemployment. ASEAN governments already have rules

for foreign companies operating in host countries so that they can compete with domestic companies, thereby increasing the competition in the performance of domestic companies. This will absorb more young workers. Therefore, foreign companies entering the host country produce output using labor intensive, resulting in a decrease in unemployment.

The results of the estimation of technology and information development in ASEAN show that youth unemployment responds. In today's increasingly information-intensive global economic system, access to well-organized databases and documents is critical to knowledge generation. This knowledge is necessary for society and entrepreneurs to innovate, create and create new businesses (knowledge-based economy), which are very important and fundamental for economic growth (Depkominfo, 2005). The economic growth theory developed by Solow explains that technology plays an important role in accelerating economic growth. Therefore, technological inputs need to be included in the production function, in addition to capital and labor accumulation inputs. The existence of technology will facilitate the production process, making it more efficient and effective, which in turn will encourage labor productivity, thus requiring a workforce, especially young workers.

CONCLUSION

This research found that the aspect of economic globalization gave rise to several different responses to Youth Unemployment in ASEAN. Changes in the globalization of trade from one to ten periods gave rise to a positive response, while in the aspect of financial globalization, the youth unemployment rate responded negatively. In the responsiveness aspect of youth unemployment, the variables of globalization of finance and trade have contributed greatly to the increase in the

number of youth unemployed in ASEAN. This can be a recommendation for the government, especially Indonesia, in boosting youth unemployment so that they remain in a safe position. But on the other hand, do not rule out the flow of economic globalization. This can be a recommendation for the government, especially Indonesia, in encouraging young unemployed people to stay in a safe position. But on the other hand, it does not rule out the flow of economic globalization.

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