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IMPACT OF GLOBALIZATION ON BANKS PERFORMANCE AND STANDARD OF LIVING IN GCC COUNTRIES: MACRO EVIDENCE BASED ON GMM APPROACH

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ABSTRACT

This research intends to present empirical evidence on the impact of globalization on the banking sector's performance and the standard of living in the Gulf Cooperation Council (GCC) countries. The present study accounts for the several characteristics of globalization. The authors have utilized data of commercial banks in the Gulf Countries (GC) from 1996 and 2017. The return on assets and equity are used to assess the performance of the banks by using the technique of Generalized Method of Moments. It is found that bank profitability is negatively impacted by greater economic, social, and political globalization. However, globalization has a positive impact on GDP per capita in GCC nations, indicating that globalization is beneficial from a living standard point of view. The current research has used population and government effectiveness as control variables, and the findings show that growing population benefits bank's returns while government effectiveness has no influence on banking performance.

Contribution/Originality: This study distinguishes itself in some respects. It covers three types of globalization to reveal different aspects of globalization in GC. It incorporates the latest data to capture the recent condition in each country. To the best of our knowledge, no study on this topic has been conducted before in GC.

1. INTRODUCTION

Globalization is a collection of systems that promote cooperation and interaction among governments, cultures, and economies by allowing people, goods, and ideas to spread throughout the globe (Baloch, Ozturk, Bekun, & Khan, 2021). As a result of globalization, nationalistic notions are replaced by a bigger vision of an interconnected world; where money, goods, and services are freely carried across national boundaries (Al-Khouri, 2010), as the basic goal of globalization is to combine all nations into a single economic entity with no boarders or governments. Moreover, globalization has had major impacts on several sectors, including the GC's economic, social, cultural, and political environments (Panayotou, 2000). Though the supporter of globalization believe that it links economies all around the world through transferring information, commodities, and services, as well as foreign direct investment, technology, and trade (Grossman & Krueger, 1991), globalization also addresses some of the world's most crucial issues (Collier & Dollar, 2002). Globalization is a tidal wave of global changes that is sweeping the planet, but as it is hard to stop it, there are critical steps that can be followed to make it more equitable. Therefore, globalization is considered as a complex problem that requires investigation (Awan, Azam, Saeed, & Bakhtyar, 2020).

According to the supporters of globalization, it represents free trade which promotes global economic progress, creates jobs, makes firms more competitive, and lowers consumer prices (Collins, 2015; Paul, 2003). Free trade is

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supposed to remove tariffs, value-added taxes, subsidies, and other barriers between countries. Also, prices are expected to decrease due to the worldwide competition. However, in many cases, this does not happen because the governments intend to manipulate their currencies to get a price advantage. Free trade permits impoverished countries to prosper economically by attracting foreign money and technology (Cherif & Dreger, 2018). Also, free trade provides the conditions for democracy and respect for human rights to develop by spreading prosperity. This is an ethereal goal that few nations have achieved.

There is a school of thought that believes globalization and democracy should go hand in hand. It shouldn't have any colonial implications and should just be about business (Igwe, 2013). Today, in such a global economy, businesses, and consumers have access to things from all over the globe. Global power is rapidly establishing itself in the place of fragmented power sectors (Lamy, 2021). Politics are converging, and the choices that have been taken are benefiting people across the globe. This is an idealized depiction of the situation. Between two nations that have nothing in common, there would be a larger interchange of information, and each nation gains a better understanding of their cultures (Iwabuchi, 2018). As the financial interests are being shared, corporations and governments are striving to fix ecological issues for each other (Ganapati & Reddick, 2018). On a social level, people have become more open and tolerant of one another.

The typical criticism against globalization is that it has enriched the wealthy while impoverishing the poor. "It's great for executives, owners, and investors, but it's bad for employees and the environment" (Puga & Trefler, 2014). Inequality had increased both globally and within nations during the most recent era of strong development in global trade and investment, from 1960 to 1998. According to the United Nations Development Program, the wealthiest 20% of the world's population utilize 86% of the world's resources, while the lowest 80% utilize 14%. In developed nations, social welfare systems or "safety nets" are under tremendous pressure as a result of deficits, job losses, and other economic ramifications of globalization.

Globalization is meant to remove all obstacles to commerce, yet there are still a lot of them (Bragin et al., 2018). The most serious issue confronting the industrialized nations is the loss of employment, which is being relocated to lower-cost countries. Moreover, many middle-class workers have developed a fear culture because of their weak effectiveness in the global game. According to some experts, globalization is causing the spread of communicable illnesses, human trafficking and worker exploitation, as inhumane working conditions are common among prisoners and underage laborer (Gallo, Konrad, & Thinyane, 2020).

Many people believe that companies are on the verge of governing the globe due to globalization (Ghauri, 2018). The political choices, which were formerly restricted to commercial activity, are increasingly influenced by multinational corporations. Large multinational corporations may use tax havens in other countries to avoid paying taxes, develop the goods in other cheaper nations, as well as disregarding the safety norms to be able to produce low-cost items. Furthermore, multinational corporations have been accused of social injustice, unfair labor conditions (including slave labor wages, living environment, and working conditions), natural resource mismanagement, environmental indifference, and ecological damage.

Globalization has enabled the Gulf Countries (GC hereafter) to embark on a difficult-to-maintain economic growth. Although oil prices are high in these countries, the region's recent economic development record is considerably worse (Al-Yousif, 2004). Globalization has resulted in liberalization of cross-border trade, which bodes well for the region's long-term economic development. However, the GC economic development is impeded by large terms of trade instability induced by global oil price changes. Besides, trade liberalization has increased unemployment, poverty, and reduced government revenue (Al-Yousif, 2004; Berger, 2019). Actually, the economies and labor markets of these nations encourage the recruitments of a huge number of migrant workers from all over the globe. Hence, the tremendous increase in immigration has worsened the unemployment problem, while local graduates lack the requisite skills for respectable positions. In fact, the GCC nations have the world's third-largest immigrant population, after North America and the European Union.

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Moreover, globalization has influenced the geographical configuration of the cities in the GC, as well as how they evolve (Haggag, 2004). Globalization has had several concerns and effects on the social and cultural surroundings of the GC. Women in the GC have previously limited human rights due to cultural restraints (Al Dabbagh & Abdelhady, 2012). However, women's engagement in the labor force in the region has been assisted by global trends. Women in these countries have improved their educational levels and are now capable of holding positions of leadership. Many Arab women have started their own enterprises because of the increased access to the global markets (Ghouse, McElwee, & Durrah, 2018). Besides, globalization has allowed Arab women to join politics and assume various government leadership positions.

On the other hand, globalization is criticized for increasing cross-cultural relationships among people from all over the world, resulting in a staggering demographic disparity (Crawford, 2021). The GC indigenous population sees this situation as an affront to their traditions, and many are resistant to accept their new status as a national minority. A public debate has developed as a consequence of the fear of cultural assimilation and the local people's concern about their identity (Ullah & Ming Yit Ho, 2021). The challenging difficulties of globalization have been handled via a variety of government programs and laws. Legislative measures aimed at restoring rooted tradition, maintaining ethnic or national identities, and protecting religious fervor; are noticeable in GC as a result of globalization in the political ramifications (Fox, Al Mutawa, & Sabbah, 2006). As the region's foreign population expands, governments in the region are pursuing aggressive strategies to nationalize significant portions of the business and governmental workforces. Though international pressure has been applied to the GC to enable expatriates to settle peacefully and with equal rights, it is sparking public discussion.

In several ways, the GC may profit from globalization and limit its negative repercussions (Yang, Jahanger, Usman, & Khan, 2021). To begin, these countries should consider downsizing their governments and bringing them into line with international standards. The GC, for example, is not actively engaged in fostering technical abilities since most research and development operations are carried out by industrialized countries (Al-Yousif, 2004; Romanowski, Alkhateeb, & Nasser, 2018). These countries will need to absorb knowledge and skills from the developed world in order to build a local think tank. Regional integration should also be promoted to grow the local markets and to enable the member states to benefit from economies of scale in order to achieve quicker and more efficient industrialization (Akhmetshin et al., 2018; Al-Yousif, 2004). Due to regional integration, and removal of trade barriers, trade between GC will rise and it will boost the GC negotiating power in international commerce.

Globalization strives to address the conflict between capital variety and its social, political, and national features as a worldwide drive toward unified communication, commerce, economics, and financial integration (Adams, Adams, Ullah, & Ullah, 2019). Globalization has both harmful and beneficial effects on society, so it is a complex issue that requires investigation. The Gulf countries are an excellent illustration of how globalization has influenced the social, cultural, economic, and political aspects of life (Majeed, Wang, Zhang, & Kirikkaleli, 2021). Besides, these countries may take the appropriate steps to embrace the benefits of globalization while addressing its flaws.

This study is organized as follow; section 2 is about research method and data, while section 3 presents the results and discussion, while the conclusion is presented in section 4.

2. RESEARCH METHOD AND DATA

2.1. Theoretical Framework

It's worthy to note that the operation of the commercial banking system promotes growth and development by enabling payment flows. UNCTAD (2003) confirms this fact by stating that the globalization process has transformed the financial world environment into one that allows indigenes to make cross-border investments with few restrictions, allows entities from other countries to invest in the domestic economies of other countries, as well

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as being able to transfer the proceeds without restrictions. This phenomenon of globalization shows the effect on return on equity and assets. Thus, this ultimately affects growth as shown in Figure 1.

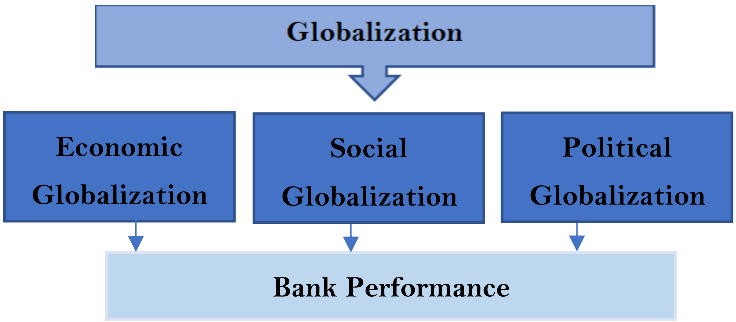

Figure 1. Conceptual framework.

2.2. Empirical Model

Based on the theoretical framework developed in Section 2.1, we have constructed the empirical model. Dependent variable is return on assets and equity as a proxy of bank profit. The objective of the study is to assess the impact of globalization on bank returns in a panel of five GCC countries employing data for the period 1996-2018. We estimate the model using the Generalized Method of Moments. Equation 1 explains the relationship of return on assets and globalization where, return of assets is regressed on economic, social, and political globalization with population and GDP per capita as control variables.

$$RA_{it} = \gamma_i + \beta_1 EG_{it} + \beta_2 SG_{it} + \beta_3 PG_{it} + \beta_4 GE_{it} + \beta_5 Pop_{it} + \gamma_i GPC_i + \epsilon_{it} \quad (1)$$

Where, RA is return on assets that is taken as dependent variable, EG represents economic globalization index, SG represents social globalization index, PG represents Political globalization index, GE represents government effectiveness, γ_i is country dummy and ϵ is the error term. The subscript denotes the *i*th country where $i = 1\ldots$ N, and the subscript t denotes year where $t = 1,\ldots,$T. The present study takes government effectiveness, population, and GDP per capita as the control variables.

Equation 2 describes the association of return on equity and globalization where, return of assets is regressed on economic, social, and political globalization with population and GDP per capita as control variables. Thus, the general econometric model for return on equity is written as under.

$$RE_{it} = \gamma_i + \beta_1 EG_{it} + \beta_2 SG_{it} + \beta_3 PG_{it} + \beta_4 GE_{it} + \beta_5 Pop_{it} + \gamma_i GPC_i + \epsilon_{it} \quad (2)$$

Where, RE is return on equity, which is taken as the dependent variable, EG represents economic globalization index, SG represents social globalization index, PG represents Political globalization index, GE represents government effectiveness, γ_i is country dummy and ϵ is the error term. The control variables include government effectiveness, population, and GDP per capita. The subscript denotes the *i*th country where $i = 1\ldots$ N, and the subscript t denotes year where $t = 1,\ldots,$T.

The Equation 3 investigates the impact of globalization on the living standard of people. For that purpose, we use the GDP Per Capita (GPC) as a dependent variable and we have regressed on economic, social, and political globalization along with government effectiveness. The empirical equation is given as follows:

$$GPC_{it} = \beta_0 + \beta_1 EG_{it} + \beta_2 SG_{it} + \beta_3 PG_{it} + \beta_4 GE_{it} + \gamma_i GPC_{i,t-1} + \epsilon_{it} \quad (3)$$

Where, GPC is GDP per capita which is taken as a dependent variable, EG represents economic globalization index, SG represents social globalization index, PG represents Political globalization index, GE represents government effectiveness, γ_i is country dummy and ϵ is the error term. The subscript denotes the *i*th country where $i = 1\ldots$ N, and the subscript t denotes year where $t = 1,\ldots,$T.

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2.3. Data and Variable Description

This study uses the data of three globalization indicators namely, economic, social, and political globalization. The economic globalization is characterized as the long-distance flows of goods, capital, and services, as well as information and perceptions that accompany market exchanges. The political globalization is described by the diffusion of government policies and the social globalization is the spread of ideas, information, images, and people (Dreher, 2006). The data of the economic, social, and political globalization is taken from KOF Swiss Economic Institution 2020. The data covers the period from 1996 to 2018 and shows a maximum value of 100 for each index. The data of GDP and population are obtained from the World Development Indicator (WDI). Besides, the government effectiveness data is taken from the ICRG. The return on assets and equity are used as proxies of bank performance. The data of banks performance is obtained from the Financial Development Indicators.

3. RESULT AND DISCUSSION

Descriptive statistics is presented in Table 1. We have calculated the averages, maximum and minimum and standard deviation for the variables for the period 1996 to 2018. The descriptive results indicate that the average economic globalization index is 80.45 in Bahrain, followed by 79.43, 73.29, 69.36, 67.58 and 65.37 for UAE, Qatar, Kuwait, Oman and Saudi Arabia, respectively. The maximum value of economic indicator is found for UAE, which is 87.00, but the minimum value is found for Oman, which is 54.25. The highest S.D is 9.72 for Saudi Arabia, while the lowest variation is recorded for Kuwait, 2.83. The descriptive results indicate that the average social globalization index is 71.68 in UAE followed by 70.95, 68.94, 67.53, 62.76 and 59.96 for Bahrain, Kuwait, Qatar, Oman, and Saudi Arabia, respectively. The maximum value of the social indicator is found for Qatar which is 79.32 but the minimum value is found for Oman which is 46.02. However, the highest S.D is in the index of Qatar which is 7.95 although the lowest variation is recorded for Bahrain, 4.23. The descriptive results indicate that the average political globalization index is 60.17 in Saudi Arabia followed by 59.88, 54.70, 54.17, 43.73 and 43.24 for Kuwait, UAE, Qatar, Bahrain, and Oman, respectively. The maximum value of political indicator is found for Saudi Arabia, which is 66.18, while the minimum value is found for Oman, which is 31.35. However, the highest S.D is in the index of Qatar which is 12.93 and the lowest variation is recorded for Kuwait, 4.23.

Table 1 shows that the mean value of GDP per capita is 32085.22 in Kuwait followed by 18072.43, 362332.48, 51953.26, 15473.45 and 13710.53 for Bahrain, UAE, Qatar, Saudi Arabia, and Oman, respectively. The maximum value of GDP per capita is found for Kuwait, which is 32085.22, while the minimum value is found for Oman, which is 13710.53. The highest S.D is reported for Qatar, which is 23654.37, while the lowest variation is recorded for Bahrain, 5284.037. The descriptive analysis in Table 1 reveals that the mean value of population is 25307854 in Saudi Arabia, followed by 6041428, 2958821, 2680318, 1385928 and 1003395 for UAE, Oman, Kuwait, Qatar and Bahrain, respectively. The maximum value of population equals 25307854 for Saudi Arabia, and the minimum value is 1003395 for Bahrain. The highest S.D is for Saudi Arabia that is 4546633 while the lowest variation is recorded for Bahrain, 311574.5. The descriptive statistics indicate that the mean value of government effectiveness is 0.991 in UAE, followed by 0.654, 0.510, 0.335, 0.028 and -0.107 for Qatar, Bahrain, Oman, Kuwait, and Saudi Arabia, respectively. The maximum value of government effectiveness is found for UAE, which is 0.991, and the minimum value is found for Saudi Arabia, which is -0.107. The highest S.D equals 0.278 for UAE, and the lowest variation is recorded for Oman, 0.106.

The descriptive statistics show that the mean value of the return on assets is 2.332 in Qatar, followed by 2.097, 2.073, 1.944,1.829 and1.218 for UAE, Saudi Arabia, Oman, Kuwait, and Bahrain, respectively. The maximum value of the return on assets equals 2.332 for Qatar, and the minimum value equals 1.218 for Bahrain. The highest S.D is 0.816 for Saudi Arabia, and the lowest variation is 0.578 for UAE.

The descriptive statistics indicate that the mean value of the return on equity is 17.297 in Saudi Arabia, followed by 16.492,15.565,15.408,15.237 and 10.630 for Qatar, Oman, UAE, Kuwait, and Bahrain, respectively. The

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maximum value of the return on equity equals 17.29762 in Saudi Arabia, and the minimum value equals 10.630 in Bahrain. The highest S.D is represented as 7.294 in Saudi Arabia, while the lowest variation is 2.928 for Qatar.

Table 1. Descriptive statistics.

Bahrain	EG	SG	PG	GDP per Capita	POP	GE	RA	RE
Mean	80.452	70.950	43.735	18072.43	1003395.0	0.510	1.218	10.630
Maximum	84.468	76.260	51.274	24989.44	1494077.0	0.776	2.640	20.772
Minimum	71.881	64.091	31.358	10076.27	578661.0	0.195	-0.497	-4.188
S. D	3.151	4.236	6.4191	5284.037	311574.5	0.126	0.590	5.040
Kuwait								
Mean	69.360	68.947	59.888	32085.22	2680318.0	0.028	1.829	15.237
Maximum	73.298	76.446	65.846	55494.93	4056102.0	0.287	3.493	27.196
Minimum	64.249	60.165	53.008	14166.16	1626858.0	-0.175	0.376	3.367
S. D	2.839	5.763	4.236	13445.20	772245.0	0.127	0.794	6.644
Qatar								
Mean	73.431	67.537	54.178	51953.26	1385928.0	0.654	2.332	16.492
Maximum	80.325	79.326	69.963	85075.99	2724727.0	1.057	3.947	21.522
Minimum	64.367	56.893	36.457	17337.42	522531.0	0.403	1.405	9.761
S. D	4.126	7.951	12.932	23654.37	821145.1	0.211	0.593	2.928
Oman								
Mean	65.785	62.766	43.245	13710.53	2958821.0	0.335	1.944	15.565
Maximum	72.597	73.099	49.913	22139.74	4665926.0	0.498	3.198	26.950
Minimum	54.254	52.825	36.456	6215.715	2236652.0	0.081	0.235	2.054
S. D	5.191	7.565	4.373	5511.480	802223.3	0.106	0.728	6.065
UAE								
Mean	79.439	71.682	54.704	36232.48	6041428.0	0.991	2.097	15.408
Maximum	87.004	78.020	64.593	44498.94	9487206.0	1.509	4.049	27.734
Minimum	64.819	62.067	46.557	26899.60	2539121.0	0.581	1.272	10.272
S. D	7.257	5.151	5.822	5465.307	2762699.0	0.278	0.578	4.045
Saudi Arabia								
Mean	65.373	59.963	60.172	15473.45	25307854	-0.107	2.073	17.297
Maximum	73.406	72.942	66.180	25243.60	33101183	0.260	3.952	31.620
Minimum	59.820	46.082	53.681	7419.161	19033843	-0.374	-0.384	-3.922
S. D	3.689	9.720	4.392	6365.082	4546633.0	0.200	0.816	7.294

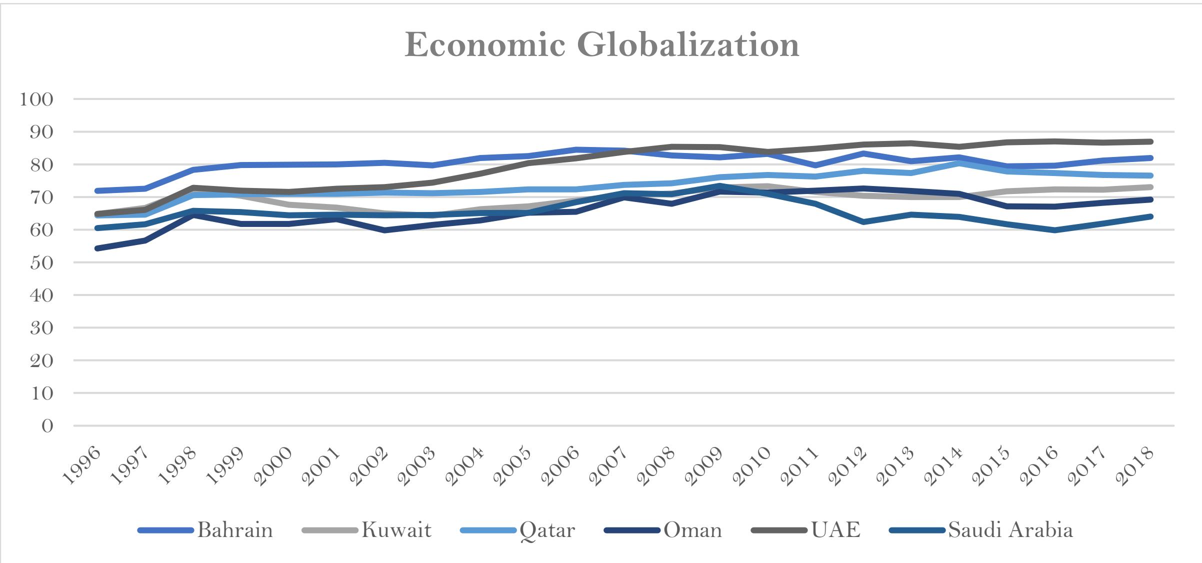

Figure 2. Trend of economic globalization in GC.

The Economic Globalization Index helps in identifying the economic activities of the GCC countries. It ranges from 0 to 100, where the larger value of the index shows that a country is in higher globalization. It has been

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noticed that the trend of the economic globalization for the GC is increasing over the years (Figure 2). The trend of the index value in Figure 2 represents that Oman is the least country with an index value of nearly 54. However, after the financial crisis, UAE has become the leading country with an index value of almost 90, and Saudi Arabia has become the least country with an index value of almost 62, in comparison to other GC's economic globalization.

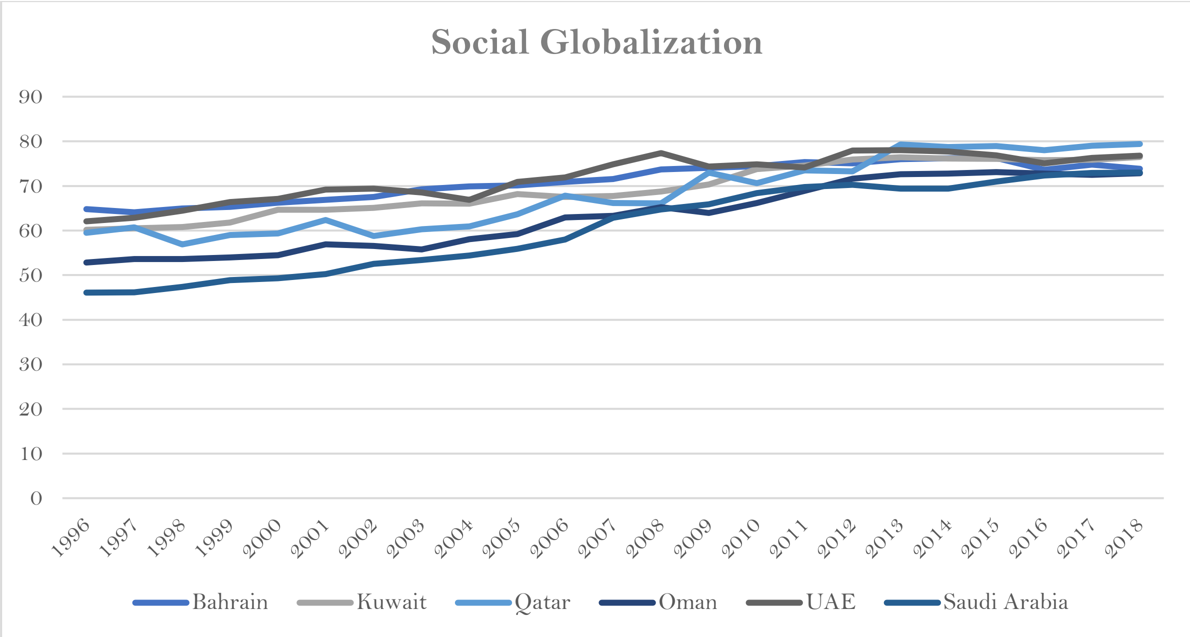

Figure 3. Trend of social globalization in GC.

The social globalization indicates sharing the different cultures, ideas and knowledge through social media, internet, and cross border transactions between the countries around the world. Figure 3 represents the increasing trend of social globalization for GC during the given period. Figure 3 clarifies that in 1996; Bahrain was the fastest country in social globalization in comparison to other GC. Then, Qatar has shown an increasing trend, which turned Qatar to be the fastest country in social globalization.

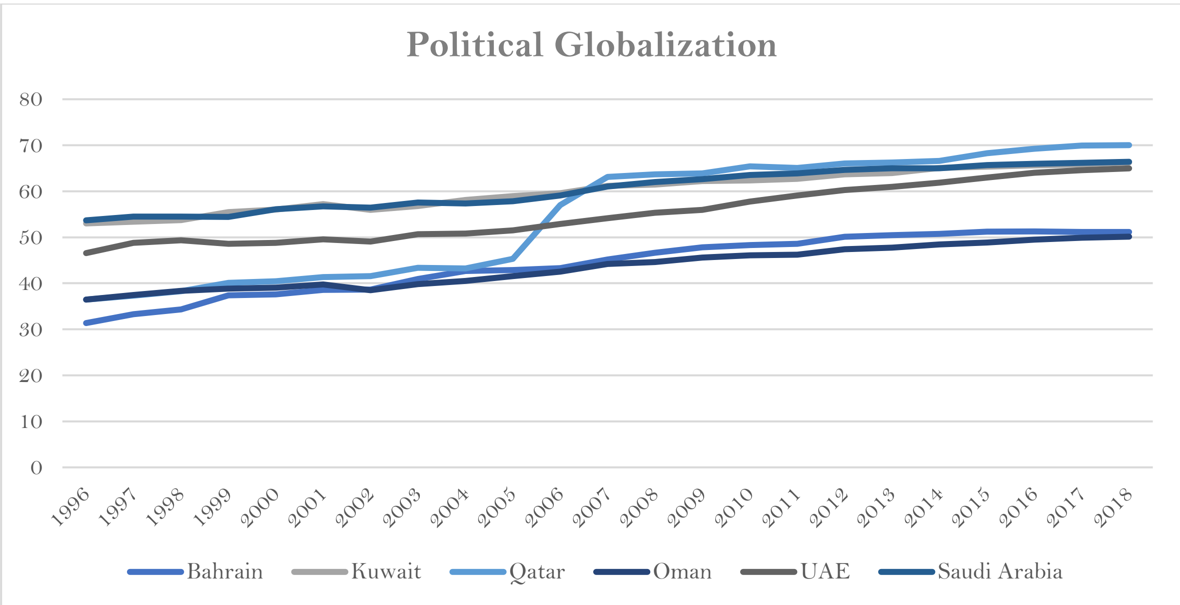

Figure 4. Trend of political globalization in GC.

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The political globalization index measures the growth of the political system of any country by including both its complexity and size. It also covers the country's national policies that link the country politically with its partner country. Figure 4 represents the increasing trend of political globalization for the GC. The trend of the index value shows that Qatar has become the fastest growing and the second largest country in political globalization after the financial crisis in 2008 (Figure 4).

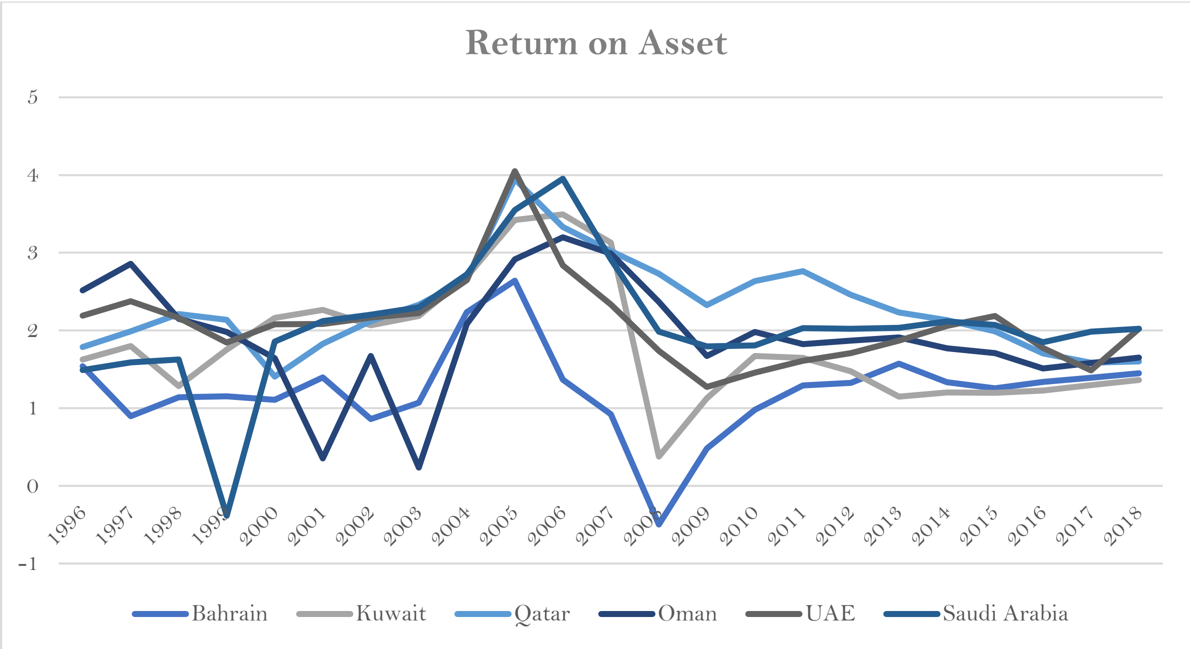

Figure 5. Trends of return on assets in GC.

The return on assets is the profitability ratio that provides how much profit a bank or a company can generate from its assets. Figure 5 represents the trends of the return on assets of the banks in GC. It is important to note that during the decade before 2000, the banks of Oman, Qatar and UAE were generating more profit. Then, after the financial crisis in 2008, the banks of Qatar, UAE and Saudi Arabia have generated more profit than other members of the GCC (Figure 5).

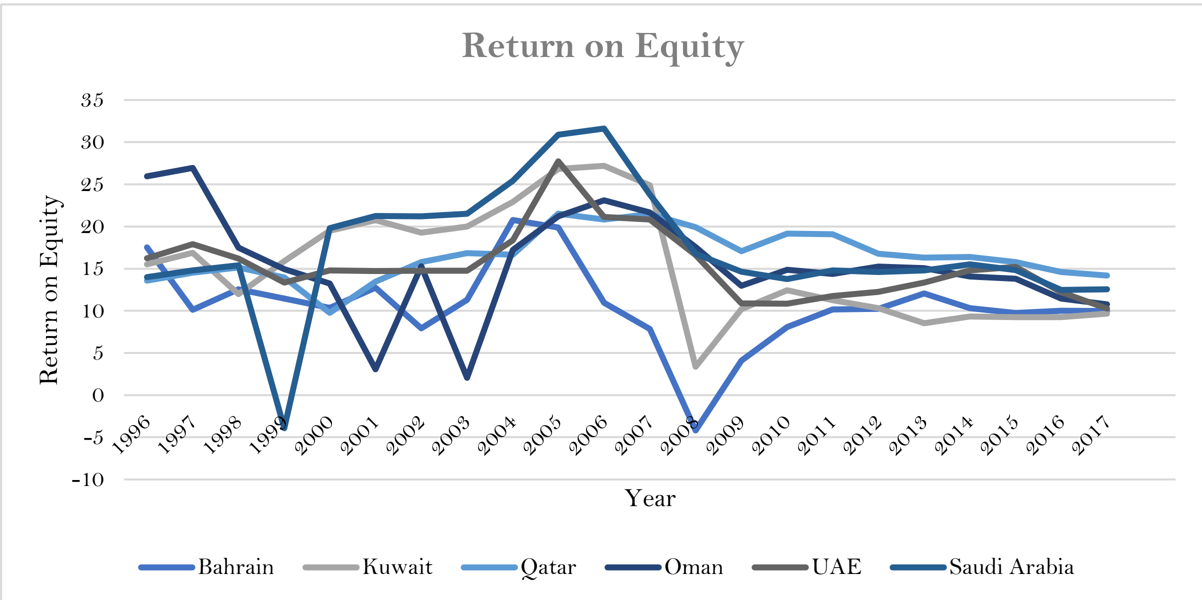

Figure 6. Trends of return on equity in GC.

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The return on equity is an important measure of bank or country's banking sector's profitability. Figure 6 represents the trends of the return on equity in GC. The profitability of the banks in Oman, UAE and Kuwait was high in the period before the decade of 2000. After that, the banks' profitability in Saudi Arabia turned to be higher. After the financial crisis in 2008, the profitability of Qatar, Oman and Saudi Arabia have shown higher profitability among other GC.

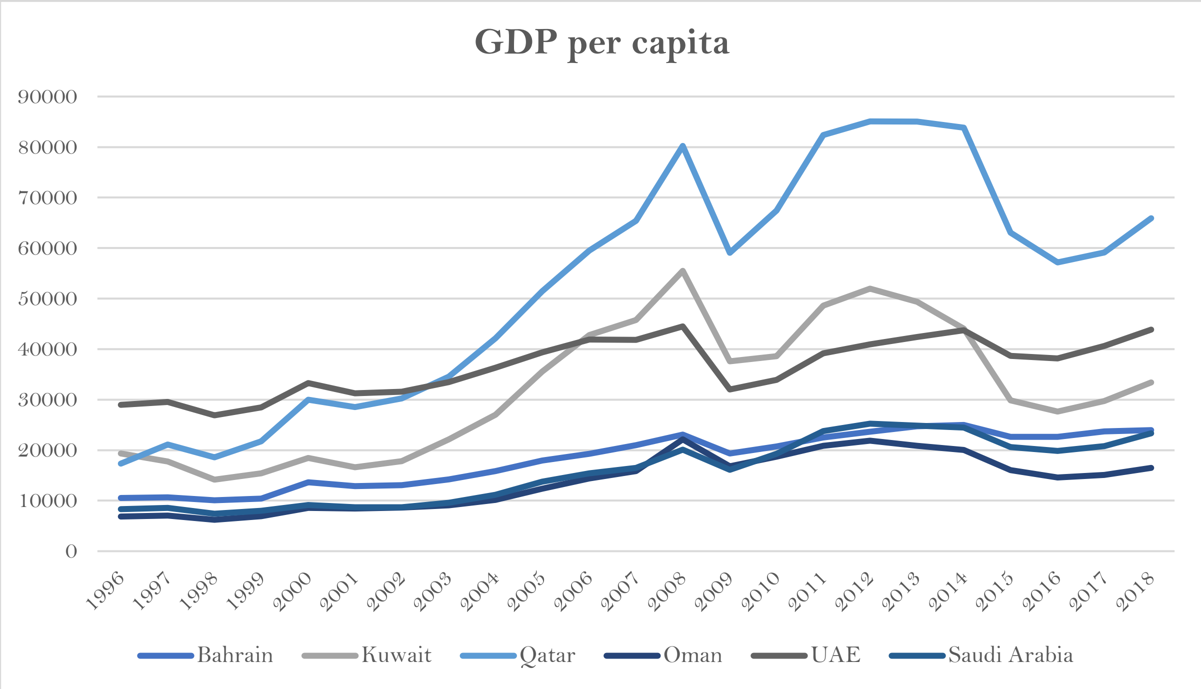

Figure 7. Trend of GDP per capita in GC.

The GDP per capita measures the standard of living for the people in a country. Higher values represent higher standard of living. Figure 7 represents an increasing trend of GDP per capita in GC. Bahrain was the fastest growing Gulf country in GDP per capita among the other GC in the period prior to the financial crisis in 2008. After that, Qatar became the fastest growing Gulf country.

An interesting finding from the above perspective of trends in globalization (economic, social, and political) is the negative relationship of globalization with the banking sector's profitability and the living standard of people in GC. Bahrain was the fastest growing country in globalization (especially in economic and social globalization) among other Gulf countries, while the bank profitability and the standard of living were found to be the lowest level with a decreasing trend. It states that the GC's banking sector and the GDP per capita are more vulnerable to the global shocks.

4. REGRESSION/ EMPIRICAL ANALYSIS

This study uses the generalized methods of moments (GMM) estimator introduced by Arellano and Bond (1991), Arellano and Bover (1995) and Blundell and Bond (1998) to estimate Equation 1 due to two main reasons. First, potential endogeneity could be a problem when assessing bank profitability determinants (García-Herrero, Gavilá, & Santabárbara, 2009). Second, banks might demonstrate high degree of persistence in their performance (Athanasoglou, Brissimis, & Delis, 2008). Consequently, empirical works concerning bank performance conducted in a static setting may lead to inconsistent and bias estimates (Hesse & Poghosyan, 2016). Hence, to control for both persistence and endogeneity issues, the study adopts the GMM estimator, which yields consistent estimates and enables us to make inference regarding the bank performance across different economic and institutional settings (Blundell & Bond, 1998).

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Table 2. Impact of globalization on assets return.

Variable	Coefficient	t-stat	Prob.
Economic Globalization	-0.885	-2.029	0.044
Social Globalization	-0.795	-3.189	0.001
Political Globalization	-0.856	-2.741	0.007
Government Effectiveness	0.00016	0.649	0.517
GDP per capita	0.683	6.904	0.000
Population	0.158	3.445	0.001
C	4.347	3.571	0.001
R-Square	0.821		

To examine the impact of globalization on the banking sector in the Gulf countries, we include the three different dimensions of globalization, namely, economic globalization, social globalization and political globalization to estimate Equation 1. Table 2 shows the negative and significant impact of globalization on bank profitability in the GC. The results represent that 1 percent increase in economic, social, and political globalization will lead to a decrease of 0.885, 0.795 and 0.856 units, respectively, in bank profitability. A closer look at the different dimensions of globalization indicates that the banking sector in GC is not benefitting from greater economic, social, and political globalization, due to the higher vulnerability of the banking sector from the external/ global shocks. Similarly, Kim., Lim, and Sohn (2020) found that the global risk aversion shocks have stronger negative impacts on financial markets and real economic activities.

The government effectiveness in a country ensures effective implementation of laws, which can protect the investor and improve the banking sector performance. Table 2 suggests that banking sector performance/profitability and government effectiveness have a positive and significant relationship. Our findings suggest that higher profitability or performance of the banking sector in GC is also associated with government effectiveness. These findings have significant implications for the financial markets and the banking sectors' policymakers, who emphasize on market risk factors to predict future expected returns. The findings of Ahad and Imran (2021) support our results as they find that good governance quality contributes positively to the development of the financial/ banking sector.

Moreover, this study finds that the living standard of people contributes positively and significantly to the banking/ financial sector's profitability almost 0.683 units Table 2. The results show that GDP per capita contributed positively and significantly to the return on assets in the GC. The existence of banks creates additional wealth in the country by attracting funds from depositors and channeling these funds to investors. The well-functioning economic activity in a country relates positively to the efficient banking system. The findings of Kumar and Bird (2020) support our results in suggesting that banks foster economic growth by funding productive projects, and that banks are a prerequisite for economic growth.

Furthermore, the study finds a positive and a strong correlation between population and banking sector's return Table 2. One unit increase in population leads to 0.158 unit increase in return on assets of banks in GC. If the population increases, the working-age population increases as well. An increase in the working-age population means an increase in investment by using the funds from the banking sector that will lead towards the profitability of the financial sector. Avlonitis, Vernardaki, and Manta (2017) observed that in countries with low interest rates amid population aging, financial institutions increase loans and securities investment, which offer relatively higher profit or return on assets. According to the results in Table 2, the value of R-squared is 0.82, which indicates that 82% of variation in the dependent variables is being explained by the independent variables.

We find a negative relationship between globalization (economic, social and political) and returns on equity (which measures the banking sector's profitability) in Gulf countries. Table 3 indicates that 1 percent increase in economic, social and political globalization leads to a decrease of 0.841973, 0.633739 and 0.308122 units respectively in bank's return on equity. This is justified in that the increasing access to foreign financial markets has

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allowed a large degree of risk sharing, which adversely affects the countries' banking sector profitability. Similarly, Kim (2017) finds that globalization has a negative effect on banks' return on equity, and that globalization makes banks vulnerable to external shocks.

Table 3. Impact of globalization on equity return.

Variable	Coefficient	t-stat	Prob.
Economic Globalization	-0.841	-1.706	0.091
Social Globalization	-0.633	-2.190	0.031
Political Globalization	-0.308	-0.956	0.341
Government Effectiveness	0.00017	0.652	0.515
GDP per capita	0.450	4.297	0.000
Population	0.104	2.080	0.039
C	5.932	4.406	0.000
R-Square	0.788		

There is a significant and positive relationship between returns on equity and macroeconomic variables. Table 3 shows that one unit increase in Government effectiveness, GDP per capita and population leads to 0.000174, 0.450774 and 0.104539 units increase in banks' return on equity in GC. A strong financial sector is crucial to support balanced and sustainable economic growth. In fact, a successful reform of the macroeconomic variables makes the banking sector more stable and beneficial for investors. The empirical findings of Feldman and Wagner (2002) have indicated that countries with strong macroeconomic variables would lead to developed financial systems in faster and stable approach. According to the results in Table 3 the value of R-squared is 0.79, which indicates that a 79% amount of variation in dependent variables is explained by the independent variables.

Table 4. Impact of globalization on GDP per capita.

Variable	Coefficient	t-stat	Prob.
Economic Globalization	0.148	1.946	0.071
Social Globalization	1.130	7.203	0.000
Political Globalization	0.968	3.868	0.001
Government Effectiveness	0.063	0.652	0.515
GDP per capita (-1)	0.890	5.013	0.000
C	5.932	4.406	0.000
R-Square	0.90		

All the people living in the GCC have experienced some of the benefits of globalization, as Table 4 indicates positive and significant relationship between GDP per capita and globalization (economic, social, and political). Also, GDP per capita with its lag value mean with last year's GDP per capita has positive and significant relationship. Government effectiveness has a positive but insignificant impact on GDP per capita for the GC. It means that the government in these countries needs to protect public policies and compensate workers whose earnings are adversely affected by globalization. According to the results in Table 4, the value of R-squared is 0.90, which implies that a 90% amount of variation in the dependent variables is being explained by the independent variables.

As it has been identified, the empirical data indicate a negative and statistically significant relationship between the performance of the GC's banking sector and the three forms of globalization. A comprehensive examination of the three forms of globalization reveals that the banking sector in the GC is not benefiting from the economic, social and political globalization. Dreher., Gaston, and Martens (2008) argue that rising political integration has a major impact on changes in political or economic processes, which cause a positive impact on economic development. However, the banks in GC countries have not reaped the benefits of globalization due to the higher vulnerability of the external shocks, such as the financial crises.

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5. CONCLUSION

This study investigates the relationship between globalization and banking sector's performance for Gulf Cooperation Council countries over the period of 1996 to 2017, by using the generalized technique of moments as an estimated approach. To examine the impact of globalization on the banking sector in the Gulf countries, the study has included three different dimensions of globalization, namely, economic, social, and political globalization. The return on assets and equity ratio are used to assess the bank performance. The study started with the proposition that GC cannot operate smoothly without a well-functioning and profitable banking sector, as well as globalization. However, the empirical results of the GMM model show a negative relationship between globalization (economic, social and political) and the banking sector's performance in GC. Also, the results represent a significant and positive relationship between banking sector's performance and macroeconomic variables, such as GDP per capita. The results indicate that globalization is crucial to increase the welfare of people living in GC.

The findings of this study have considerable policy implications. First, policymakers in GC are advised to regulate the untraditional activities to prevent any financial crisis, as banks in these countries are heavily engaged in the untraditional activities to boost their profit because of the globalization. Second, officials are advised to improve the deposit insurance system to ensure the stability of the financial system, and to increase banks' profitability. Third, the policy makers are recommended to improve the efficiency of the banking sector, as its development contributes to banks' profitability in the long run.

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