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The Impact of Economic Globalization on Income Inequality in Developing Countries: Case Study of Türkiye

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ABSTRACT: Globalization has been characterized as an inevitable development in the global financial and economic system with the rapid increase in technological development as well as the need for interdependence between states. Considering the ever-increasing trend of globalization, it is important to understand the impacts of globalization with its many aspects on countries. Although developed countries have enjoyed many of the benefits of globalization including its political, cultural as well as economic aspects, the impact of globalization on developing countries has been a more disputed issue. It is important to understand the benefits and detriments of globalization, specifically economic globalization on developing countries as developing countries tend to be more vulnerable and volatile when it comes to their economic and financial stability. The reasons behind the higher detrimental impacts of economic globalization on developing countries range from a lack of stable and strong financial institutions to the already existing economic and financial difficulties which developing countries face. This paper will aim to analyze the impact of economic globalization, specifically on income inequality in Türkiye as a developing country. The findings of the study have demonstrated that the impact of economic globalization on income inequality in recent years is not as significant, however developing countries must beware of the detrimental impacts that economic globalization might have should the domestic financial institutions and markets be caught unprepared.

KEYWORDS: Globalization, Inequality, Financial institutions, Volatility, Poverty

INTRODUCTION

Globalization has been a deciding factor in international economics and development in contemporary economics. Globalization has been defined in many ways which have mostly covered the same concept, one of which states that Globalization is the "growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information" (Peterson Institute for International Economics, 2024).

The trend of globalization has taken over most countries and their policies with regards to international trade, with countries being more encouraged in realizing policies of free trade in order to keep up with the ever-globalizing world and capitalize on the positive impacts of globalization. However, the impact of globalization and how it affects countries with different haracteristics has been an issue of discussion. Considering the different challenges and capabilities of developed and developing states, it is natural to assume that the impact of globalization would be different, depending on the country in question. Having in mind the dominance of globalization in our understanding of international economics and international trade, it is important to understand how globalization has impacted countries, specifically developing countries which are more vulnerable when it comes to missteps in economic and trade policy.

Globalization can be characterized in four different types: Political, Cultural, Economic and Ecological Globalization (Steger, 2009). Political globalization covers the development of international institutions and organizations which contribute to the development of an interdependent system in international diplomacy in which states sacrifice from their national sovereignty for the sake of an international structure. Cultural globalization encapsulates the creation of multicultural environments as well as a melting pot of cultures in countries, an example being the dominance of western culture on societies throughout the globe. Ecological globalization refers to cooperation and interdependency of societies on ecological and environmental issues. Economic globalization, which is the focus of this paper, refers to the interconnectedness and interdependency of states through increased free trade, integration of national economies and financial flows. This paper will focus on the impact of economic globalization on income inequality in developing economies with a specific focus on Türkiye as a case study.

LITERATURE REVIEW

Economic globalization can be described as the inter-dependency of nation-states between each other due to increased international trade and reliance on imports and exports for production and economic growth. Another key component of economic globalization is the existence of Multi-National Corporations, also known as MNCs. Multi-National Corporations such as The Coca-Cola Company, Nike and McDonald's are poster figures for economic globalization and are at the forefront when most people think about economic globalization. Economic globalization is criticized for many issues which plague our society today, such as increased income inequality as well as global warming, which mean that not only economic factors but environmental factors are also affected by economic globalization. Anti-globalists argue that economic globalization has resulted in a global for-profit economy, in which only MNCs and very influential and rich people and groups benefit while others suffer.

One author (Birdsall, 1999) points to this very issue, stressing the point that increased globalization, specifically in developing countries will lead to higher levels of income and political inequality. The author points out that while globalization has had an impact on inequality rates in developed countries such as the United States, the impact would be even greater in developing countries due to already high inequality rates and ineffective/weak institutions to counter the negative effects of economic globalization.

On the other hand, authors have also published studies which have pointed out to the opposite of the initial claim. The study realized by (Mosab, Elsantil, Hamadi, & Drachal, 2024) has demonstrated that the increase in foreign direct investments as well as the trade openness facilitated by increased economic globalization, has negatively impacted poverty and income inequality in developing countries. The study has shown that developing countries should be further encouraged to integrate globalization in their economic policies which would directly lead to job creation, technological advancement and economic growth, significantly reducing poverty and income inequality.

According to (Shangquan, 2000), the enlargement and development of economic globalization is an inevitable trend, especially with the development of technological advancements and the necessity of interdependence between states. The author states that the impact of globalization on developing countries is a double-edged sword with the benefits of increased technological benefits and foreign direct investments is an undeniable benefit which can greatly contribute to the economic development of developing countries. However, the authors also finds that globalization has significantly impacted the increase of income inequality and poverty in developing countries while also enlarging the gap between the developed and developing countries. The author also points out the increased levels of foreign direct investments and reliance upon international financiers in developing countries leads to bubble economies and financial volatility due to the speculative nature which creates instabilities within the domestic markets of these states.

Authors (Prasad, Rogoff, Wei, & Kose, 2003), have also pointed out that although it would be assumed that economic globalization and integration in the international financial system would lead to financial stability and economic growth in developing countries, however empirical data does not support this assumption unequivocally. The authors point out that allowing economic globalization in countries which are ill-prepared and do not have the institutional capacity to properly regulate the process may lead to further issues. Specifically, capital accounts liberalization requires significant reforms in internal financial institutions in order to properly regulate the potentially volatile circumstances which may occur.

This is also supported by a paper authored by (Tang, 2024), in which the study has demonstrated the importance of developing effective and capable public institutions within developing countries in order to effectively absorb the benefits of economic globalization while avoiding or at the very least mitigating the negative aspects and detriments.

Meanwhile, authors (Olagunju, Ogunniyi, Oguntegbe, Raji, & Ogundari, 2019), have found that the detrimental effects of economic globalization, such as increases in poverty, income inequality and health issues can be significantly mitigated by investments in human capital development in developing countries with Nigeria taken as a case study. The study has found that an increase in the educated strata in society may reduce the negative impacts of economic globalization in developing countries, therefore pointing to the importance of human capital on the effects of economic globalization. Observing this, the study suggests that should developing countries take the reasonable and necessary steps in preparedness, the positive aspects of economic globalization display a very optimistic picture.

A paper by (Hamdi, 2013), suggests that although there are many detriments to globalization in developing countries, such as erosion of the domestic culture and an increase in social crises such as drug abuse, violence and illness which have strained the health systems in developing countries, the economic benefits of globalization outweigh the detriments. The authors point out the impact of economic globalization has significantly contributed to the financial, economic and technological development in these countries, with a specific focus on India, China, Iraq, Syria, Lebanon and Jordan.

Observing the situation of Türkiye within the last decades during its integration in economic globalization, a similar situation may be seen. In 1989, a very significant step was taken by the government which changed the fate of the Turkish economy, and that was the liberalization of capital accounts. The aim of this privatization was to increase foreign capital flows to the domestic markets and increase resources for both the private sector and government expenditures (Yeldan, 2006). The radical and hastened liberalization of capital accounts has been an issue of criticism since Türkiye lacked the economic institutions to supervise and regulate the financial structure to such a degree at the time.

The current account deficits in 1999 were around 1.3 billion dollars meanwhile in 2000 it reached a huge deficit of 9.8 billion dollars, reaching 4.8 percent ratio to the GNP (Yeldan, 2006). Since this deficit was a huge contribution to the crisis, the reasons behind the deficit are debatable. It is important to remember that one of the leading issues with the initial liberalization of capital accounts was the drastic and irresponsible manner in which it was conducted, where the government lacked the necessary regulations and institutions, and this continued to be an issue for an entire decade.

The case of current account deficit crisis is not unique to Türkiye either, as the ruthless liberalization in this context has negatively affected and directly contributed to crises in other regions and countries as well, all of which were pushed to these ends by the encouragement of the IMF (Taskinsoy, 2019). The Turkish economy relied on a very speculative and volatile capital inflow throughout the 1990s in order to achieve growth, and this trend began with the liberalization in 1989. Meanwhile the disinflation program introduced in 1999 further encouraged this behavior with the conditionality of halting regulations on capital inflows which caused the financial sector in Türkiye to be excessively fragile and thus prone to crisis. Therefore, the impact of economic globalization with a lack of sustainable and effective financial institutions has demonstrated clearly the detriments and negative impacts.

The impact of current account deficits in developing countries is directly tied to the capital accounts liberalization which is a telling sign of countries allowing economic globalization within their domestic market.

RESEARCH DATA AND METHODOLOGY

This paper will utilize analysis of secondary data in order to depict, display and analyze the impact of globalization on income inequality in Türkiye, within the timeframe from 1999 until 2019. The study has deliberately focused on the years prior to the covid-19 pandemic in order to avoid any disruption on the analyzed data by the effects of the pandemic and the following economic crisis. The collected data was limited to the given years as well due to a lack of measurement when it comes to the GINI index in the case of Türkiye.

As designated data for the analysis, the study will focus on the KOF index (Dreher, 2006 & Savina, Haelg, Potrafke, & Sturm, 2019) as a measure of the level of globalization in Türkiye, meanwhile focusing on the GINI index (World Bank Group, 2024) as a measure of the level of income inequality.

The paper has focused on the following research questions in order to streamline and guide the study:

1. What was the impact of economic globalization on income inequality in Türkiye?
2. What were the indirect impacts of economic globalization on income inequality in Türkiye?

Considering that the data collected spans over 20 years (1999-2019), I utilized a simple regression analysis in order to analyse the data which will allow for a proper comparative analysis of the impact of globalization based on the KOF index on income inequality in Türkiye based on the GINI index, subject to the posed research questions.

The following variables were utilized in the regression analysis:

gini - GINI index

kof - KOF index

For the regression model, I used the following equation:

$$\text{gini} = \beta_0 + \beta_1 \times \text{kof} + \epsilon$$

FINDINGS

The realized model which can be found in appendix 1, demonstrated a very insignificant impact when it comes to the direct correlation between the increase in globalization in Türkiye and the position of Türkiye when it comes to the GINI index. There are several reasons for this, firstly the existence of other factors when it comes to the degree of inequality within the Turkish economy, as well as the lack of significant increases or radical changes in the GINI index with regards to the increase in the KOF index.

1. What was the impact of economic globalization on income inequality in Türkiye?

When the impact of economic globalization on income inequality in Türkiye is observed, we can detect that the direct impact, especially when considering the KOF and GINI indexes as basis for the realized analysis, although there is a negative impact, the impact in question is insignificant and should not be taken into consideration. However, considering the general context of the inevitable influence that economic globalization possess over macro-economic indicators, especially in developing countries, it is understandable that through the tumultuous and volatile contexts created by factors of economic globalization in Türkiye as covered during the literature review, the direct and indirect impact can be assumed to be quite high.

2. What were the indirect impacts of economic globalization on income inequality in Türkiye?

The indirect impact of economic globalization on income inequality comes through the impact of factors of economic globalization on other macro-economic indicators and the overall volatile context created by the existence and increase of economic globalization within the Turkish economy. The research conducted and covered by the study has shown in many cases that the improper execution and implementation of the process of economic globalization, has created a pessimistic portrait when it comes to the benefits and detriments of economic globalization on the national economy in Türkiye. The ineffectual handling of drastic reforms in adapting to economic globalization such as capital accounts liberalization and free trade in Türkiye due to the inexistence of strong and effective financial institutions as well as the unpreparedness of the domestic market as a developing country to adapt to economic globalization has led to many complications and difficulties. These complications have negatively impacted the growth, inflation as well as the public budget which have a direct impact on the general welfare and income equality.

CONCLUSION

The impacts of economic globalization on developing countries is multi-faceted and complex which requires a case-by-case analysis depending on the preparedness level and the capability of the developing countries to face the challenges and enhance the benefits of economic globalization. Strong financial institutions, a stable domestic market and the proper welfare system are all necessary tools for developing countries to reap the benefits and mitigate the detriments of economic globalization.

In the case of Türkiye, there is no doubt that economic globalization has provided many benefits, the increased foreign direct investments, free trade and technological advancements are all very important beneficial factors which significantly encourage developing countries to pursue economic globalization. However, the detriments cannot be ignored, and countries must act in accordance and take necessary measures to curtail them. Turkiye has significantly improved its economic and financial strength and capability, becoming a model country in the last decades for economic growth and integration to economic globalization. However, this did not come without harsh lessons learned from the struggles faced as a developing country without proper preparation and financial capability. Turkiye has seldom felt any significant impact of economic globalization when it comes to the issue of income inequality in recent years, however the indirect impact, specifically during the turbulent periods should not be ignored.

Developing countries have to focus on their financial capabilities and the capacity of their domestic market in order to be able to compete with the ruthless international markets and avoid or at the very least minimize the detriments that careless economic globalization may cause, not only in the case of income inequality but the health of the economic and financial systems overall.

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Appendix 1

Source	SS	df	MS			
				Number of obs	=	18
				F(1, 16)	=	0.27
Model	.549993528	1	.549993528	Prob > F	=	0.6118
Residual	32.8461323	16	2.05288327	R-squared	=	0.0165
				Adj R-squared	=	-0.0450
Total	33.3961258	17	1.96447799	Root MSE	=	1.4328

gini	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
kof	-.0505791	.097718	-0.52	0.612	-.257732	.1565738
_cons	44.22607	6.681323	6.62	0.000	30.0623	58.38985