Ekonomi, Politika & Finans Araştırmaları Dergisi, 2023, 8(1): 1-19
Journal of Research in Economics, Politics & Finance, 2023, 8(1):1-19
Araştırma Makalesi / Research Article, https://doi.org/10.30784/epfad.1255549

HOW DOES DEGLOBALIZATION AFFECT ECONOMIC GROWTH?

Küreselleşmeden Uzaklaşma Ekonomik Büyümeyi Nasıl Etkiler?

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Keywords:
Deglobalization, KOF Index, Economic Growth.

JEL Codes:
F41, F43, F60, F62.

Abstract

The current global landscape has been marked by a series of factors, such as the US-China trade war, disintegration in the European Union (EU), the refugee crisis, and the pandemic, which have impeded the process of globalization. However, similar situations have been experienced in the past, such as colonization, the Great Depression, and the Cold War. The world has experienced periods of globalization (Globalization I, II, and III) as well as periods of deglobalization (Deglobalization I and II). There have been discussions about whether the current decade is experiencing deglobalization and its effects. In this context, the present study aims to investigate the effects of deglobalization on economic growth in 34 OECD countries during the period 2000-2019, in various dimensions. Using panel data analysis, the results indicate that trade and social deglobalization have a negative impact on economic growth, while financial deglobalization and the subdimensions of social deglobalization have a positive influence on growth. Additionally, the study reveals that political globalization is not significantly associated with economic growth. These findings contribute to the ongoing debate on the current state of globalization and its effects on economic development.

Anahtar Kelimeler:
Küreselleşmeden Uzaklaşma, KOF Endeksi, Ekonomik Büyüme.

JEL Kodları:
F41, F43, F60, F62.

Öz

Mevcut küresel düzen, ABD-Çin ticaret savaşı, Avrupa Birliği'ndeki dağılma, mülteci krizi ve son olarak pandemi gibi bir dizi faktör ile küreselleşme sürecinin yavaşladığını göstermektedir. Ancak bu durum geçmişte de yaşanmıştır (örneğin sömürgeleştirme, Büyük Buhran, Soğuk Savaş). Dünya bazı dönemlerde küreselleşirken (Küreselleşme I, II ve III), bazı dönemlerde küreselleşmeden uzaklaşmıştır (Küreselleşmeden Uzaklaşma I ve II). İçinde bulunduğumuz on yılın küreselleşmeden çıkıp çıkmadığı ve bunun etkileri üzerine tartışmalar bulunmaktadır. Bu argümanlar ışığında bu çalışma, 2000-2019 dönemi için 34 OECD ülkesinde küreselleşmeden uzaklaşmanın ekonomik büyüme üzerindeki etkilerini çeşitli boyutlarıyla incelemeyi amaçlamaktadır. Panel veri analizi sonuçları, ticari ve sosyal küreselleşmeden uzaklaşmanın ekonomik büyümeyi olumsuz yönde etkilediğini, finansal küreselleşmeden uzaklaşmanın ve sosyal küreselleşmeden uzaklaşmanın alt boyutlarının ise olumlu yönde etkilediğini göstermektedir. Ek olarak, çalışma, politik küreselleşmenin ekonomik büyüme ile anlamlı bir şekilde ilişkili olmadığını ortaya koymakta ve ulaşılan bulgular, küreselleşmenin mevcut durumu ve bunun ekonomik kalkınma üzerindeki etkileri hakkında devam eden tartışmalara katkıda bulunmaktadır.

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Received Date (Makale Geliş Tarihi): 23.01.2023 Accepted Date (Makale Kabul Tarihi): 20.03.2023

1. Introduction

Academics, especially in the fields of economy and finance, consider globalization as a development and integration in the world economy. However, the IMF (2008) defines globalization as an extension beyond borders in economies and cooperation in culture, science, and technology. In the modern world, globalization comprises the contagion of capitalism in almost all areas, corporations, domination policies of governments in the market, the connective power of technology and social media in information dissemination, and the spread of cultures and the "McDonaldization" of food in all societies (Guttal, 2007; Komolov, 2020).

On the other hand, deglobalization is defined as the disintegration or decline of globalization. Bello (2004) describes deglobalization not as shrinking back from international integration, but as shifting economies from the output for export to the local market. According to James (2018), similar to the Great Depression and the interwar era in the past, the second deglobalization era began with trade, finance, and all politics with the 2008 crisis. On the other hand, Sharma (2016) indicates that Brexit and Donald Trump's election as US presidents are signs of the end of globalization, a manifestation of the 2008 crisis with the inclusion of the Great Recession, growing inequality, the reaction against the idea of a borderless world, and the high rate of immigration (Martin, 2018). Kim et al. (2020) indicate the existence of deglobalization since the 2008 crisis and it is more obvious in developed countries. Moreover, Covid-19 has recently shown the vulnerability of global supply chains and a lack of preparedness in the offshore outsourcing industry. Business and political leaders have debated whether global supply chains have become too suffusive and should decrease their interdependence in trade and economics (ICAEW, 2020; Lamba, 2021). In addition, the trade war between the US and China over the past decade and the recent Russia-Ukraine war are signs of increasing deglobalization in all dimensions.

In the literature, economic growth has been considered the variable that globalization has affected the most (Dreher, 2006; Quinn and Toyoda, 2008; Rodrik and Subramanian, 2009; Gurgul and Lach, 2014; Ying et al., 2014; Abakumova and Primierova, 2018; Gygli et al., 2019; Radulović and Kostić, 2020). However, with the 2008 crisis, the impact of deglobalization on growth was discussed. For instance, Hillebrand (2010) states that renationalization and protectionism may increase equality and economically benefit citizens and local companies in some developed countries but may also interrupt overall growth. Sharma (2016) claims that economic growth may have to be pushed back seat, as people and political leaders have become more polarized in the last two decades. Podkaminer (2016), on the other hand, argued that economic recession promotes disintegration in the EU.

In addition to the conceptual discussions in the literature, the effect of deglobalization on economic growth has not been empirically investigated, except by Kim et al. (2020). However, Kim et al. (2020) measured deglobalization with the decreasing trend of import share in the GDP of a country and examined its relationship with the KOF globalization indices. To our knowledge, this is the first study to present the impact of deglobalization on economic growth in all dimensions. In this study, we investigate how deglobalization affected economic growth in 34 OECD countries between the 2000-2019 period. By presenting empirical evidence on the impact of deglobalization, this study adds to the existing body of theoretical literature on deglobalization and economic growth and provides policymakers and researchers with valuable insights into the potential effects of deglobalization on economic development. Due to a lack of data, the dataset

of the study ended in 2019, and we could not examine the effects of Covid-19 and international tensions. However, our main findings indicate that trade and social deglobalization harm economic growth, while the subdimensions of social deglobalization and financial deglobalization boost economic growth, and political deglobalization has no impact.

The structure of the paper proceeds as follows: Section two provides a brief overview of the process of globalization and deglobalization, and then the literature on deglobalization and economic growth. Sections three and four contain the data and methods used in the analysis and show the empirical findings, followed by the last section, which includes a conclusion and discussion.

2. Literature Review

2.1. A Brief History of Globalization and Deglobalization

O'Rourke and Williamson (1999) state the first wave of globalization as a colonization period from the 1870s until World War I. Atlantic countries, which are most of the first and new member countries of the OECD, started to use external resources besides their own resources with colonization. The industrialization of Britain, colonization and its cheap workforce, and new resources by way of discovering the New World caused these countries to surpass major countries, such as Portugal and Spain. This era is called "the great Victorian boom" by the English, while it is referred to as " the golden age" by North Americans of industrial bounce to world domination. However, economic literature defines it as the "liberal period of free trade with the gold standard." During World War I, countries fell into economic troubles due to war, and no country other than the US had enough gold to cover war spending. We can say that the first wave of deglobalization began with this process and continued during the period of the Great Depression and protectionist politics during World War I and II (see Table 1).

Table 1. Waves of Globalization and Deglobalization

Wave Type	Duration	Propeller	Economy	Financial Architecture
Globalization I	1870-1914	Colonization	Boom	Gold Standard
Deglobalization I	1914-1946	World War I and II	Slump	Great Depression, Protectionism
Globalization II	1946-1973	Free Trade	Boom	Bretton Woods
Globalization III	1980-2009	Capital Mobility, Deregulation.	Boom	Generalized Capital Flow
Deglobalization II	2009-	The Great Recession: Trumpism, Brexitism, Trade Wars, Migration, The Pandemic.	Partly Recession	Financial protectionism and renationalization

Source: Dollar (2004), Hillebrand (2010), Karunaratne (2012), O'Rourke and Williamson (1999), and Van Bergeijk (2019)[1]

[1] Dollar (2004), Karunaratne (2012) and O'Rourke and J. G. Williamson (1999) defined 1914-1930 and 1939-1946 periods as Deglobalization I and II while Van Bergeijk (2019) expressed them as after periods of Great Depression and Great Recession.

The second wave of globalization is the expansion of trade openness in other countries after World War II and was built up by international agreements such as Bretton Woods (1946) and the establishment of the World Bank and the International Monetary Bank (James, 2018). During the third wave of globalization, the center of the economy started to shift from the US and Northern Europe to East Asia-Pacific countries (Karunaratne, 2012).

For the first time, Bello (2004) used the term deglobalization and suggested it as a mechanism that will fully transform the current paradigm of the global economy. The process began with the Great Recession, which referred to the economic downturn of the 2008 crisis.

In the trade literature, a theory in which peak trade emerged means that international trade cannot be faster than global GDP, and deglobalization begins when it passes its high point (Hoekman, 2015; Timmer et al., 2016). International trade to GDP peaked in 2007, declined by nearly 20% after the global downfall in 2008, and has not reached the same level ever since (see Figure 1). According to Van Bergeijk (2018), this is an indicator of the second wave of deglobalization, and the Great Recession triggered a partial push for deglobalization.

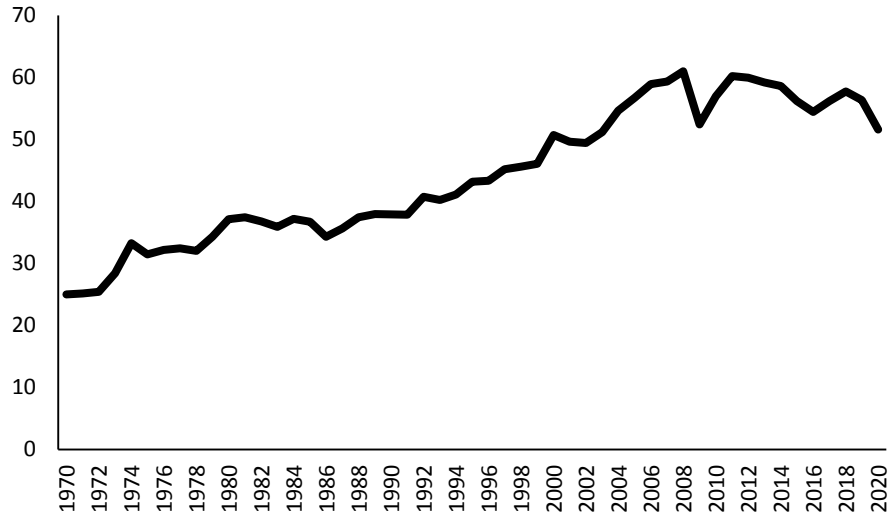

Figure 1. Change in Global Trade to GDP
Source: WorldBank

2.2. Dimensions of Deglobalization and Economic Growth

Dreher (2006) presents an index of globalization named the KOF Globalization Index and three dimensions of globalization: economic, political, and social. Gygli et al. (2019) developed these indices and generated new subdimensions by disentangling the main dimensions. In economic globalization, trade and finance, and in social globalization, cultural, interpersonal, and informational globalization indices have been added. The dimensions of globalization feed on each other; the level of globalization in any dimension of a country affects its economic growth. Likewise, we expect deglobalization in economics, politics, and society, or their sub-dimensions, to have the same impact. Therefore, we use the 1-KOF index to measure deglobalization based on Choi and Pyun (2019), who used the 1-KAOPEN index to measure financial closedness. Since there is almost no work in the literature on deglobalization and its relationship with economic

growth, and we consider these indices, we try to relate the literature on deglobalization with globalization and KOF indices.

2.2.1. Trade Deglobalization and Economic Growth

After the economic downturn of the 2008 global financial crisis, it is seen that the G20 countries emphasize trade-restrictive policies to maintain recovery in fragile economies. Trade restrictive policies of the G20 countries are implemented as quotas and tariffs with newly adopted border measures. The reason for the increasing number of trade-restrictive measures is that developing economies have begun to play a dominant role in the global economy (Barone and Bendini, 2015). The US has started to implement protectionism in its global trade activity, which started in Obama's second term, is supported by Trump, and leads a debate around the world regarding whether protective policies can be successful (Hübler and Herdecke, 2020). The protective policies of the US, which mainly focus on China, are expected to increase in the future. The response of China and other countries to the US could increase protectionism in the global economy (Guo et al., 2018).

Krueger (1985) states that there was a debate among academicians and policymakers regarding the relative advantages and effects of import substitution (inward orientation) and export promotion (outward orientation) policies on economic growth. Inward orientation or protection policies are criticized for their high costs and outward-oriented policies. Liang (1992) argues that trade strategies are traditionally bipolar between import substitution and export orientation. His study presents evidence that countries can use mixed policy and protectionist policies can be successfully employed at the same time as export promotion policies.

Irwin (2002) analyzed different countries by comparing tariff policies and economic growth. Argentina, Canada, and the US implemented high-tariff policies and achieved high economic growth in the late 19th century. Clemens and Williamson (2004), on the other hand, explain the benefits of trade openness depend upon the state of the world and tariffs were beneficial for economic growth in the period before 1914. Nunn and Trefler (2010) find that tariffs can reduce national income via allocative inefficiencies; however, national income can be raised if tariffs focus on appropriate industries.

Kwon (2013) emphasizes that the link between trade policy and economic growth is an open question, and it is traditionally assumed that there is a negative association between import restriction and economic growth. The analysis shows that import restriction policies are negatively associated with economic growth. However, tariffs can support economic growth positively by maintaining a certain level of protection from foreign competition.

Stiglitz (2017) highlights that trade globalization can provide benefits as well as negative impacts on countries. An overall increase in global activity may result in a decrease in the share of some countries, which worsens performance.

2.2.2. Financial Deglobalization and Economic Growth

Governments have started protectionist politics for their national economies and financial systems since the 2008 crisis affecting the world. Financial protectionism can be defined as a change in the preferences of domestic financial institutions induced by public policy that leads

them to discriminate against foreign households and/or enterprises, while government support for banks discourages international economic activity as a new wave of protectionism (Rijckeghem and Weder di Mauro, 2013; Rose and Wieladek, 2014; Van Bergeijk, 2018; Schaz, 2019).

The effect of financial integration or the liberalization of capital accounts on economic growth has been discussed since the beginning of the globalization process. Fischer (1998) and Summers (2000) state that capital account liberalization is necessary for middle-income countries to increase their income levels when it is a booster of stability for developed countries. On the other hand, Rodrik (1998) claims that enhancing economies are eager to loosen capital controls, in other words, economic growth triggers financial globalization. Some studies indicate that financial globalization enhances economic growth (Zhang and Zou, 1998; Mishkin, 2007; Quinn and Toyoda, 2008; Gygli et al., 2019; Sahoo and Sethi, 2020), while others have observed no association (Prasad et al., 2003; Kose et al., 2009; Schularick and Steger, 2010). Choi and Pyun (2019), on the other hand, argue that a closed capital account could positively affect economic growth if followed by the hoarding of reserves. Mishkin (2007) states that financial globalization enhances economic growth, but this is not always the case and financial globalization leads to devastating financial crises. Financial globalization implies higher systematic risk and may promote economic growth through significant financial policies and strong financial institutions.

2.2.3. Political Deglobalization and Economic Growth

Political globalization has been advancing rapidly for a long time, and it is hard to believe that it will gradually decline. However, political disintegration started in the second half of the 2010s with polarizing leaders like Boris Johnson, Andrzej Duda, and Jair Bolsonaro, but especially with Donald Trump. Trump's harsh statements and separatist rhetoric about the G7, NATO, and UN summits, withdrawing from the Paris Agreement and WHO (World Health Organization), raised questions about existing alliances and the formation of new alliances (Gygli et al., 2019). The popularity of nationalist parties in governments rose such as Poland and Hungary, on the other hand, in some countries the leftwing became popular, Alexis Tsipras and his leftwing party Syriza won the 2015 Greek election, López Obrador become president of Mexico in 2018, and Podemos was founded as a leftwing party in 2014 with anti-austerity movement and won the 2019 Spanish election. Moreover, EU skepticism increased in Europe with Le Pen and her National Rally party in France, an alternative to the German party, but the biggest example is the Brexitism movement (Manfredi-Sánchez, 2021). Lastly, the reactions of NATO and other alliances have been questioned in the tension between Russia and Ukraine. All of these political divergences and disintegrations can be considered a sign of increasing political deglobalization, but also encourage deglobalized in other dimensions.

The literature is contradictory in explaining the relationship between political globalization and economic growth. Alesina et al. (2000) claim political integration and the economy are substitutes and explain this with heterogeneous policies and fragmentation between countries. On the other hand, Martin et al. (2012) argue that political integration consists of trade agreements and that political integration and economic growth are complements. Schiff (2000) explains this as follows: countries demand progressive regional integration when trade openness increases, but want to decrease the degree of their political integration. In this case, less politically integrated countries are more open to trade agreements, which can boost their economic growth. Dreher (2006) mentions the pre-industrial revolution in Europe as an example of this situation. Less

political integration in Europe promoted competition between countries, which encouraged innovations in technology, and therefore, in the economy. However, Dreher (2006) finds that political globalization has no influence on economic growth, and Marques et al. (2017) and Ying et al. (2014) support this result. However, Majidi (2017) shows that political globalization affects growth positively in low-middle-income countries but negatively in upper-middle-income countries. Tekbas (2021) supports this finding and indicates that political integration accelerates economic growth in the BRICS-T countries. Moreover, some studies find a positive relationship between political globalization and economic growth (Chang and Lee, 2010; Olimpia and Stela, 2017; Gygli et al., 2019; Hasan, 2019; Nguyen and Le, 2021), while others show that political globalization hinders economic growth (Kilicarslan and Dumrul, 2018; Bataka, 2019). Finally, Monastiriotis and Zilic (2020) show that political disintegration has no effect on economic growth in Serbia but has a positive effect in Montenegro.

2.2.4. Social, Cultural, Interpersonal, and Informational Deglobalization and Economic Growth

Waters et al. (1994) state that globalization is the disappearance of geographic boundaries in social and cultural life. On the other hand, Dreher (2006) defined the social dimension of globalization as the diffusion of people, ideas, and information, and covers cultural, interpersonal, and informational globalization (Gygli et al., 2019). Majidi (2017) notes that social globalization may provide a basis for the improvement of human rights and the social status of people in a country. These improvements could open a road for economic participation and enhance living conditions that increase the country's economic growth. However, especially in countries such as China, whose economic growth has increased rapidly over the last two decades, child labor, forced female labor, low wages, and human trafficking activities have come to the fore (Hillman, 2005; Potrafke and Ursprung, 2012).

Kluver and Fu (2004) indicate that culture is the most obvious indicator of globalization, and relates to the sharing of cultural goods and services beyond national borders. The cultural dimension of globalization appeared in the second half of the 1980s thanks to movies, TV, and the media. The worldwide spread, the Internet since has 2000s and social media channels such as Facebook, Instagram, and Twitter since the 2010s and platforms such as Netflix have increased the speed of instant discovery and adaptation of a culture. The young generation has started to learn and adapt to each other's fashion, habits, and preferences without meeting each other and without being in that country.

Informational and interpersonal globalization proclaims the future utopia of unlimited access to information, unlimited economic change, and democratic individualized freedom (Harpold and Philip, 2000). However, they also revealed inherent contradictions in the present period of human life. Unlimited access to information, especially through social media, brought about information manipulation, information pollution, and impulsive actions due to misinformation, which may turn it into dystopia from another perspective. People have started to polarize almost every subject on social media, and social media reactions frame social, political, and economic life both globally and nationally. The most recent examples are the tweets sent by former US President Donald Trump and the US Capitol attack, videos and fake information about the Covid-19 outbreak on social media sites, or conversations on Reddit and skyrocketing of GameStop's stock price.

Gygli et al. (2019) state that people need real information and exchange knowledge to promote economic growth, however, institutions and infrastructure that could potentially be used for exchange people, knowledge, and culture are not necessarily enough to drive growth, according to informational knowledge spillover theory. Gygli et al. (2019) supported this theory in their study by showing that social globalization and its sub-dimensions, cultural, informational, and interpersonal globalization, have both positive and negative effects on economic growth. Dreher (2006) showed that social globalization promotes economic growth. Some authors, using the KOF globalization index, also indicate the same positive impact (Villaverde and Maza, 2011; Gurgul and Lach, 2014; Kilicarslan and Dumrul, 2018; Santiago et al., 2020), while others find a negative effect (Rao and Vadlamannati, 2011; Kilic, 2015; Ying et al., 2014; Radulović and Kostić, 2020). Furthermore, Hasan (2019) states that social globalization harms growth in Pakistan but has a positive impact on India and Nepal in the short run. He also shows that social globalization has no long-term impact on economic growth in any South Asian country. Similarly, Reeshan and Hassan (2017) found no effect in their study of developing countries.

3. Data and Methodology

This study explores the role of deglobalization in economic growth. The aim is tested on panel data of OECD countries, including Australia, Austria, Belgium, Canada, Chile, Colombia, Costa Rica, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, the UK, and the US. Unbalanced panel data from 34 OECD countries were analyzed. The period of analysis covers the yearly data for 2000-2019. Deglobalization is explained by the KOF Globalization Index (Dreher, 2006; Gygli et al., 2019). The KOF index provides trade, financial, political, social, cultural, interpersonal, and informational globalization. Since the values of the KOF index show globalization, the method of the "1-KOF index values" is used, and the calculated values become the deglobalization index in this study. Specifying the deglobalization concept as an inverse of globalization is found suitable, based on Choi and Pyun's (2019) paper which used the "1-KAOPEN" index to measure financial closedness. Data from this index are obtained from the KOF Swiss Economic Institute, and data on economic growth and control variables are collected from the World Bank Open Data.

The analysis of the study comprises panel data for 20 years and 34 countries. Park (2011) summarizes panel data models and shows that a panel dataset can be balanced (all entities are measured in all time periods) or unbalanced (all entities are not measured in all time periods) and long (longer time periods t than entities-n) or short (larger entities-n than time periods-t). Panel data deals with individual and time effect-specific components that can be fixed or randomly estimated. Table 2 summarizes the comparisons of the fixed effect and random effect models in the panel methodology.

Major panel data models are called fixed-effect and random-effect models. Panel data models can help reduce unexplained variability and solve omitted variable bias by dealing with panel-specific components. The choice between employing a fixed or random model can be determined using the Hausman Test, which examines the presence of endogeneity (Sheytanova, 2015). Hausman tests the exogeneity assumption, which determines whether unobserved individual effects are correlated with the regressors. When the test results fail to reject exogeneity,

this provides statistical evidence in favor of using a random effects model. Rejection of exogeneity in the Hausman test presents statistical information that supports the fixed-effect specification (Amini et al., 2012).

Table 2. Comparisons of Fixed Effect Model and Random Effect Model

	Fixed Effect Model	**Random Effect Model**
Assumption	Constant Slopes	Constant Slopes
Assumption	Group and/or Time variations in Intercept	Constant Intercept
Assumption	-	Individual Effects Not Correlated with Regressors
Assumption	Constant Error Variances	Randomly Distributed Error Variances Across Group and/or Time
Estimation Methods	LSDV, Within Fixed Effect Estimation	GLS, FGLS, EGLS
Testing	F Test	Breusch- Pagan LM test

Source: Park (2011)

Fixed effects modeling of panel data is employed more frequently and accepted as the default approach which becomes "gold standard" status in economics and political science. Random effects modeling indicates increasing importance and is regularly applied in education, epidemiology, and biomedical sciences (Bell and Jones, 2015). In this study, two-way fixed-effects modeling was assumed for the data of OECD countries. This specification was also tested using the F-test and Hausman test.

Equation (1) describes the model used in this study.

$$y_{it} = \beta_{0i} + \gamma_i + \sum_j \beta_J X_{jit} + \varepsilon_{it} \quad (1)$$

y_{it} = Dependent variable for individual unit (i)and at time (t)
X_{jit} = The regressor j for individual unit (i)and at time (t)
β_{0i} = Unobserved individual effect constant in time for each individual
γ_i = Fixed effects in time
ε_{it} = Errors

The dependent variable is economic growth, which is explained by the yearly growth rate. The control variables are based on Apergis and Poufinas (2020), who model economic growth for a panel of OECD countries. These variables are foreign direct investment inflows, gross capital formation, financial development, trade openness, and government expenditure. Net foreign direct investment and gross capital formation are used relative to GDP. Financial development is proxied by the stock market capitalization of listed domestic companies relative to GDP. Trade openness was measured as the sum of exports and imports relative to GDP. Government expenditure is indicated by the general government's final consumption expenditure relative to the GDP. Deglobalization variables are created from the defacto variables of the KOF Globalization Index. These variables provide trade deglobalization, financial deglobalization, political deglobalization, social deglobalization, cultural deglobalization, interpersonal deglobalization, and informational deglobalization. Table 3 lists the variables used in the analysis.

Table 3. Variables of the Model

	Variables	Data Source
y:	Economic growth	World Bank
Control Variables		
X_1:	Gross capital formation	World Bank
X_2:	Foreign direct investment inflows	World Bank
X_3:	Financial development	World Bank
X_4:	Trade openness	World Bank
X_5:	Government expenditure	World Bank
Deglobalization Variables		
X_6:	Trade deglobalization	KOF Swiss Economic Institute
X_7:	Financial deglobalization	KOF Swiss Economic Institute
X_8:	Political deglobalization	KOF Swiss Economic Institute
X_9:	Social deglobalization	KOF Swiss Economic Institute
X_{10}:	Cultural deglobalization	KOF Swiss Economic Institute
X_{11}:	Interpersonal deglobalization	KOF Swiss Economic Institute
X_{12}:	Informational deglobalization	KOF Swiss Economic Institute

Levin et al. (2002) highlight the importance of unit root testing in econometric research and provide a panel unit root test which has the advantage for studies that have a panel of moderate size. If the cross section or time series dimensions are very not high, the Levin, Lin and Chu t* (LLC) test becomes relevant. Since our study analyzed the yearly time period which–2000-2019 and 38 countries' cross-sectional dimensions, the LLC test is useful and was chosen to test stationarity. The LLC test is a unit root test that checks H0 hypothesis (all time series have a unit root) and H1 hypothesis (all time series are stationary). When variables are non-stationary, classical regression results can be misleading and lead to computing differences or other data transformations (Lyocsa et al., 2013). Therefore, this study considered stationary variables. This study estimates the PCSE standard errors and the covariance correction method. Ikpesu et al. (2019) stated that the Panel Corrected Standard Errors (PCSE) technique provides solutions for autocorrelation, accurate standard error estimates, and results with less sensitivity to outliers.

4. Empirical Results

The methodology explains that regression analysis requires stationary variables. Thus, a unit root test was employed, as shown in Table 4. The results of the LLC test show that all research variables have a stationary process.

Table 4. Unit Root Test

Levin, Lin and Chu t* Test (LLC Test)							
	y	**X_1**	**X_2**	**X_3**	**X_4**	**X_5**	**X_6**
Statistics	-10.8273	-5.07454	-6.29090	-4.35698	-1.87615	-3.11017	-1.29154
p-value	0.000	0.000	0.000	0.000	0.030	0.001	0.098
	X_7	**X_8**	**X_9**	**X_{10}**	**X_{11}**	**X_{12}**	
Statistics	-5.30153	-2.26898	-7.04906	-3.11386	-9.52643	-4.58338	
p-value	0.000	0.012	0.000	0.001	0.000	0.000	

The panel data estimation requires specification tests. A two-way fixed-effect model estimation was applied. F-tests and Hausman tests were implemented to test the two-way fixed effects model. Table 5 summarizes the relevant tests. The fixed effects were significant, according to the F-test results.

Table 5. Fixed Effect and Random Effect Tests

Effects Test	Statistic	Prob.
Fixed Effect Cross-section F Test	9.140377	0.000
Fixed Effect Period F Test	16.21135	0.000
Cross-Section/Period F Test	13.743650	0.000
Cross-section Correlated Random Effects Hausman Test	110.78703	0.000
Period Random Correlated Effects Hausman Test	31.956686	0.001

The Hausman test results show rejection of exogeneity, which provides statistical evidence in favor of using a fixed effects model. The Hausman test is employed, and the rejection of exogeneity, which supports fixed-effect specifications, is evident. Thus, the least square dummy variable estimation method (LSDV), which considers cross-sectional and period fixed effects, is implemented according to the test results in Table 5.

Table 6. Baseline Results

	Coefficient	t-statistics
Control Variables		
Gross capital formation	0.247464	0.0000***
Foreign direct investment inflows	0.020444	0.0332**
Financial development	0.008998	0.0599*
Trade openness	0.030524	0.0046***
Government expenditure	-0.645425	0.0000***
Deglobalization Variables		
Trade deglobalization	-0.031099	0.0965*
Financial deglobalization	0.062806	0.0041***
Political deglobalization	-0.021386	0.3046
Social deglobalization	-2.413088	0.0277**
Cultural deglobalization	0.762970	0.0362**
Interpersonal deglobalization	0.824585	0.0240**
Informational deglobalization	0.777593	0.0373**

Note: Dependent Variable: Economic Growth (y), Method: Panel Least Squares, Effects Specification: cross-section and period fixed dummy variables. Sample: 2000 2019. Periods included: 20, Cross-sections included: 34 Total panel (unbalanced) observations: 587, R-squared: 0.693487
***, **, * represent 1%, 5%, 10% significance level respectively.

Table 6 shows the baseline results. All the control variables provide significant coefficients. As expected, gross capital formation, foreign direct investment inflows, financial development, and trade openness have a positive impact on economic growth. The effect of government expenditures is negative. Gross capital formation refers to the investment in fixed assets such as buildings, machinery, and equipment, and its positive impact on economic growth may be due to increased productivity and output. Foreign direct investment inflows refer to investments made by foreign companies in a country's economy, and their positive impact on economic growth may be due to increased employment, technology transfer, and access to new markets. Financial development refers to the development of financial systems and institutions, such as banks, stock markets, and insurance companies, and its positive impact on economic growth may be due to increased access to credit and capital, which can stimulate investment and entrepreneurship. Trade openness refers to the extent to which a country participates in international trade. The positive impact on economic growth may be due to increased competition, access to new markets, and access to cheaper inputs. However, government expenditure, which refers to the amount of money

spent by the government on public services and investment, has a negative impact on economic growth. This may be due to the crowding-out effect, where increased government expenditure leads to higher interest rates, which in turn reduces private investment and slows economic growth. Overall, these results highlight the importance of certain factors, such as investment, financial development, and trade openness, in promoting economic growth, while caution should be exercised when increasing government expenditure, as it may have a negative impact on economic growth.

The analysis employed seven deglobalization variables (trade, financial, political, social, cultural, interpersonal, and informational). Trade deglobalization is negative. Deglobalization of trade, which refers to a decrease in the degree to which a country participates in international trade, can decrease economic growth. This may be due to reduced competition, limited access to new markets and inputs, and reduced opportunities for specialization and economies of scale. The trade openness variable, with positive signs, also supports this finding. This finding shows that free trade is important for economic growth, indicating that free trade is important for economic growth (Kwon, 2013; Schularick and Solomou, 2011).

Political deglobalization becomes insignificant, whereas the other deglobalization variables maintain significant coefficients. Political deglobalization refers to a decrease in the degree to which a country participates in international political cooperation and institutions such as regional agreements and international organizations. However, the significant coefficients of other deglobalization variables, such as financial, cultural, interpersonal, and informational, suggest that these forms of deglobalization may have a more significant impact on economic growth. For example, financial deglobalization may increase financial risk, while cultural, interpersonal, and informational deglobalization may have positive effects on economic growth.

Financial deglobalization refers to a decrease in the degree to which a country participates in international financial flows and institutions, such as international capital flows and global financial markets. Financial deglobalization provides a highly significant positive coefficient, which may be explained by the fact that increasing a country's financial position can result in high financial risks (Choi and Pyun, 2019). The finding of a highly significant positive coefficient for financial deglobalization suggests that reducing a country's exposure to international financial risks may lead to positive economic growth while acknowledging the need to carefully consider the potential consequences of reducing a country's exposure to international financial flows and institutions.

Cultural, interpersonal, and informational deglobalization positively affect economic growth, whereas social deglobalization has a negative impact (Gygli et al., 2019). These findings contrast with the idea that increased globalization and interdependence lead to better economic outcomes. This suggests that while there are benefits to globalization, there may also be benefits to promoting more localized exchange. The finding that social deglobalization has a negative impact on economic growth suggests that reducing social interactions and cooperation with other countries may have adverse economic consequences. For example, if countries no longer work together to address issues such as climate change or human rights, this could lead to increased uncertainty and risk, which could negatively impact economic growth. By reducing social interactions and cooperation with other countries, countries may miss out on opportunities for trade, investment, and cultural exchange, and may also contribute to broader global challenges that can impact economic growth.

5. Conclusion

Since the end of the 20th century, almost all countries have developed policies towards globalization to become interconnected in trade, finance, politics, and social areas. However, in the last decade, especially with the Great Recession, the disruptive effects of globalization as well as their benefits have been discussed. Supporting this, governments have begun to change their policies in a more nationalist and protectionist center during Trumpism, Brexitism, and Covid-19.

This study presents empirical results on the impact of deglobalization on economic growth. We employ the dimensions of deglobalization with the KOF index as trade, financial, political, social, and subdimensions of social. Using panel data of 34 OECD countries from to 2000-2019, we find that trade and social deglobalization have a negative impact on economic growth; however, financial deglobalization and subdimensions of social deglobalization, such as cultural, interpersonal, and informational, positively affect economic growth. On the other hand, we find that political deglobalization is not associated with growth.

The global supply chain is an essential aspect of the international economy that allows countries to trade goods and services with each other. However, recent events such as domestic product incentives, embargoes, restrictions, tariffs, and the US-China trade war have created significant disruptions to international trade. In addition, the Covid-19 pandemic has led countries to close their borders, further hampering global trade. Despite these challenges, the offshore outsourcing industry has continued to thrive as local economies often lack the capacity to replace offshore output. This reinforces the importance of trade integration as countries must continue to rely on each other to drive economic growth. While there are signs of disintegration between countries, deglobalization is not currently a viable option for any country looking to enhance its economy through trade. Instead, countries can focus on trade deglobalization through targeted policies, such as tariffs for appropriate industries, to promote economic growth. In addition, governments can develop policies aimed at transitioning economies from import-based to local markets. By taking these steps, countries can achieve economic growth while still participating in global trade. Future research could explore the potential impacts of various trade policies on economic growth, particularly in the context of deglobalization. For example, researchers could analyze the effectiveness of protectionist policies, such as tariffs and subsidies, in promoting domestic production and boosting economic growth. They could also investigate the potential negative consequences of such policies, such as retaliation from trading partners, increased consumer prices, and reduced international cooperation. Furthermore, future research could investigate the role of technological advancements and innovation in promoting local production and reducing reliance on global supply chains.

Financial globalization can foster economic growth, but this requires a robust financial system and market. However, the globalization process has led to the globalization of financial crises and their effects. The 2008 crisis damaged all countries, even those with strong financial systems, as they became financially globalized. This can be explained by the fact that increasing the financial position of a country results in high financial risks. Thus, financial deglobalization can be beneficial for countries and they can accelerate their economic growth through a closed capital account and financial stability by hoarding of reserves. In contrast, the issue of whether policy recommendations from institutions such as the World Bank and the IMF will produce the same results for each country in the face of global crises is a topic discussed in the literature.

Therefore, in future studies, examining the relationship between deglobalization and growth in terms of countries, and moving away from financial globalization, may provide an opportunity to develop a different approach to the issue.

Political globalization involves the integration of political systems and institutions across borders, while political deglobalization involves the reversal of this process, often through nationalist policies and restrictions on immigration and trade. The increasing polarization and radicalization of politics in recent years have led to a decline in political globalization, particularly in developed countries such as the US, the UK, and France. However, the study suggests that this may not necessarily have a significant impact on economic growth. Nevertheless, developing and less-developed countries may benefit from political integration, especially in terms of trade and economic development. This is because political integration and economic integration often go hand in hand, and political deglobalization may have adverse effects on trade and economic growth. Therefore, it is important for these countries to continue to integrate regionally and globally in politics and trade to enhance their economies. Future research on political deglobalization could investigate the reasons why developed countries tend to adopt a more nationalist and isolationist stance, while developing countries prioritize regional or global integration. They could also explore the potential long-term effects of political deglobalization on democracy, human rights, and international relations. Additionally, examining the impact of political deglobalization on other aspects of society, such as immigration and social policies, could provide a more comprehensive understanding of the consequences of deglobalization.

Social globalization can provide a basis for the improvement of human rights and social status in a country. These developments can open an avenue for economic participation and improve living conditions that boost the country's economic growth. Thus, social deglobalization is expected to negatively affect economic growth. However, cultural, interpersonal, and informational globalization have caused educated people to migrate from their own countries to developed countries. Therefore, the deglobalization of these dimensions can cause the opposite movement and enable the development of their own countries' economies. It is important to consider the potential positive and negative impacts of social, cultural, interpersonal, and informational globalization and deglobalization on economic growth, as these dimensions are closely intertwined with various aspects of a country's social and economic well-being.

This study examines how the dimensions of deglobalization have several effects on economic growth. However, these effects may take different forms in the coming years, especially with the Covid-19 pandemic and the recent Russian-Ukrainian war. Therefore, future studies should analyze the effects of these factors. In addition, dimensions such as health and the military can be discussed.

Declaration of Research and Publication Ethics
This study which does not require ethics committee approval and/or legal/specific permission complies with the research and publication ethics.

Researcher's Contribution Rate Statement
The authors declare that they have contributed equally to the article.

Declaration of Researcher's Conflict of Interest
There is no potential conflicts of interest in this study.

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