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Globalization dimensions and their impact on poverty reduction

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Abstract

The links between globalization and poverty represent an intriguing debate amongst academics, researchers, economists and policymakers in various fields due to the magnitude of both phenomena. While it is common to look at globalization as a whole, it has become relevant to address each globalization dimension (economic, social, political) individually and assess how each one is impacting poverty reduction.

The goal of this study is to understand which globalization dimensions have contributed more to poverty reduction, while also exploring the behavior of each sub-dimension, in 23 countries spread across 4 different regions across the world (Europe & Central Asia; East Asia & Pacific; Latin America & the Caribbean; Middle East & North Africa), during the period between 1970 and 2024. For that purpose, the study employed econometric techniques with panel data, using the KOF Globalization Index and the Poverty Headcount ratio at \$2.15 per day (2017 PPP) as proxies for globalization and poverty, respectively.

The results indicate that social and political globalization have contributed effectively to reducing poverty, while economic globalization has not. By looking further into the sub-dimensions, while informational, interpersonal and cultural globalization behave equally, trade and financial globalization behave in different directions (trade globalization contributes to poverty reduction; financial globalization does not). In terms of regional impact, globalization has shown to contribute more to poverty reduction in East Asia & Pacific, followed by Europe & Central Asia. In the regions of Latin America & the Caribbean and Middle East & North Africa, the impact of globalization on poverty has been significantly weaker.

Keywords: economic globalization; political globalization; social globalization; poverty.

JEL Codes: C1, D31, F13, F15, F43, F6, G15, H53, I3, O5

Resumo

A ligação entre a globalização e a pobreza representa um debate aceso entre académicos, investigadores, economistas e decisores políticos em várias áreas devido à magnitude de ambos os fenómenos. Apesar de ser comum olhar para a globalização como um todo, tem-se mostrado relevante analisar cada dimensão (económica, social, política) individualmente e avaliar como é que cada uma está a contribuir para a redução da pobreza.

O objetivo deste estudo é perceber qual das dimensões da globalização tem contribuído mais para a redução da pobreza, enquanto olhamos também para o comportamento de cada subdimensão, em 23 países espalhados por 4 regiões do mundo (Europa e Ásia Central; Ásia do Leste e Pacífico; América Latina e Caraíbas, Médio Oriente e Norte de África), no período entre 1970 e 2024. Para este propósito, este estudo recorreu a estimações econométricas com dados em painel, utilizando o Índice de Globalização KOF e a taxa de incidência da pobreza (a \$2.15 p.p) como *proxies* da globalização e da pobreza, respetivamente.

Os resultados indicam que a globalização social e a globalização política contribuíram de forma efetiva para a redução da pobreza, enquanto a globalização económica não. Ao olhar de forma mais aprofundada para as subdimensões, enquanto a globalização informacional, globalização interpessoal e globalização cultural se comportam da mesma maneira, a globalização comercial e a globalização financeira comportam-se em direções opostas (a globalização comercial contribui para a redução da pobreza e a financeira não). Em termos de impacto por região, os resultados mostram que a globalização contribui mais para a redução da pobreza na Ásia do Leste & Pacífico, seguida da Europa & Ásia Central. Nas regiões América Latina & Caraíbas e Médio Oriente & Norte de África, o impacto da globalização na pobreza tem sido significativamente mais fraco.

Palavras-chave: globalização económica, globalização política, globalização social, pobreza.

Códigos JEL: C1, D31, F13, F15, F43, F6, G15, H53, I3, O5

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List of abbreviations

AREAER - Annual Report on Exchange Arrangements and Exchange Restrictions

ATK / FP – A.T. Kearney/Foreign Policy Globalization Index

CUJI – Cultural Globalization Index

CUJI – Cultural Globalization Index, *de facto*

CUJI – Cultural Globalization Index, *de jure*

ECGI – Economic Globalization Index

ECGI_{df} – Economic Globalization Index, *de facto*

ECGI_{dj} – Economic Globalization Index, *de jure*

EU – European Union

FDI – Foreign Direct Investment

FIGI – Financial Globalization Index

FIGI – Financial Globalization Index, *de facto*

FIGI – Financial Globalization Index, *de jure*

GDP – Gross Domestic Product

GI – Globalization Index

GI_{df} – Globalization Index, *de facto*

GI_{dj} – Globalization Index, *de jure*

ICT – Information and Communication Technologies

INGI – Informational Globalization Index

INGI_{df} – Informational Globalization Index, *de facto*

INGI_{dj} – Informational Globalization Index, *de jure*

IPGI – Interpersonal Globalization Index

IPGI – Interpersonal Globalization Index, *de facto*

IPGI – Interpersonal Globalization Index, *de jure*

MPI – Multidimensional Poverty Index

NGI – New Globalization Index

NGOs – Non-Governmental Organizations

POGI – Political Globalization Index

POGI_{df} – Political Globalization Index, *de facto*

POGI_{dj} – Political Globalization Index, *de jure*

PPP – Purchasing Power Parity

SOGI – Social Globalization Index

SOGI_{df} – Social Globalization Index, *de facto*

SOGI_{dj} – Social Globalization Index, *de jure*

TRGI – Trade Globalization Index

TRGI – Trade Globalization Index, *de facto*

TRGI – Trade Globalization Index, *de jure*

UN – United Nations

WTO – World Trade Organization

1. Introduction

Globalization is an ever-evolving unescapable phenomenon, counting with substantial ongoing research, yet there are few consensual aspects to it. A topic with such magnitude is difficult to define, track and measure, which contributes to a never-ending discussion within the research community from various fields of interest, with new links and conclusions emerging constantly.

Although there is no absolute definition of globalization, some authors came up with highly accepted descriptions that attempt to capture the essence of it in order to describe it as closely as possible. Gygli *et al.* (2019), based on the works of Dreher (2006), Clark (2000) and Norris (2000), define globalization as “the process of creating networks of connections among actors at intra- or multi-continental distances, mediated through a variety of flows including people, information and ideas, capital and goods (...) that erodes national boundaries, integrates national economies, cultures, technologies and governance, and produces complex relations of mutual interdependence.” (p. 546).

A multidimensional description like the one above allows us to gather that, while it is common to associate globalization with economic activities, there is a consensus in previous research regarding the importance of understanding globalization as a phenomenon that goes beyond its economic dimension (Jerabek, 2021).

In terms of tracking globalization, the period between 1970 and 1980 can be appointed as the time when it became noticeable that socioeconomic interdependencies at the global level were growing and got remarkably strengthened by the end of the Cold War in 1989. The following decade, up until the financial crisis and the Great Recession in 2007, was a period of rapid growth for globalization worldwide (Haelg, 2020; Chatzinikolaou & Vlados, 2023).

When it comes to measurement, the KOF Globalization Index has become a very useful tool, combining variables regarding three main dimensions of globalization: economic, social and political. Portrafke (2015) shows that during 1970-2010 “the overall globalization index increased from 36.2 to 56.6, the economic globalization index from 39.4 to 62.1, the social globalization index from 33.9 to 49.3 and the political globalization index from 34.6 to 60.9” (p. 512) which shows a considerable increase across all dimensions, especially the political one.

Due to its magnitude, globalization has impacted several economic phenomena across the world, including poverty. The latter represents a huge concern globally, being considered a “complex notion that extends across various academic disciplines, transcending its status as merely an economy concept. In addition to the lack of income, people experiencing poverty lack access to services like credit, public utilities, public transportation, and healthcare and educational institutions.” (Pal, 2024, p. 622).

For the last decades, global poverty has been declining almost continuously, making extreme poverty go from 38% to 8.5% between 1990 and 2024, respectively (World Bank, 2024a). There is a clear trend that reflects the continuous efforts towards poverty reduction at the global level, surpassing the stalling caused by the COVID-19 pandemic and the ongoing conflicts in Europe and the Middle East. The pace at which poverty has been declining in the last 5-year period got slower due to lower economic growth, multiple shocks and high inflation caused by the events mentioned above, but thanks to economic recovery, the extreme poverty rate today is below the pre-pandemic rate (8.8 % in 2019 vs. 8.5% in 2024) (World Bank, 2024a).

The globalization-poverty nexus has received a lot of attention from researchers as it is undeniable that globalization impacts poverty on a great level. Bergh & Nilsson (2011) use data from 100 countries in the period between 1988-2007 and conclude that “poverty reduction can be achieved by means of closer economic integration and higher levels of globalization” (p. 24), while considering the sub-dimensions of the KOF Index. However, the authors also point out that there is a certain ambiguity in this relationship and that “conflicting results may all be explained by differences in samples and measurements” (p. 4). In the same line, Harrison & McMillan (2007) emphasize that the factors that researchers take into consideration vary considerably across studies and that different measures of globalization may be associated with different poverty outcomes.

With that in mind, it is important to study how each globalization dimension individually is contributing to reducing poverty, in order to understand how different factors and variables have impacted poverty reduction. The main question proposed to lead this study is: which globalization dimensions have been more effective in contributing to poverty reduction?

The analysis will focus on 23 developing and underdeveloped countries, during the period between 1970 and 2024, and the econometric estimations will be conducted based on

available data for the KOF Globalization Index (as a measure of globalization) and for the Poverty Headcount ratio at \$2.15 per day (2017 PPP) (as a measure of poverty).

The results indicate that social and political globalization have contributed effectively to reducing poverty, while economic globalization has not. By looking further into the sub-dimensions, it is worth highlighting that financial globalization does not contribute to reduce poverty, while trade, informational, interpersonal and cultural globalization do. In terms of regional impact, globalization has shown to contribute more to poverty reduction in East Asia & Pacific, followed by Europe & Central Asia. In the regions of Latin America & the Caribbean and Middle East & North Africa, the impact of globalization on poverty has been significantly weaker.

This dissertation is organized in the following way: section 2 is dedicated to the literature review, in which the concepts of globalization and poverty are explored and the literature on the relationship between them is reviewed; section 3 aims to provide an overview of both phenomena over the years by analyzing data from several regions across the globe; section 4 describes the empirical model adopted to conduct this study, presents the sample and discusses the data retrieved; section 5 is dedicated to the analysis and discussion of the empirical results; and section 6 summarizes the main conclusions of the study, discusses their limitations and suggests future research recommendations.

2. Literature Review

Haelg (2020) highlights that globalization is an omnipresent phenomenon, and it is possible to observe its impact on various activities, sectors, and regions across the world not only when it comes to economic matters, but also in the financial, political, social and cultural spheres. It is also important to consider that globalization produces a lot of spillover effects that spread in an indiscriminate way, leaving a positive and/or negative mark on all the contexts we can possibly think about, given the fact that we live in a world where countries, institutions, organizations, firms and people are all interconnected (Potrafke, 2015).

While some argue that the high level of interconnection is not so beneficial and considerer that we are entering a new “de-globalization” era, others argue that globalization is not coming to an end, but rather that it is undergoing through a crisis and all the spheres are being reshaped as a consequence of turning point events of the 21st century such as the 2008 financial crisis and subsequent Great Recession, Brexit, the COVID-19 pandemic, present geopolitical conflicts and escalating tensions and the rising of nationalist governments across the world (Haelg, 2020; Witt *et al.*, 2021; Chatzinikolaou & Vlados, 2023).

This section elaborates on the relation between globalization and poverty and is organized in the following structure: the first sub-section overviews the core aspects of globalization, its dimensions and ways of measurement, with special attention dedicated to the KOF Globalization Index; the second sub-section is related to poverty, its core aspects and ways of measurement; and finally, the third sub-section analysis the relation between both concepts, taking into account both theoretical transmission mechanisms and empirical findings.

2.1. Globalization: concept and measurement

The broadness of globalization makes it hard to fully measure and assess all at once, and one usual constraint is that it is common to use singular indices (such as trade flows or foreign direct investment (FDI)) that are not entirely representative and make it hard to conceive a true image of how globalized a certain country or region is. To attempt to solve that problem, scholars have been committed to developing ways of measuring globalization since the early 2000s when the phenomenon already had traction. Gygli *et al.* (2019) compiled some of the most popular indices: the A.T. Kearney/Foreign Policy Globalization Index (ATK/FP), the

GlobalIndex, the New Globalization Index (NGI), the CSGR Globalization Index, and finally, the KOF Globalization Index.

2.1.1. Globalization Indices

The A. T. Kearney/Foreign Policy Globalization Index (ATK/FP) appeared in 2001 and was the first composite indicator measuring globalization, serving as inspiration for other indices that were developed later. It presented data for 62 countries, considered 14 variables and covered “political engagement, technology, personal contact and economic integration on a global scale” (p. 548).

The GlobalIndex attempted to represent a sociological concept of globalization by extending the cultural dimension while using “variables related to the international convergence of norms and values” (p. 547). The total number of variables was considerable (31) and it included 97 countries.

The New Globalization Index (NGI) “introduced distance weighting of some of the variables to better distinguish globalization from regionalization” (p. 547) which is helpful taking into consideration the difficulties in defining globalization and differentiating it from other trends.

The CSGR Globalization Index differentiates itself because “variables measuring openness are adjusted for country characteristics such as initial population size, land area and whether a country is landlocked or not” (p. 547) which are interesting characteristics to keep in mind.

These last two, together with the KOF Globalization Index, measure the economic, social and political dimensions of globalization, using adequate variables to each one and offering more data than other indices. Nowadays, the KOF Globalization Index is the most popular composite index, as it offers the most comprehensive range of data as will be discussed next.

2.1.2. KOF Globalization Index

The KOF Globalization Index was introduced by Dreher (2006), and throughout the time has been updated by Dreher *et al.* (2008) and most recently revised by Gygli *et al.* (2019), becoming the most frequently used globalization index (Potrafke, 2015).

This index measures globalization on a scale from 1 (least globalized) to 100 (most globalized), creating a rank that includes more than 200 countries. It has managed to gather data since 1970 and is updated yearly. The revised version combines 43 variables, ranging across economic globalization, social globalization and political globalization, as well as sub-dimensions that were added in the meantime. In addition to that, it also offers the distinction between *de facto* globalization (that measures, for example, flows and activities in the international sphere) and *de jure* globalization (that measures, for example, policies that affect the flows and activities previously mentioned) (Gygli *et al.*, 2019; Haelg, 2020).

This addition to the index is a great asset because it allows researchers to have a more complete measure of all its sub-dimensions (interpersonal, trade, financial, cultural and informational globalization), and at the same time it helps mitigate the risk of biased results caused by the combination of both measures (Martens *et al.*, 2015). In other words, this distinction brings light to the conditions under which economic globalization, social globalization and political globalization take place.

KOF has proven to be useful among researchers as it also leads to a better understanding of the globalization phenomenon. Gozgor (2017) says that “the main idea behind the KOF Globalization Index is that globalization has to be a process of creating new networks among economic actors worldwide. It also opens up a variety of all inflows such as capital, culture, goods, ideas and information” (p. 1).

As previously stated, globalization assumes a lot of dimensions but given the popularity and consensus around the KOF Globalization Index, we will be considering and looking into more detail at the 3 main dimensions and 5 sub-dimensions considered by this index. The following paragraphs are thoroughly based on the work of Gygli *et al.* (2019).

The *de facto* economic globalization dimension is sub-divided into two - trade globalization and financial globalization – as a result of the 2018 index revision. The first sub-dimension has to do with the exchange of goods and services over long distances and the variables used to measure this are “exports and imports of goods and exports and imports of services, both measured as a share of the Gross Domestic Product (GDP)” (Gygli *et al.*, 2019, p. 553). It also includes a variable that accounts for trade partner diversity, as it helps us to understand whether countries are trading on a global scale or just on a regional scale. The second sub-dimension has to do with capital flows and stocks of foreign assets and liabilities and is

measured based on quantity measures. The authors decided to include “variables on foreign direct investments, portfolio investments, international debt and international reserves (excluding gold) and all variables are calculated as the sum of stocks of assets and liabilities and normalized by GDP” (Gygli *et al.*, 2019, p. 554).

The *de facto* social globalization dimension is divided into three sub-dimensions: interpersonal globalization, informational globalization and cultural globalization. The first sub-dimension is related to direct interactions between citizens that live in different countries (personal contact, calls across borders and international transfers are considered), but also migration, tourism and exchange of international students. These variables are normalized by domestic population. The second sub-dimension intends to measure the flow of ideas, knowledge, images and information by considering internet bandwidth capacity as a proxy for international digital information flows, the number of international patents as the inflow of information and the number of technology exports as the outflow of information. The third sub-dimension has suffered adjustments in terms of variables considered due to the fact that it is the hardest one to measure: the variable “number of McDonalds restaurants” wasn’t enough to measure this dimension because it was too close to the American culture instead of representing much of the cultural realm. With that in mind the number of IKEA stores was added to the index and is now considered with other variables such as exchange of foreign trademarks, sharing of cultural goods and services which are related to the distribution of movies, musical records, sports events, museums.

The *de facto* political globalization dimension isn’t divided in any sub-dimensions and it is linked to the diffusion of government policies, which is measured by the number of embassies, number international Non-Governmental Organizations (NGOs), participation in United Nations (UN) Peacekeeping missions, that all together represent the government position towards international organizations and policies, as well as the level of influence they are willing to accept.

The *de jure* economic globalization dimension is divided into the same sub-dimensions as *de facto* economic globalization. *De jure* trade globalization refers to policies that facilitate and promote trade flows between countries and is measured using variables that range from regulations, taxes and tariffs related to trade, as well as agreements that enable free trade between countries. *De jure* financial globalization takes into consideration the openness of a country to international financial flows, resorting to the International Monetary Fund’s Annual

Report on Exchange Arrangements and Exchange Restrictions (AREAER) as the main resource to measure the openness of the capital account of a country; and investments, by measuring investments restrictions based on the World Economic Forum Global Competitiveness Report. As a way to consider policies that potentially favor capital flows, the number of international investment agreements is also included in this dimension, including bilateral investment agreements and treaties about possible investments.

The *de jure* social globalization dimension comprehends *de jure* interpersonal globalization, which refers to “policies and resources that enable direct interactions among people living in different countries” (Gygli *et al.*, 2019, p. 556) measured by aspects such as the number of mobile phone and telephone subscriptions per capita; VISA requirements amongst countries; number of airports hosting international flights as a proxy for international connectivity. This dimension also comprehends *de jure* informational globalization, which refers to the ability to share information across countries and the level of availability of news related information, which are measured respectively by the number of television sets per capita and the press freedom index (print, broadcast and digital media). Lastly, this dimension comprehends *de jure* cultural globalization which refers to openness towards foreign cultures, which is measured using different indices and guidelines that assess the spread of common values and cultural assimilation. In order to assess civil liberties, the civil freedom index is also included, allowing a quantification of freedoms “such as expression and belief, associational and organizational rights, rule of law and personal autonomy and individual rights” (Gygli *et al.*, 2019, p. 557).

The *de jure* political dimension refers “to the ability to engage in international political cooperation” (Gygli *et al.*, 2019, p. 557) and is measured using the number of multilateral treaties signed since 1945, the number of memberships in international organizations, and treaty partner diversity. These variables describe how countries communicate and negotiate, as well as their intention to influence future relationships via the creation of global political networks, their influence on global politics and level of concentration of partners in international treaties. For example, countries that register higher positions in the *de jure* globalization ranking have governments that are committed to create conditions under which the levels of globalization can prosper. This commitment can be translated into trade agreements, foreign investment favorable policies, participation in international organizations, participation in the Schengen Area.

Table 1 and Table 2 summarize the information mentioned above regarding the dimensions, subdimensions and variables of the KOF Globalization Index. It is important to note a few things: the weight of each dimension is equal (33.3) and held fixed over time; as economic globalization is composed by trade globalization and financial globalization, each sub-dimension contributes 50.0; social globalization is composed of three sub-dimensions (personal contact, information flows, cultural proximity) so each contributes one third (33.3) (Gygli *et al.*, 2019).

The weight of each individual variable within the different sub-dimensions is determined by an analysis of the principal components on a 10-year rolling window of data retrieved from the entire sample of countries at the same time, leading to time varying weights. This procedure endures the possibility to adapt to changes in the relevance of certain variables to capture globalization over time. After determining the weights of each variable, the aggregation consists of adding up individual weighted variables so that variables enter the higher levels of the index even if the value of the sub-dimensions is not reported due to missing data (Gygli *et al.*, 2019).

The overall KOF Globalization Index is calculated as the average of *de facto* and *de jure* Globalization Index. For the tables presented, the weights considered are for the year 2022.

Table 1. Globalization dimensions, *de facto*

Dimension	Sub-dimension	Variable	Weight
Economic Globalization, <i>de facto</i> (33.3)	Trade Globalization, <i>de facto</i> (50.0)	Trade in goods	38.1
		Trade in services	42.1
		Trade partner diversity	19.71
	Financial Globalization, <i>de facto</i> (50.0)	Foreign direct investment	25.8
		Portfolio investment	14.8
		International debt	30
		International reserves	0.3
		International income payments	29.1
		International voice traffic	20.7
		Transfers	22.1
Social Globalization, <i>de facto</i> (33.3)	Interpersonal Globalization, <i>de facto</i> (33.3)	International tourism	21.2
		International students	18.8
		Migration	17.3
		Used internet bandwidth	37.1
	Informational Globalization, <i>de facto</i> (33.3)	International payments	30.4
		High technology exports	32.5
	Cultural	Trade in cultural goods	27.7

Political Globalization, <i>de facto</i> (33.3)	Globalization, <i>de facto</i> (33.3)	Trade in personal services	23.6
		International Trade-marks	11
		McDonald's restaurant	20.2
		IKEA stores	17.5
	Political Globalization, <i>de facto</i> (33.3)	Embassies	37.4
		UN peace keeping missions	24.4
		International NGOs	38.3

Source: Own elaboration, based on Gygli *et al.* (2019)

Table 2. Globalization dimensions, *de jure*

Dimension	Sub-dimension	Variable	Weight
Economic Globalization, <i>de jure</i> (33.3)	Trade Globalization, <i>de jure</i> (50.0)	Trade regulations	29.4
		Trade taxes	27.7
		Tariffs	27.2
		Trade agreements	15.7
	Financial Globalization, <i>de jure</i> (50.0)	Investment restrictions	31.3
		Capital account openness	28.2
		International Investment Agreements	30.6
Social Globalization, <i>de jure</i> (33.3)	Interpersonal Globalization, <i>de jure</i> (33.3)	Telephone subscriptions	38.2
		Freedom to visit	33.3
		International airports	28.5
	Informational Globalization, <i>de jure</i> (33.3)	Television access	37.5
		Internet access	41.9
		Press freedom	20.6
	Cultural Globalization, <i>de jure</i> (33.3)	Gender parity	23.1
		Human capital	41.6
		Civil liberties	35.2
Political Globalization, <i>de jure</i> (33.3)		International organizations	36.6
		International treaties	32.6
		Treaty partner diversity	30.9

Source: Own elaboration, based on Gygli *et al.* (2019)

2.2. Poverty: concept and measurement

When studying a phenomenon as wide as poverty, it is important to look at the different types of poverty and the different ways to measure it. There are many difficulties in defining and measuring poverty, making it hard to find a consensus and uniformity within the research community, international institutions and organizations (Bergh & Nilsson, 2011).

Absolute poverty, described as “the situation of being unable or only barely able to meet the subsistence essentials of food, clothing, shelter, and basic health care” (Todaro & Smith,

2020, p. 57) contributed to the definition of an International Poverty Line - \$2.15 per person per day in 2024 (World Bank, 2024a) – which is applicable universally, is independent of the level of national per capita income and is set at a level that remains constant in real terms (Todaro & Smith, 2020) allowing researchers to track progress.

The World Bank Poverty, Prosperity and Planet Report (World Bank, 2024a) shows that 8.5% of the global population lives in extreme poverty in 2024, which represents 682 million people living on less than \$2.15 per person per day and the projections are not as favorable as first expected since the World Bank goal was to take this percentage down to 3% by the end of the decade, yet it is expected it will remain at around 7.3%.

While absolute poverty is an absolute measure and fixed by the international poverty line, relative poverty varies according to the society in which a person, or a household, is inserted into. In other words, it considers their income in comparison to “what is considered adequate or socially acceptable in the society in which they live” (Brander *et al.*, 2020, p. 451). That way, the poverty line is going to be different according to different countries, which allows to have a closer look at each reality.

One of the most common ways of measuring both absolute and relative poverty is the Head-count Index which consists on the number of those whose incomes fall below the poverty line as a fraction of the total number of population. There is also the Total Poverty Gap, which is “the sum of the difference between the poverty line and actual income levels of all people living below that line (...) measuring the total amount of income necessary to raise everyone who is below the poverty line up to that line.” (Todaro & Smith, 2020, p. 229)

Similar to what happens with globalization, these ways of measurement are often criticized for being insufficient and unrepresentative of a multidimensional phenomenon. To that end, there are also other approaches such as the Multidimensional Poverty Index (MPI) that measures different deprivations affecting households by using 10 indicators that go from health to education to standard of living, illustrating the level and the nature of poverty in certain regions/countries (UNDP, 2023). The dimensions and indicators of the MPI are described in Table 3.

Table 3. Multidimensional Poverty Index

Multidimensional Poverty Index			
Dimension	Indicator	Deprived if	Weight
Health	Nutrition	Any adult under age 70 years or any child is undernourished.	1/6
	Child mortality	Any child under age 18 has died in the five years preceding the survey.	1/6
Education	Years of schooling	No household member of “school entrance age + six years” or older has completed at least six years of schooling.	1/6
	School attendance	Any school-age child is not attending school up to the age at which he or she would complete class 8.	1/6
Standard of living	Electricity	The household has no electricity.	1/18
	Sanitation	The household does not have access to improved sanitation (according to Sustainable Development Goal guidelines), or it is improved but shared with other households.	1/18
	Drinking Water	The household does not have access to an improved source of drinking water (according to Sustainable Development guidelines), or an improved source of drinking water is at least 30-minute walk from home, roundtrip.	1/18
	Housing	At least one of the household’s three dwelling elements – floor, walls or roof – is made of inadequate materials.	1/18
	Cooking fuel	The household cooks with dung, wood, charcoal or coal.	1/18
	Assets	The household does not own a car or truck and does not own more than of the following assets: radio, television, telephone, computer, animal cart, bicycle, motorbike, refrigerator.	1/18

Source: Own elaboration, based on (UNDP, 2024a, 2024b)

2.3. The Globalization – Poverty relationship

The effects of globalization raise a lot of discussion and when associated with poverty that is no exception. The findings regarding the relation of the two phenomena are not linear: some researchers claim that “through fostering economic growth, boosting trade and investment, and creating employment opportunities globalization has helped to lower poverty levels in various countries” (Hassan *et al.* (2020), as referenced in Pal, 2024, p. 622). On the other hand, globalization is also considered a factor of aggravating poverty, increased inequality, labor exploitation and environmental destruction (Harrison & McMillan, 2007), which results in being seen as both as a cause of poverty and as a solution for it (Bergh & Nilsson, 2011).

There is a certain degree of ambiguity and uncertainty to this matter justified by perhaps the data limitation (Bergh & Nilsson, 2011) but also by the endless possibilities of looking at these two phenomena – they are very complex on their own, and when studied together that are a lot of variables to look at and consider that end up resulting in different findings.

2.3.1. Transmission Mechanisms

Given the broadness of this relationship, it is important to analyze the various theoretical channels through which globalization helps reducing poverty.

Globalization creates economic opportunities fostered by economic openness and deeper levels of global economic integration; therefore, economic growth is one of the main channels through which globalization helps reduce poverty. Growth takes place through trade, for example - trade openness is expected to increase the trade flows of goods and services since there are less regulations and tariffs and also because countries have access to different and larger markets. While it is expected that countries gain from exploiting their comparative advantages and scale economies, specialization and innovation opportunities (Bergh & Nilsson, 2011; Potrafke, 2015), international trade can also “impact welfare directly via the cost of living, employment and wages, and the investment of government revenues in public goods” (Santos-Paulino, 2017, p. 693).

Bergh & Nilsson (2011) affirm that “growth occurs when average real income increases, but absolute poverty depends on how globalization affects the incomes of the poor” (p. 3), supporting the view presented in Bourguignon (2004) who noted that for poverty to change

through growth, it is necessary to consider the initial income distribution and the change in the income distribution caused by growth. In that sense, it is also important to bring light to the importance of complementary policies and institutional capacities, as it has become more evident throughout the years that poorer countries are more likely to gain from trade openness if those are in place (Harrison & McMillan, 2007; Santos-Paulino, 2017)

On the other hand, when countries are met with more competition and larger markets, there is a possibility to maximize their resources: through specialization. When countries have a comparative advantage, they must explore it in order to utilize their resources and capacities in a more efficient way. Productivity growth has a lot of potential to benefit the population by producing welfare gains, which can translate into less poverty (Santos-Paulino, 2017). Closely linked to trade and specialization there is also innovation that fuels the development and improvement of infrastructure at many levels (communications, transportation, logistics, manufacturing), which allows a reduction in transaction costs and higher returns (Santos-Paulino, 2017).

Financial integration is also a powerful channel when it comes to reducing poverty. Harrison & McMillan (2007) claim that in theory, “if greater financial integration contributes to higher growth by expanding capital, expanding access to new technology, stimulating domestic financial sector development, reducing the cost of capital and alleviating domestic credit constraints, then such growth could reduce poverty” (p. 128). However, it is often verified that financial globalization in developing countries is associated with higher consumption volatility, which hurts the poor. Prasad *et al.* (2003) point out that it is necessary to approach financial integration with the right set of complementary policies such as flexible exchange rates, macroeconomic stabilization policies, development of strong institutions and good governance, which include transparency in business and government transactions, control of corruption, rule of law, and financial supervisory capacity for the effects of deeper financial integration actually be beneficial to poor countries.

All of the channels analyzed so far could not succeed without incentives for macro-economic stability being in place, which makes them a crucial mechanism in the globalization-poverty nexus.

In addition to what has been said so far, Stark (2004), in Bergh & Nilsson (2011), describes that when there is a deeper integration in the global economy, there may also be increased

returns to higher education in poor countries, which are associated with lower levels of poverty.

When it comes to policies and institutions, their role in mitigating the transition costs is crucial as safety-nets, by absorbing shocks and implementing adequate management and governance (Santos-Paulino, 2017). One important aspect of trade liberalization is that governments lose the revenue from tariffs that were lifted, and this can affect their expenditure on public goods – to mitigate this effect it is possible to implement appropriate fiscal reforms that allow countries to reclaim a part of the lost revenue (Bannister & Thugge, 2001).

It is also important to consider the social dimension of globalization as a powerful channel to reduce poverty. The way markets operate is not independent from KOF variables such as personal contacts and cultural proximity, and most importantly information flows – these variables impact the way markets function and the behavior of both buyers and sellers. In less developed countries, the increased use of information and communication technologies (ICT) is crucial to mitigate high transaction costs and information asymmetries, making it possible for markets to become more efficient. These technologies, accompanied by widespread Internet, allow information and knowledge transfers – including through personal contacts - and overall improve the functioning of markets approaching the competitive equilibrium (Bergh & Nilsson, 2011). As noted by Forestier *et al.* (2002), referenced in Bergh & Nilsson (2011), “ICT in general is positively related to growth” (p. 8) which later also contributes to reducing poverty. However, it is important to note that at the beginning, new information and technology won’t be available for everyone, therefore the impact on reducing poverty only takes place in the long-run.

Regarding other variables of social globalization such as international tourism, Chao *et al.* (2004), as referenced in Bergh & Nilsson (2011), point out that initially it is good for development (trade of goods, trade of services, improvement of infrastructure), however, “negative externalities of mass tourism might offset these effects” (p. 8) which can be more prejudicial than beneficial to the poor.

The mechanisms that fall under the political dimension of globalization are harder to assess but it is interesting to look at it as the fuse for it all because if there wasn’t international cooperation fostered by international organizations and international treaties, most of the other mechanisms would not be enabled.

In conclusion, while globalization is in fact followed by lower poverty in a general sense, only a small part of that impact happens through the growth channel (Bergh & Nilsson, 2011), which reinforces the importance of considering the multidimensional character of these phenomena.

2.3.2. Empirical Literature

Given the complexity of the relationship between globalization and poverty, it is important to look at empirical literature. This analysis goes from narrow samples composed of specific groups of countries such as Central and Eastern Europe (Gurgul & Lach, 2013; Nuredini & Osmanaj, 2024) where poverty has a smaller magnitude compared to other regions, followed by studies on African countries, lower income countries, and developing countries, where poverty levels are more prominent (Agénor, 2004; Gnanngnon, 2019; Santarelli & Figini, 2011; Pradhan & Mahesh, 2014; Le Goff & Singh, 2014). Lastly, this analysis covers studies focused on wider samples (Bergh & Nilsson, 2014; Zhang & Naceur, 2019; Greenwood & Jovanovic, 1990; Deyshappria, 2018; Effiong, 2023; Pal, 2024).

Gurgul & Lach (2013) investigated how different globalization dimensions influenced economic growth in ten Central Eastern European countries, considering the first two decades of transition (1990-2009). They verified that globalization had an important role on GDP growth in the region, and that the positive impact was particularly strong for social and economic aspects of globalization – the importance of social globalization variables and economic globalization variables are equally strong in the period studied. The political dimension did not have a significant impact due to the fact that the political transformation in the region and reforms were conducted at the beginning of the transition process, instead of happening overtime and gradually, which possibility caused that the data does not reflect the impact of this dimension. The authors also concluded that globalization allowed the new European Union (EU) members to maximize their potential, something that didn't happen prior to the transition.

Nuredini & Osmanaj (2024) analyze the relationship between globalization and poverty in Kosovo by using a wide range of data from local and international institutions, based on their reliability and relevance in the country's context. Focusing mainly on the economic dimension of globalization, the authors point out that overall globalization had a beneficial impact

in Kosovo by increasing access to international markets and promoting economic growth. Parallel to this, the country's exports are now more diversified and the integration, especially into European markets, has become easier. Although poverty is still a challenge for the country, the authors highlight the need to focus on crucial areas such as attracting FDI, improvement of the labor market (especially women's employment) and diversification of economic sectors which, paired with adequate long-term strategies, regulations and policies can be promoted through globalization.

The upcoming empirical studies are centered on low- and middle-income countries and developing countries, which are often the center of analysis of the impact of the relationship between globalization and poverty since it registers higher levels of poverty.

Agénor (2004) used a sample of 16 low- and middle-income countries over the time period of the late 1980s to the 1990s to examine the extent to which globalization affects the poor in developing countries. Through various estimations, the author concludes that "although globalization at low levels tends to increase poverty, it actually reduces it at higher levels" (p. 41), which is characterized as a U-shape relationship. The author concludes that country-specific aspects are important in determining how poverty behaves and advocates for the need of further empirical work to comprehend how this relationship really works.

Gnangnon (2019) examined the effect of multilateral trade liberalization on poverty, in light of the emerging concept of inclusive trade policies, which is centered on poverty reduction. The macroeconomic data covers 51 developing countries over the period 1996-2016 and the results show that multilateral trade liberalization has a significant reducing impact on poverty in developing countries, indicating that restrictive domestic trade policies can induce higher poverty rates. Some of the factors that lead to lower poverty include lower inflation, better education and better institutional and governance quality. The study also tackles the need for cooperation between the member states of the World Trade Organization (WTO), in order to avoid tariff wars and consequently disruption of supply chains, higher prices of goods and services, shrinking of the international trade market which undeniably injure less efficient producers and smaller enterprises.

Santarelli & Figini (2011) also centered their analysis on 54 developing countries and estimated how within-country poverty evolves when exposed to globalization variables such as openness to international trade, liberalization of financial markets, and degree of public

intervention in the economy. The authors conclude that on one hand trade openness and government size are linked to lower poverty levels and on the other hand, financial openness can be associated with higher poverty (although, on this study, this result was not statistically robust). Another important consideration is that emphasis given to the difference when considering absolute poverty versus relative poverty, given that different measures produce different results. The authors consider that relative poverty captures “between-country differences” (p.28) which allows researchers to have a better understanding of the reality. In light of this consideration, “trade openness tends not to significantly affect relative poverty, while financial openness tends to be linked with higher relative poverty” (p. 27).

Pradhan & Mahesh (2014) analyzed the effects of trade openness on poverty using a sample of 25 developing countries in the years 2000, 2005 and 2010. The authors started by expanding the scope of poverty (as it is common to reduce it to economics and governance) and drawing attention to the changes in poverty levels considering other factors: total trade, infrastructure, education, GDP per capita. The main conclusions are that trade is statistically significantly and negatively related to poverty, which means that an increase in trade openness results in a decrease in poverty. The authors mention that there is a direct relationship with poverty and GDP per capita, and that the latter is influenced by the status of infrastructure, health and education (good infrastructure, widespread healthcare and higher levels of education are essential for growth and development) – statistically, these are significant and negatively related to poverty, except for infrastructure that has a statistically insignificant positive relationship with poverty. It is also highlighted that inward-oriented trade policy is neither good for growth nor for poverty.

Le Goff & Singh (2014) use the data of African countries, over the period 1981-2010 and test for non-linearities in the trade-poverty relationship, finding that trade openness (facilitated by globalization) results in poverty reduction when other variables are also involved: the financial sector is deeper, education levels are higher, and the governance is stronger. These findings are consistent with the previous statement that the benefits produced by trade are not always easy to capture immediately, and that it is important to adopt complementary policies that aim at the country’s welfare. Poor institutions, weak human capital and limited financial development make it harder for the poor to benefit from trade globalization.

Lastly, the following studies cover findings regarding wider samples, including studies on distinct regions around the globe that will be analyzed in the next section.

Bergh & Nilsson (2014), using a sample of 114 countries and a period time from 1983-2007, identified a pattern that demonstrates that globalization correlates negatively with absolute poverty. Considering KOF index variables, fewer trade restrictions and larger information flows are utterly associated with lower poverty levels. The first variable impacts not only the price of imported goods and services directly, but also the amount of trade flows – the authors find that in both the short-run and long-run analysis an increase in trade flows is typically followed by a decrease in poverty levels. However, the effect is no longer significant once they control for income or growth. When considering GDP per capita, both trade restrictions and information flows maintain the poverty-decreasing effects, probably influenced by the income distribution effects felt by the poor, whose income increases more than the average. The authors conclude that despite the debate, poverty reduction can be achieved through deeper economic integration and higher levels of globalization.

Zhang & Naceur (2019) analyzed the relationship between financial development, income inequality and poverty gap by using a sample of 143 countries, during the period 1961 to 2011, and measures of poverty and financial sector development. The authors support the idea stated in Greenwood & Jovanovic (1990), who argue that “as the economy develops, the financial structure becomes better organized and more affordable to the poor, the distribution of income becomes more stable” (p. 2). The main conclusion of this study is that financial development contributes to the reduction of poverty and inequality, and by using several financial variables the authors conclude that most are negatively correlated with the Gini coefficient which is associated with the favorable effect of finance on income distribution. It is important to note that the effects vary according to income levels (high-income countries and low-income countries will feel effects differently), levels of financial stability (instability has a worsening effect on income distribution) and the quality of institutions/adequate policies as they play a crucial role between finance and income distribution.

Deyshappria (2018) examined the impact of globalization on poverty in a sample of 119 countries, using the KOF Globalization Index and the Poverty Headcount Index (considering the international poverty line at 1.90\$) in order to assess the general impact of globalization on poverty and region-specific impact. The author concluded that globalization reduced poverty in selected countries, as closer integration smoothens trade and investment flows, while enabling technology transfers and mobility of labor across countries. These factors altogether create the conditions for economic growth and, consequently, ensure poverty

reduction. Alongside this, education has also been identified for its crucial role in poverty reduction, given the correlation between higher education and better employment opportunities. The impact of globalization varies across all the regions, with more substantial contributions in South Asia, East Asia & Pacific, Europe & Central Asia; the only region in which the region-based analysis did not confirm globalization's impact on poverty is Sub-Saharan Africa

More recently, Effiong (2023) examined how globalization influences income growth within the Sub-Saharan Africa over the period from 1982 to 2020, giving individual attention to each globalization dimension: economic, social and political. The author verifies that on the short-run globalization overall and its dimensions might not have the desired effect on income growth, commonly linked to structural rigidities. However, on the long-run, and paired with fitting macroeconomic policies, globalization is likely to have a satisfactory impact, especially at the economic level (on income growth and gross domestic savings, for example) – the author highlights how economic globalization impacts FDI, trade liberalization, global finances, among others, have greater positive externalities on modern economy. Lastly, it is also pointed out that the benefits of economic globalization outweigh the short-run negative effects, and that those can be corrected overtime “as the economy moves along the learning curve of globalization” (p. 260).

Pal (2024), using a sample of a top globalized region (Europe & Central Asia) and a bottom globalized region (South Asia) and data from 1991 to 2020, examined whether economic globalization reduces the level of poverty by controlling economic growth, urbanization, government expenditure, and public expenditure on education. The author points out that from the long-run analysis, economic globalization has a strong negative and significant impact on poverty in most countries of the top globalized region concluding that country integration effectively reduces poverty in the region. As for the bottom globalized region, primary education may decrease poverty levels, as well as economic growth and increased trade.

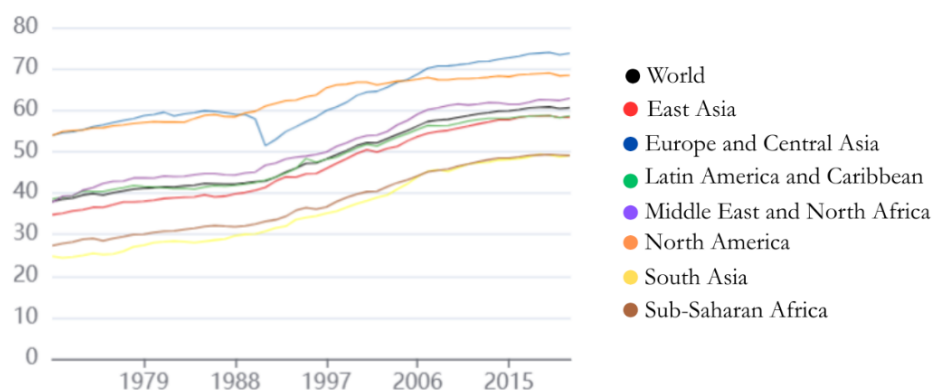
3. Globalization and Poverty: an overview

Before diving into econometric analysis, it is important to have an overview of how globalization and poverty have been evolving for the last decades in order to have a comprehensive outlook of the patterns, trends, discrepancies and insights over the years. The data presented below are at global level, comprising seven regions across the globe, as classified by the World Bank (2025): East Asia & Pacific, Europe & Central Asia, Latin America & the Caribbean, Middle East & North Africa, North America, South Asia, and Sub-Saharan Africa.

Starting with the evolution of globalization, the data available from the KOF Globalization Index shows that overall globalization has been increasing consistently since 1971, except for Europe & Central Asia which experienced a major decline between 1990 and 1991, going from 57.87 down to 51.43, respectively (Figure 1). In the following years globalization increased slowly, and by 1996 the index was at previous levels again (58.32). Overall, in 2021, the most globalized region was Europe & Central Asia (73.91), and the least globalized region was Sub-Saharan Africa (49.13) (Figure 1).

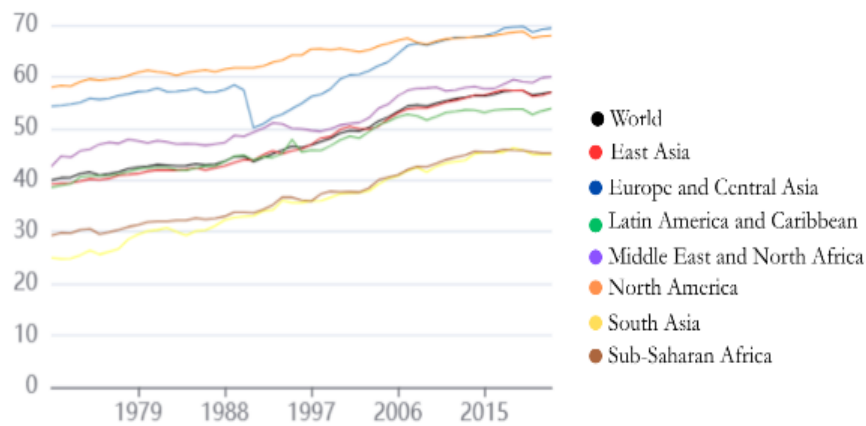
Considering the *de facto* and *de jure* distinction, those indices had a very similar evolution to the overall index, but it is possible to notice that Europe & Central Asia stand out when it comes to *de jure* globalization since it presents data far above from the other regions (for comparison, in 2021 this region had a 77.61 index, while the second highest index – North America – was 68.20) (Figures 2 and 3).

Figure 1. KOF Globalization Index Overall, 1970-2021



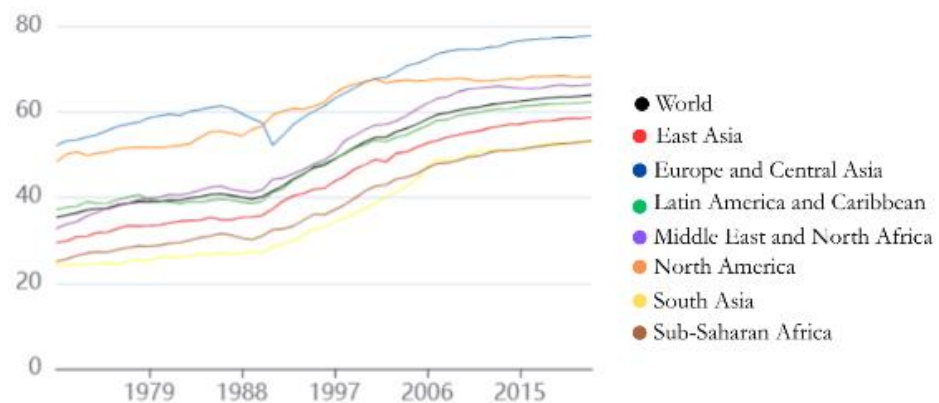
Source: Own elaboration using KOF Time Explorer Series

Figure 2. KOF Globalization Index *de facto*, 1970-2021



Source: Own elaboration using KOF Time Explorer Series

Figure 3. KOF Globalization Index *de jure*, 1970-2021



Source: Own elaboration using KOF Time Explorer Series

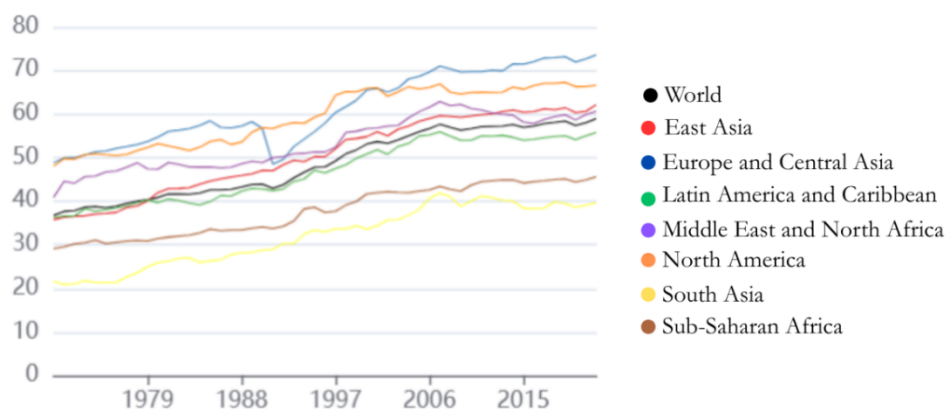
If we take a closer look at the globalization dimensions individually, the economic dimension overall (Figure 4) follows a similar path to globalization overall (Figure 1). In this case, the most recent data show Europe & Central Asia registering the highest index (73.59), and South Asia the lowest index (39.61) (Figure 4).

The *de facto* and *de jure* indices evolution show a more turbulent path (Figures 5 and 6). Regarding *de facto* economic globalization, the most accentuated growth is in Europe & Central Asia, during the period 1991-2000, in which the index went from 41.87 to 61.67, respectively

(Figure 5). The big decrease prior to this period has to do with the end of the Cold War since Europe had to reorganize itself and there were a lot of issues concerning the transition of new economies – after the initial difficulties, the new economies made huge efforts to become more integrated with the rest of the European countries and achieve economic goals, which fueled the increase in the following years (European Commission: Directorate-General for Research and Innovation, 2014). Besides this region, in general all the others follow a similar trend with small increases and decreases overtime.

The *de jure* economic index shows a different evolution, with sharper changes overtime and bigger differences amongst the different regions – it is visible that Europe & Central Asia and North America present higher indices than the rest of the regions (Figure 6) which can be explained by the liberalization of trade, trade agreements, favorable trade regulations, and openness to FDI. In 2021, North America led the rank with an index of 80.59, while the Middle East & North Africa region has a 57.71 index – adding up to a 22.88 difference within the top 3 regions (Figure 6).

Figure 4. KOF Economic Dimension Overall, 1970-2021



Source: Own elaboration using KOF Time Explorer Series

Figure 5. KOF Economic Dimension *de facto*, 1970-2021

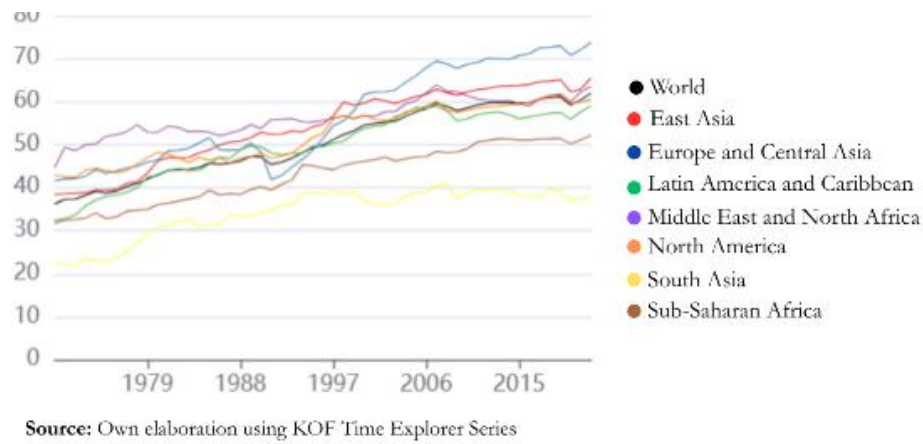
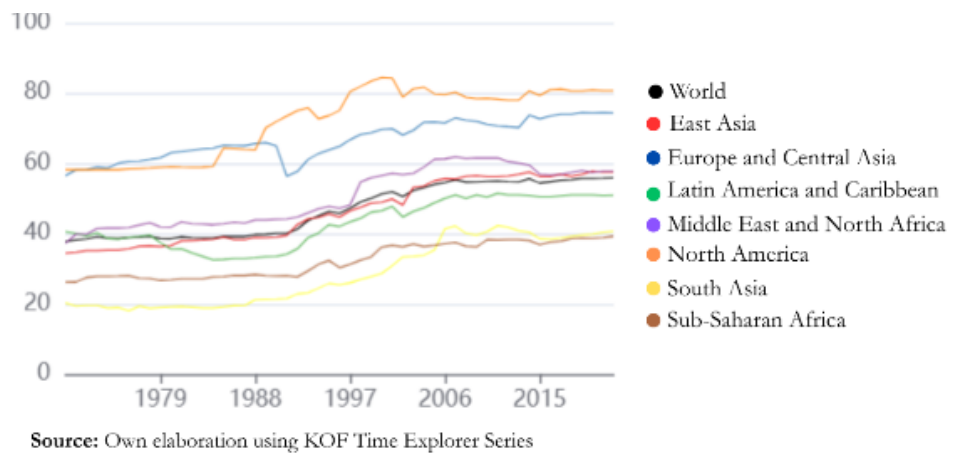
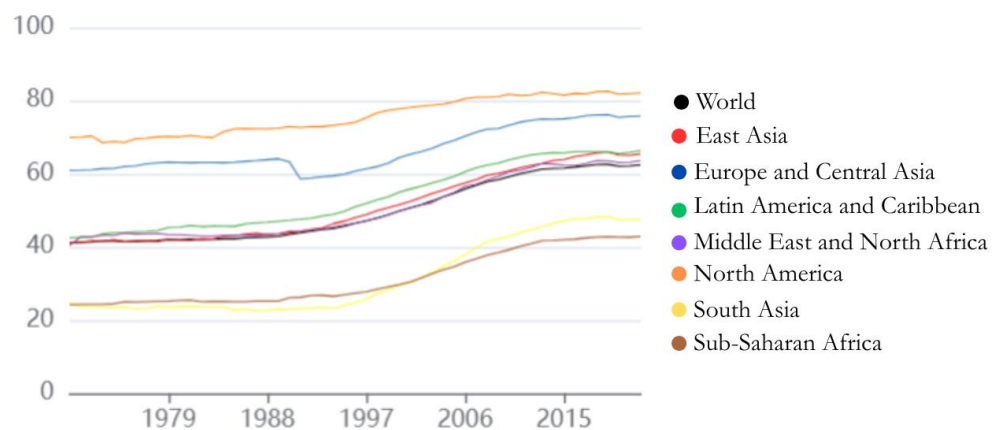


Figure 6. KOF Economic Dimension *de jure*, 1970-2021



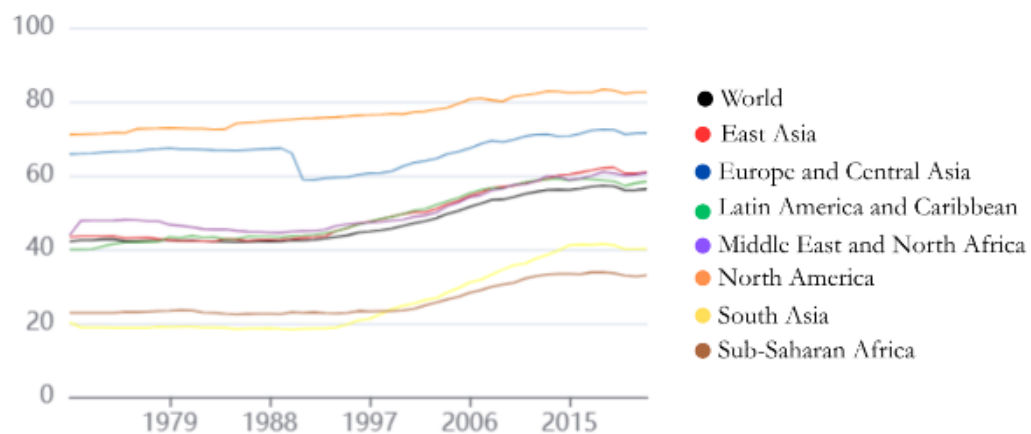
The evolution of the social dimension shows a very consistent path for all three indices (Figure 7, Figure 8 and Figure 9). This is facilitated by the continuous development of information and communications technologies, increased tourism, cultural exchange, mobility of migrants across the globe, as well as wider access to different forms of media, the Internet in general and the liberalization of international press. For this dimension, in 2021, North America presented the highest indices (82.07 overall; 82.49 *de facto*; 82.77 *de jure*) while Sub-Saharan Africa presented the lowest indices (42.82 overall; 32.93 *de facto*; 52.29 *de jure*).

Figure 7. KOF Social Dimension Overall, 1970-2021



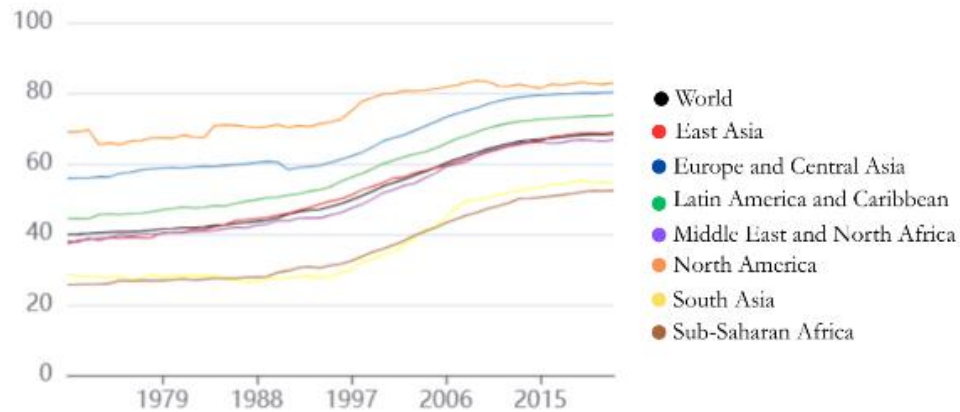
Source: Own elaboration using KOF Time Explorer Series

Figure 8. KOF Social Dimension *de facto*, 1970-2021



Source: Own elaboration using KOF Time Explorer Series

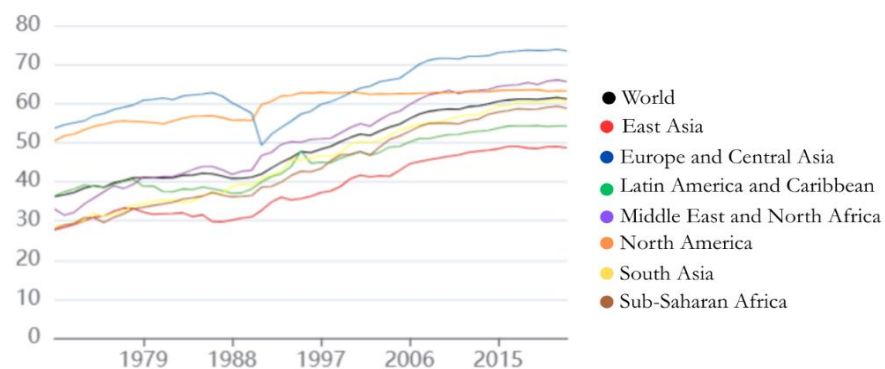
Figure 9. KOF Social Dimension *de jure*, 1970-2021



Source: Own elaboration using KOF Time Explorer Series

Lastly, the political dimension had a similar evolution to economic globalization (Figure 10 and Figure 4). The *de facto* political globalization has the most turbulent path (Figure 11), but it does not differ a lot from previously mentioned trends. The evolution of political globalization is influenced by the constant efforts to integrate international organizations, create better relations with both neighboring countries and other regions but also constant conflicts that spread across the world in different regions and for different periods of time – in this case it is normal to observe a more turbulent trend because the number of treaties, UN peace keeping missions, and the presence of international organization is constantly shifting. Something interesting to observe is that in 2021, the Middle East & North Africa region is the second most politically globalized region with an index of 65.57 (Figure 10), which does not happen with other dimensions.

Figure 10. KOF Political Dimension Overall, 1970-2021



Source: Own elaboration using KOF Time Explorer Series

Figure 11. KOF Political Dimension *de facto*, 1970-2021

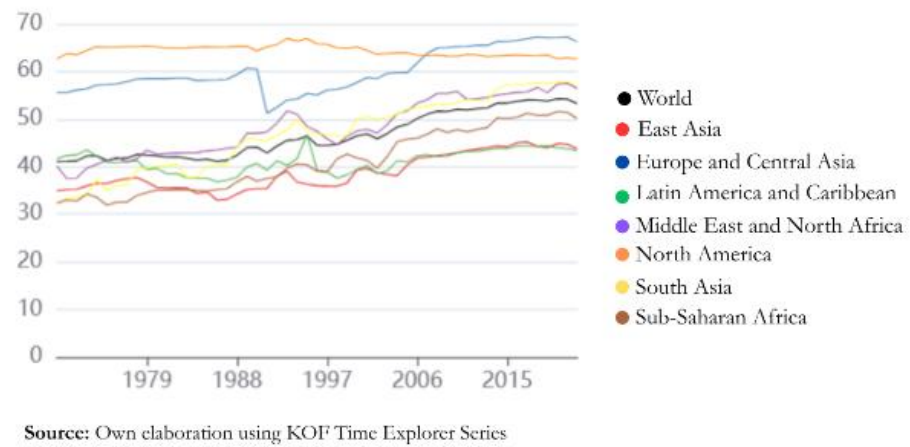
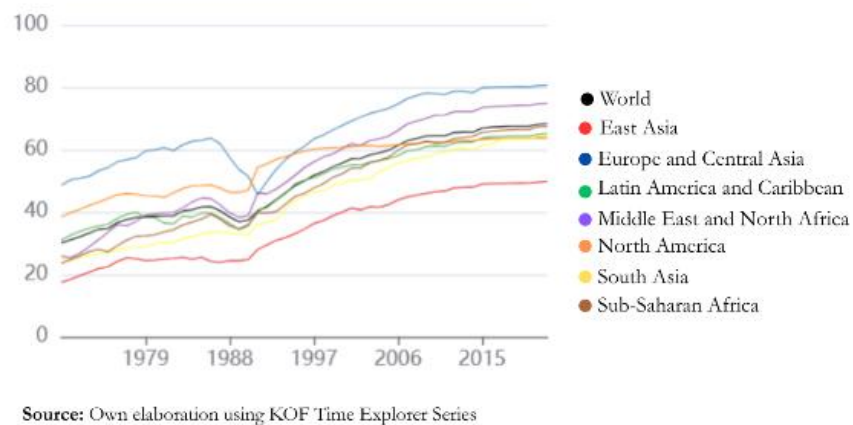


Figure 12. KOF Political Dimension *de jure*, 1970-2021



Moving forward to the evolution of poverty, by using the Poverty Headcount ratio at \$2.15 a day (2017 PPP) and considering all the regions mentioned it is possible to conclude that poverty has been declining globally over the years, going from a world average of 44% in 1981 to 9% in 2022 (Figure 13). It is important to clarify that North America is not considered in the graphs given the fact that the Poverty Headcount ratio at \$2.15 is virtually zero, which indicates that a very small percentage of people lives below this poverty line, otherwise considered extreme poverty.

The data show that there is a consistent trend over time, however, the progress in reducing poverty has slowed down in the past years. Some of the factors contributing to this are the

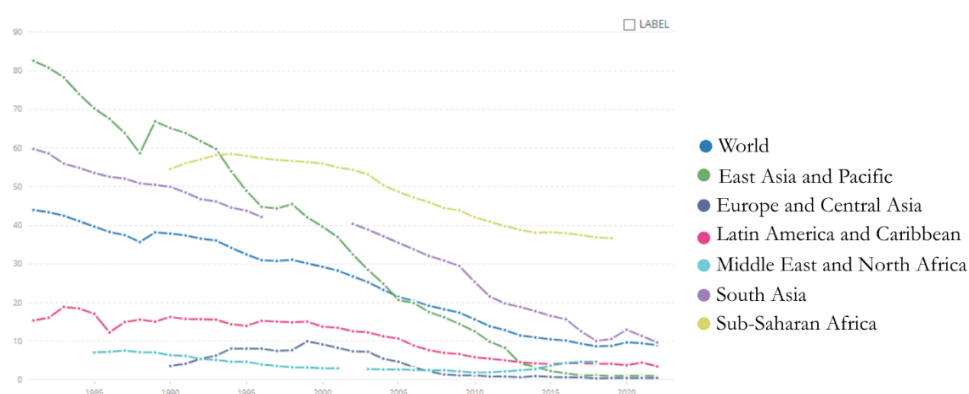
“multiple and overlapping crises (...) where their interactions amplify the overall impact” (World Bank, 2024a, p. 4) which include the most recent pandemic (COVID-19); slow economic growth; and arising of geopolitical tensions and conflicts across the globe. The poor become more vulnerable because poorer countries have more difficulties responding to the needs of these crises and consequently, their economic recovery is slower (World Bank, 2024a).

Another important aspect that helps us understand poverty reduction trends in the most recent years is that the regional composition of poverty has changed. The World Bank (2024a) shows that up until 2013, the reduction of global extreme poverty was fueled by China’s rapid economic growth; between 1990 and 2024, the East Asia & Pacific registered the biggest decline over the decades, going from 82.6% in 1981 to 1% in 2022 (Figure 13), which is related to rapid growth experienced by the region, and “unprecedented progress that also drove poverty reduction at the global level” (p. 6). Since 2010, poverty reduction has been more dependent on Sub-Saharan Africa than it was before.

As seen in Figure 13, Sub-Saharan Africa registered a level of poverty of 54.6% in 1990 and the most recent data (2019) shows a poverty level of 36.7% which translates into a 19.7 p.p. reduction over the course of 29 years – this represents progress in reducing poverty, but at a slower rate which makes this region the poorest one.

One the contrary, Europe & Central Asia is the least poor region in analysis, with 0.5% in 2022, which is explained by the privileged economic and political environment.

Figure 13. Poverty Headcount ratio at \$2.15 a day (2017 PPP) (% of population), 1981-2022



Source: Own elaboration using World Bank Data Base

4. Methodology

This chapter intends to describes all of the aspects regarding the methodology used to conduct this study and is organized in the following way: the model and variables used will be presented in the first section (4.1.); the second section (4.2.) describes the data collected; and lastly, the third section (4.3.) outlines the methods that were used to carry out the econometric regressions and estimations.

4.1. Model specification and variables

The goal of this study is to conduct an empirical analysis of the relationship between globalization and poverty and, more specifically, how each globalization dimension interferes with poverty levels. Similarly to previous studies mentioned in section 2.3.2., this analysis will be based on econometric models with panel data. The estimated models are represented by the following equation:

$$POV_{i,t} = \alpha_{i,t} + \beta_1 GLOB_{i,t} + \beta_2 HC_{i,t} + \beta_3 GDP_{i,t} + \beta_4 URBAN_{i,t} \quad (1),$$

where: Poverty ($POV_{i,t}$) is the dependent variable, represented by the Poverty Headcount ratio at \$2.15 a day (2017 PPP) (% of population) from the World Bank¹, while the main independent variable is Globalization ($GLOB_{i,t}$), proxied by the KOF Globalization Index that is based on a score from 1 to 100. i and t represent countries and years, respectively.

As for the remaining independent variables, we select, based on the related literature and on data availability, some of the most relevant determinants of poverty. Namely, we include as control variables Education ($HC_{i,t}$) (see e.g. Le Goff & Singh, 2014; Gnangnon, 2019), proxied by the human capital indicator from Penn WorldTables; GDP ($GDP_{i,t}$) (see e.g. Pradhan & Mahesh, 2014; Nuredini & Osmanaj, 2014), proxied by the GDP per capita, at constant 2015 US\$ data from the World Bank; and lastly, urban population ($URBAN_{i,t}$) (see, e.g. Bergh & Nilsson, 2014; Deyshappria, 2018), proxied by the percentage of total population data available on the World Bank database. According to the literature, increases in all these variables are expected to reduce poverty, as reflected in Table 4.

¹ Although we recognize that the Headcount Poverty ratio is a simple and unidimensional measure to capture the complexity of poverty, the selection of this indicator was based on data availability. Due to its universal acceptance and usage over the years, the amount of data available is much bigger compared to other possible indicators, which is crucial to this study.

Table 4. Independent variables of the model

Variable	Abbreviation	Measure	Source	Expected effect on POV
Globalization	GLOB	KOF Globalization Index	KOF Swiss Economic Institute	?
Education	HC	Human capital indicator	PennWorldTables	-
Gross Domestic Product	GDP	GDP per capita, constant 2015 \$US	World Bank	-
Urban Population	URBAN	% of total population	World Bank	-

Legend: the signal - designates a negative relationship

It is important to take into consideration that in order to guarantee a better understanding of how each globalization dimension impacts poverty, the independent variable ($GLOB_{i,t}$) of interest will assume different configurations according to the dimension (economic, social, political) or subdimension (trade, financial, interpersonal, informational, cultural) that is considered in each estimation. In addition to that, the different configurations will also entail the distinction between *de facto* and *de jure* globalization that was previously explored in this study.

4.2 Sample characterization

The analysis uses panel data for the period between 1970 and 2024 and for 23 countries, divided into the regions Europe & Central Asia, East Asia & Pacific, Latin America & the Caribbean, and Middle East & North Africa, as classified by the World Bank (2025). The countries are: Argentina, Armenia, Belarus, Bolivia, Brazil, China, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Georgia, Honduras, Indonesia, Islamic Republic of Iran, Kazakhstan, Kyrgyz Republic, Mexico, Moldova, Paraguay, Peru, Thailand, Ukraine.

The selection of the sample and time period at first was determined by the income level of countries according to the World Bank (in which only the low-income, low-middle income, and upper-middle income countries were considered), and then a second selection was made based on data availability. It is important to mention that the sample is an unbalanced panel,

given the fact that not all of the countries have data for the entirety of the period considered – in general, the data become more consistent from the 1990s – 2000s onwards.

Table 5 contains the descriptive statistics of all variables.

Table 5. Descriptive statistics of the variables

Variable	Mean	Minimum	Maximum	Standard deviation
POV	8,658016529	0	74,6	10,85645
KOF Globalization Index (GI)	51,85755282	24,21845055	74,08457947	11,42665061
HC	2,249636214	1	4	0,526323877
GDP	4427,372472	283,5853563	14318,83897	2905,87584
URBAN	57,29195894	17,071	92,463	16,39134533

4.3 Estimation methods

For panel data estimations it is standard to choose between two traditional methods: the fixed effects or the random effects (Forbes, 2000).

The fixed-effects method estimates “are calculated from differences within each country across time; the random-effects estimates are more efficient, since they incorporate information across individual countries, as well as across periods” (Forbes, 2000, p. 874). The main limitation of using random effects is that it yields consistent estimates only when the country-specific effects are not correlated with the other explanatory variables. The chosen software for these calculations was STATA.

Conventionally, the Hausman test helps to decide which one is more adequate, but missing data for some variables (especially Poverty) did not allow it to work properly on this study. Therefore, both the fixed and random estimators will be considered throughout the econometric analysis. As we will see in the next chapter, they both produce very similar results.

5. Analysis and discussion of results

The present chapter analyses and discusses the results obtained from the different regressions, illustrated in the tables below.

Starting by looking at globalization as a whole, in Table 6 it is possible to observe that globalization overall (GI) and globalization *de facto* (GI_{df}) are statistically significant using both the random-effects method and the fixed-effects method and simultaneously present a negative coefficient. Globalization *de jure* (GI_{dj}) remains statistically significant only at 10% using the random-effects method and is statistically insignificant using the fixed-effects method. The control variables HC, GDP and URBAN are statistically significant in general (except for HC using the fixed-effects method for GI and GI_{df}) and they present a negative signal.

These results corroborate a lot of the literature presented in this study, indicating that when globalization increases poverty decreases and that in order for that to happen this process must be accompanied by factors such as better education, improvement of urban areas and GDP increases (e.g. Pradhan and Mahesh, 2014; Gnangnon, 2019; Pal, 2024).

It is also possible to observe that there are no outstanding differences between the random-effects method and the fixed-effects method.

Table 6. Impact of the Global Globalization Index

	GI (random effects)	GI (fixed effects)	GI _{df} (random effects)	GI _{df} (fixed effects)	GI _{dj} (random effects)	GI _{dj} (fixed effects)
GI	-.2716529 *** (.0782844)	-.2341257 *** (.0837047)	-.302945 *** (.0690383)	-.2885508 *** (.0722193)	-.1222964 * (.0685516)	-.0675011 (.0736028)
HC	-7.068967 *** (2.08924)	-3.799689 (2.536975)	-7.179014 *** (1.893951)	-3.385717 (2.340941)	-9.472102 *** (2.085915)	-6.590761 ** (2.5388529)
GDP	-.0009726 *** (.0003328)	-.0011637 *** (.0003819)	-.0008763 *** (.0003331)	-.0010356 *** (.0003804)	-.0011384 *** (.0003284)	-.0013512 *** (.000379)
URBAN	-.325842 *** (.0756604)	-.5002815 *** (.0991903)	-.3744341 *** (.0742306)	-.5478844 *** (.0966356)	-.3262473 *** (.0777488)	-.5235986 *** (.1029855)
Constant	67.67194 *** (4.038632)	69.48627 *** (4.107247)	71.01074 *** (4.068803)	72.73332 *** (4.079875)	66.48201 *** (4.140888)	69.52183 *** (4.319963)
Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

Moving forward, the results for the three main globalization dimensions are represented in the following tables: the economic dimension (ECGI) in table 7; the social dimension (SOGI) in table 8; and the political dimensions (POGI) in table 9. The economic dimension results are the ones that differ the most from the rest, showing us that the overall economic dimension using the random-effects method and economic globalization *de facto* (ECGI_{df}) using both methods are statistically insignificant. In addition to this, except for economic globalization *de facto* using the random-effects method, all the configurations for economic globalization present a positive signal which indicates that economic globalization is not contributing to poverty reduction. In contrast, the social dimension and the political dimension are statistically significant and present a negative signal in all cases, which means that both social and political globalization distinctly help reduce poverty.

This difference might be because economic globalization creates the need of a lot of reforms and changes in the economic structure, which sometimes are hard to integrate due to poor institutions and lack of complementary policies. In that sense, economic globalization can produce aggravating effects on poverty in the short-run, but in the long-run the effect is often repaired by the advantages of deeper and further integration in the global economy (also shown by Harrison & McMillan, 2007; Santos-Paulino, 2017; Effiong, 2023).

The control variables remain statistically significant in most cases and present negative signals, as expected. Lastly, similarly to what has been said before, there are no impactful differences between the two estimation methods employed.

Table 7. Impact of the Economic Globalization Index

	ECGI (random effects)	ECGI (fixed effects)	ECGI _{df} (random effects)	ECGI _{df} (fixed effects)	ECGI _{dfj} (random effects)	ECGI _{dfj} (fixed effects)
ECGI	.0594654 (.0538318)	.1289045 ** (.0568729)	-.0095563 (.0415927)	.0340267 (.0428001)	.0870535 ** (.0442461)	.1356608 *** (.047021)
HC	-12.63202 *** (1.790922)	-9.281532 *** (2.153695)	-11.74566 *** (1.769157)	-8.419669 *** (2.169056)	-12.82517 *** (1.653072)	-8.816244 *** (2.085281)
GDP	-.0012125 *** (.0003285)	-.0013168 *** (.0003752)	-.0012328 *** (.0003257)	-.001375 *** (.0003766)	-.0012062 *** (.0003242)	-.0013283 *** (.000373)
URBAN	-.3837646 *** (.0757185)	-.6060141 *** (.1005508)	-.3673238 *** (.074238)	-.5566757 *** (.0983288)	-.4030268 *** (.0761642)	-.6476514 *** (.1028523)
Constant	67.8335 *** (4.095293)	70.54436 *** (4.095152)	68.14098 *** (4.079521)	70.43376 *** (4.130901)	67.99685 *** (4.040488)	71.53298 *** (4.090207)
Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

Table 8. Impact of the Social Globalization Index

	SOGI (random effects)	SOGI (fixed effects)	SOGIdf (random effects)	SOGIdf (fixed effects)	SOGIdj (random effects)	SOGIdj (fixed effects)
SOGI	-.6372399 *** (.0807354)	-.5863869 *** (.0968873)	-.6087884 *** (.0681832)	-.6123329 *** (.0772732)	-.3618231 *** (.0762851)	-.2068394 ** (.0896008)
HC	.7538922 (2.187414)	4.04458 (2.81644)	-1.583814 (1.873672)	1.810244 (2.309662)	-3.883137 * (2.334361)	-2.768369 (3.045545)
GDP	-.0000629 (.0003255)	-.0001916 (.0004133)	.000127 (.0003377)	.0000435 (.0003972)	-.0006894 ** (.0003115)	-.0010359 ** (.0004054)
URBAN	-.2411008 *** (.0663143)	-.4341204 *** (.0966555)	-.3015199 *** (.0692692)	-.4294249 *** (.0936338)	-.2456028 *** (.0668786)	-.5104795 *** (.0993474)
Constant	57.08376 *** (3.911416)	59.00936 *** (4.414583)	60.01342 *** (3.868243)	60.3897 *** (4.083737)	59.7417 *** (4.045855)	65.94962 *** (4.588323)
Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

Table 9. Impact of the Political Globalization Index

	POGI (random effects)	POGI (fixed effects)	POGIIdf (random effects)	POGIIdf (fixed effects)	POGIIdj (random effects)	POGIIdj (fixed effects)
POGI	-.1847111 *** (.0504742)	-.2638186 *** (.0561217)	-.1134093 *** (.0409934)	-.1886657 *** (.0453833)	-.1564892 *** (.0459277)	-.1688302 *** (.0492455)
HC	-9.055025 *** (1.749053)	-2.133724 (2.378113)	-10.97123 *** (1.607921)	-4.746569 ** (2.182222)	-8.44822 *** (1.87387)	-3.485257 (2.429596)
GDP	-.0009338 *** (.0003282)	-.000969 ** (.0003783)	-.0009949 *** (.0003318)	-.0009819 ** (.0003823)	-.0010523 *** (.0003222)	-.0012302 *** (.0003741)
URBAN	-.3191184 *** (.0733843)	-.5398855 *** (.0960697)	-.3597916 *** (.0731949)	-.6064616 *** (.097379)	-.292296 *** (.0750003)	-.4824381 *** (.0991558)
Constant	69.10039 *** (3.989593)	71.40468 *** (4.026651)	71.3539 *** (4.189863)	76.17439 *** (4.250148)	65.27308 *** (4.050377)	66.75254 *** (4.22919)
Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively.

The standard errors are between parentheses. To gain further insight into the possible explanations for the different impacts of each dimension of globalization on poverty, we proceed with the disaggregation of the indicator into its sub-dimensions.

The economic dimension reveals heterogeneous results: the trade sub-dimension (Table 10) has a negative coefficient, indicating that global trade helps reduce poverty, while the financial subdimension (Table 11) has a positive coefficient, indicating the opposite relationship. In terms of statistical significance, the estimations for trade globalization show that this sub-dimension is mostly significant at the 10% level, while financial globalization reveals strong statistical significance for all of the configurations.

This observation leads to a deeper understanding of how each globalization component behaves and impacts the poor. For instance, higher volumes of trade in goods and services represent a great opportunity for the poor for various reasons: on one hand, trade openness increases trade flows and consequently higher demand for goods and services since there are more markets to export to. To respond to such demand, countries need to become more productive and as argued by Santos-Paulino (2017), productivity growth has a lot of potential to benefit the population by leading to welfare gains.

This allows a change of scenery for low-skilled workers since there is the need to create more jobs and invest in infrastructure to enable productivity growth. Employment changes translate into new wages, which are crucial to reduce poverty. The aforementioned author also argues that “manufacturing activities are more conducive to specialization (...) and offer greater potential for innovation and increasing returns to scale” (p. 5) which is beneficial for poor countries since manufacturing is often the main activity in these countries since they are labor-intensive and that is their comparative advantage. The necessity to invest in infrastructure translates in the development of the country at many levels, fueling innovation and reducing transaction costs, which allows lower prices.

On the other hand, trade openness is often accompanied by the absence of tariffs and other trade barriers, which is fundamental to facilitate trade flows, complemented by bilateral and multilateral trade agreements that ensure good trade relations between countries, and make goods and services more affordable for the countries involved in said agreements. The introduction to new markets and diversified partners is also beneficial because there is a wider

variety of producers and competitors, which offers a certain margin to poorer countries when importing essential goods and services since there are more suppliers to choose from.

The poor will not only benefit from job creation and development of infrastructure, but also from a decrease in the cost of living (Santos-Paulino, 2017) and given these conditions, poorer countries are able increase their trade status maintain their position in the global markets (e.g., Bannister & Thugge, 2001; Harrison & McMillan, 2007).

On the contrary, FDI, portfolio investment, international reserves and international investment agreements known as Bilateral Investment Agreements (BITs) and Treaties with Investment Provisions (TIPs) amongst other measures related to financial globalization are not contributing to poverty reduction. The issue here might not be at the root of these initiatives and measures, as it has been argued that financial integration is a powerful channel to reduce poverty (Harrison & McMillan, 2007), but how poor countries approach and integrate these changes. The development of the financial sector and deeper financial integration are important and interact with trade (Le Goff & Singh, 2014), but it is important that these processes are complemented by the appropriate domestic and institutional policies that ensure that the poor can benefit from these developments. Such policies include reducing the cost of capital, alleviating domestic credit constraints, improvement of financial supervision mechanisms in order to avoid corruption and control implementation of foreign funds, flexible exchange rates, amongst others (Harrison & McMillan, 2007; Prasad *et al.*, 2003). The existence of high-quality governance institutions and a good financial structure makes it easier to approach financial and macroeconomic stability which helps the poor overcome the short-term difficulties caused by financial globalization (e.g. consumption volatility caused by threshold effect), as has been discussed by Prasad *et al.* (2003) and Zhang & Naceur (2019).

Table 10. Impact of the Trade Globalization Index

	TRGI (random effects)	TRGI (fixed effects)	TRGI _{df} (random effects)	TRGI _{df} (fixed effects)	TRGI _{dj} (random effects)	TRGI _{dj} (fixed effects)
TRGI	-.1358671 *** (.0459563)	-.0864481 * (.0498158)	-.1148645 *** (.0357096)	-.0713176 * (.0377554)	-.0757185 * (.0409705)	-.0396181 (.0449522)
HC	-8.809229 *** (1.88603)	-6.44409 *** (2.243144)	-9.627316 *** (1.721936)	-6.645416 *** (2.180961)	-10.21757 *** (1.827766)	-7.280276 *** (2.204681)
GDP	-.0013636 *** (.000327)	-.0014997 *** (.0003784)	-.0013777 *** (.0003197)	-.0015266 *** (.0003798)	-.0012525 *** (.0003242)	-.0014219 *** (.0003758)
URBAN	-.3596271 *** (.0744211)	-.5160465 *** (.1001173)	-.3840181 *** (.071682)	-.551056 *** (.0978697)	-.3352978 *** (.0759656)	-.519704 *** (.1048538)
Constant	66.8909 *** (4.061807)	69.39269 *** (4.175553)	69.46363 *** (3.979536)	71.44362 *** (4.118125)	65.59445 *** (4.252328)	69.11063 *** (4.506728)

Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

Table 11. Impact of the Financial Globalization Index

	FIGI (random effects)	FIGI (fixed effects)	FIGIdf (random effects)	FIGIdf (fixed effects)	FIGIdj (random effects)	FIGIdj (fixed effects)
FIGI	.1801676 *** (.0409167)	.2073017 *** (.0416748)	.0886795 ** (.0344472)	.1066072 *** (.0347121)	.1231918 *** (.0298866)	.1367271 *** (.0305964)
HC	-13.06945 *** (1.605965)	-8.72381 *** (2.034696)	-13.12324 *** (1.685648)	-9.092721 *** (2.094696)	-11.67707 *** (1.578863)	-7.483812 *** (2.040533)
GDP	-.0012451 *** (.0003216)	-.0013655 *** (.000366)	-.0012663 *** (.000326)	-.0014238 *** (.0003718)	-.0012091 *** (.0003219)	-.0013252 *** (.0003681)
URBAN	-.4119647 *** (.074363)	-.6385479 *** (.09734049)	-.3769484 *** (.0748893)	-.5784736 *** (.0976513)	-.4214478 *** (.0747792)	-.6324146 *** (.0978986)
Constant	64.31456 *** (4.103128)	66.90582 *** (4.086637)	67.36704 *** (4.073738)	69.91082 *** (4.084989)	64.01376 *** (4.135589)	66.74032 *** (4.13059)
Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

The social dimension presents homogenous results amongst all its sub-dimensions: interpersonal globalization (IPGI), informational globalization (INGI) and cultural globalization (CUGI) have negative coefficients and are statistically significant (Table 12, Table 13 and Table 14, respectively).

Taking a deeper look into each social sub-dimension, by comparing their coefficients, the estimations reveal that cultural globalization is having the biggest impact on reducing poverty. This sub-dimension is often associated with Western values and customs that include civil liberties, such as freedom of expression and belief, associational and organizational rights, rule of law and personal autonomy and individual rights (Freedom House (2024) as referenced in Gygli *et al.*, 2019).

); education levels and gender parity; and exchange of cultural goods and services. The importance of the advancements made in many countries regarding human rights has proven to be the basis of many other developments, especially when we consider education access and gender parity levels that guarantee higher levels of human capital, which later translate

into a better qualified working class and consequently increases the chances of people getting better jobs and higher wages.

Concerning interpersonal globalization, the mobility of people has also proven to be beneficial to the poor on various ends: on one hand, it allows people to travel to other countries to get better jobs (while, most times, sending money to their home country), but also, on the other hand, tourism has proven to be an important sector in many countries' economies. This is facilitated by people mobility agreements, visa free regimes, investment in infrastructure such airports and the development of communications.

Regarding informational globalization, despite the positive coefficient for informational globalization *de jure* (INGIdj) using the fixed effects method (which is not statistically significant), it is also clear that it has been a powerful tool when it comes to reducing poverty. Technologic improvements that guarantee the poor access to tools such as the Internet or television are noted as beneficial, alongside the importance given to international patents and high technology exports that produce high profits. Something else important is media freedom, which dictates the level of access to news and information that people have and is directly connected to the political and legal environment of these countries – greater information flows and easy access to the news are beneficial to the poor.

Table 12. Impact of the Interpersonal Globalization Index

	IPGI (random effects)	IPGI (fixed effects)	IPGI _{df} (random effects)	IPGI _{df} (fixed effects)	IPGI _{dj} (random effects)	IPGI _{dj} (fixed effects)
IPGI	-.3526238 *** (.0606419)	-.2879263 *** (.0755671)	-.383938 *** (.0590574)	-.4685662 *** (.0823989)	-.1718472 *** (.0475077)	-.0999294 * (.0544674)
HC	-4.869826 ** (1.94717)	-1.98711 (2.575064)	-5.661157 *** (1.783801)	-2.038946 (2.263949)	-8.021285 *** (1.916968)	-5.068335 * (2.593588)
GDP	-.0006887 ** (.0003123)	-.0007865 * (.0004034)	-.0007146 ** (.0003121)	-.0003702 (.000406)	-.0009072 *** (.0003174)	-.001195 *** (.0003906)
URBAN	-.2970933 *** (.067183)	-.5274191 *** (.09699)	-.4140006 *** (.0687875)	-.6256476 *** (.0959369)	-.2711271 *** (.0711531)	-.5191214 *** (.0995359)
Constant	60.49435 *** (3.962701)	65.20641 (4.306766)	68.76231 *** (3.804874)	74.83823 *** (4.048316)	60.26368 *** (4.344321)	66.02529 *** (4.838714)
Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

Table 13. Impact of the Informational Globalization Index

	INGI (random effects)	INGI (fixed effects)	INGIdf (random effects)	INGIdf (fixed effects)	INGIdj (random effects)	INGIdj (fixed effects)
INGI	-.3198547 *** (.0596712)	-.2653831 *** (.0700903)	-.3497826 *** (.0497891)	-.3757322 *** (.0547177)	-.126641 ** (.0533008)	.0387803 (.0644942)
HC	-4.219453 ** (2.111516)	-1.283747 (2.698285)	-4.678694 ** (1.843049)	.1302509 (2.305552)	-8.546606 *** (2.205298)	-9.037933 *** (2.780803)
GDP	-.0003796 (.0003467)	-.0007123 * (.0004122)	-.00019 (.0003496)	-.000356 (.0003891)	-.0009249 *** (.0003299)	-.0014948 *** (.0004061)
URBAN	-.2677474 *** (.071863)	-.4477784 *** (.1006425)	-.2645193 *** (.0747967)	-.3960854 *** (.0964293)	-.3136243 *** (.0703895)	-.566616 *** (.1010768)
Constant	58.1271 *** (4.27659)	60.45609 *** (4.880413)	58.35951 *** (4.178528)	57.21149 *** (4.392927)	63.20778 *** (4.294352)	72.34257 *** (4.907549)
Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

Table 14. Impact of the Cultural Globalization Index

	CUGI (random effects)	CUGI (fixed effects)	CUGIdf (random effects)	CUGIdf (fixed effects)	CUGIdj (random effects)	CUGIdj (fixed effects)
CUGI	-.5850567 *** (.0817857)	-.5948789 *** (.0862785)	-.2898231 *** (.0491175)	-.2736309 *** (.0527648)	-.177315 *** (.061295)	-.209931 *** (.062619)
HC	-2.197821 (2.036529)	1.342352 (2.396511)	-7.451668 *** (1.723564)	-4.213507 * (2.147051)	-8.631085 *** (1.928116)	-4.234642 * (2.332754)
GDP	-.0004667 (.0003334)	-.0005342 (.0003794)	-.0006111 *** (.0003359)	-.0008294 ** (.0003815)	-.0011563 *** (.0003268)	-.001228 *** (.0003746)
URBAN	-.3280085 *** (.0731933)	-.4781316 *** (.0942901)	-.3224032 * (.0739487)	-.4574189 *** (.097308)	-.3767109 *** (.0748551)	-.5726491 *** (.0972872)
Constant	67.6251 *** (3.925598)	69.47487 *** (3.929571)	63.2624 *** (4.055682)	64.32328 *** (4.1914)	70.84328 *** (4.157972)	74.76406 *** (4.242464)
Obs.	502	502	502	502	502	502
N. of countries	21	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

After looking at the results of all the globalization dimensions and sub-dimensions, we now assess whether the effects of globalization on poverty are different across regions. For that purpose, we create a dummy for each region according to the World Bank categorization and interact with the globalization variable. Due to lack of data, our regressions do not contain any country from “South Asia” and “Sub-Saharan Africa”. Moreover, the poverty rates

are almost always very close to zero in the region of “North America”. Therefore, these three regions are excluded, and we consider the following dummies:

Table 15. Dummy variables

	Dummy Variable
D1	1 if the country belongs to Europe & Central Asia, 0 otherwise.
D2	1 if the country belongs to East Asia & Pacific, 0 otherwise.
D3	1 if the country belongs to Latin America & the Caribbean, 0 otherwise.
D4	1 if the country belongs to Middle East & North Africa, 0 otherwise.

The base category is “Europe & Central Asia”, so our regressions are run with dummies D2, D3 and D4. Considering that there are not significant differences between the results obtained using the fixed-effects method and the random-effects method, nor between the *de facto* and the *de jure* configurations, the estimations will be considered at the overall level, using only the fixed-effects method.

Table 16 shows that the regression with the Globalization Index has negative and statistically significant coefficients for GI and D2, which means that globalization has reduced poverty in Europe & Central Asia and even more strongly in East Asia & Pacific. On the contrary, the positive and significant coefficients for D3 and D4 reveal that the impact of globalization has been much less pronounced in the regions of Latin America & the Caribbean and Middle East & North Africa than it is in Europe & Central Asia. These results are relatively consistent across the three globalization dimensions, the only exception being the insignificant impact of economic globalization in Europe & Central Asia and in East Asia & Pacific.

Table 16. The impact of the globalization dimensions, using dummy variables

	GI	ECGI	SOGI	POGI
GI/ECGI/SOGI/POGI	-.4992504 *** (.0944888)	-.1066602 (.0967772)	-.6904595 *** (.0978823)	-.3994349 *** (.0640371)
D2 interacted	-.3487061 ** (.1566957)	-.0641952 (.1578186)	-.3342198 ** (.1292162)	-.6108502 *** (.1271182)
D3 interacted	.6667207 *** (.1196947)	.412754 *** (.1161473)	.5416881 *** (.1072026)	.4050479 *** (.0884649)
D4 interacted	.9870471 *** (.1991553)	.855521 *** (.2818666)	.8550236 *** (.1680462)	.6674003 *** (.1504066)
HC	-7.994352 *** (2.300259)	-9.391265 *** (2.134122)	-3.97635 (2.539985)	-6.635254 *** (2.124868)
GDP	-.0006943 ** (.0003503)	-.0012022 *** (.000368)	-.0000983 (.0003634)	-.0005411 (.0003562)

URBAN	-.5879869 *** (.1132109)	-.6886473 *** (.1019409)	-.4202861 *** (.1096702)	-.481666 *** (.1098729)
Constant	76.1316 *** (4.311888)	74.71519 *** (4.146332)	66.2378 *** (4.845489)	73.81892 *** (4.021786)
Obs.	502	502	502	502
N. of countries	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

In Table 17 we present the results for the sub-dimensions of globalization with regional dummies, which are very similar to the ones presented for the dimensions of globalization (Table 16).

Table 17. The impact of the globalization sub-dimensions, using dummy variables

	TRGI	FIGI	IPGI	INGI	CUGI
TRGI/FIGI	-.1591276 * (.0837283)	-.0523144 (.0946702)	-.6374386 *** (.0910397)	-.4602674 *** (.0753951)	-.6630059 *** (.1122069)
IPGI/INGI/CUGI	-.195092 (.1227497)	.183007 (.1590559)	-.1923204 (.1385842)	-.2838918 *** (.1043855)	-.3109311 ** (.135782)
D2 interacted	.2003032 ** (.1004949)	.3251087 *** (.1074493)	.5993599 *** (.0995466)	.4259843 *** (.0835504)	.785491 *** (.1215267)
D3 interacted	.5183454 (.3779889)	.5618174 *** (.1968479)	.9148236 *** (.1642698)	.6680203 *** (.1347571)	1.163131 *** (.2097959)
D4 interacted	-6.991394 *** (2.221939)	-8.443866 *** (2.05872)	-4.554494 * (2.346895)	-6.09023 ** (2.369555)	-9.729039 *** (2.267857)
HC	-6.991394 *** (2.221939)	-8.443866 *** (2.05872)	-4.554494 * (2.346895)	-6.09023 ** (2.369555)	-9.729039 *** (2.267857)
GDP	-.0016588 *** (.000378)	-.0010759 *** (.0003748)	-.0003507 (.0003681)	-.0002684 (.0003618)	-.000534 (.0003336)
URBAN	-.4915832 *** (.1009032)	-.7329184 *** (.1010857)	-.5796488 *** (.1072371)	-.4497901 *** (.1151347)	-.379919 *** (.096038)
Constant	69.33359 *** (4.228205)	71.67427 *** (4.322206)	71.07401 *** (4.61462)	67.53246 *** (5.321907)	69.99385 *** (3.886475)
Obs.	502	502	502	502	502
N. of countries	21	21	21	21	21

Note: ***, **, and * indicate the level of statistical significance at 1%, 5% and 10%, respectively. The standard errors are between parentheses.

From tables 16 and 17, we can thus conclude that there is a clear pattern that distinguishes globalization's behavior in East Asia & Pacific from the behavior in the other regions, reflecting that globalization has been more efficient in reducing poverty in the following order: countries from the East Asia & Pacific (China; Indonesia; Thailand); followed by countries from Europe & Central Asia (Armenia; Belarus; Georgia; Kazakhstan; Kyrgyz Republic; Moldova; Ukraine); followed by countries from Latin America & the Caribbean (Argentina; Bolivia; Brazil; Colombia; Costa Rica; Dominican Republic; Ecuador; El Salvador; Honduras;

Mexico; Paraguay; Peru) and countries from Middle East & North Africa (Islamic Republic of Iran).

Poverty reduction in the East Asia & Pacific region is deeply connected to poverty reduction in China and its impressive results on poverty alleviation. From 1978-2021, 770 million people have been lifted out of poverty (according to the national poverty threshold), which accounts for almost 75% of the global reduction of extreme poverty (World Bank & the Development Research Center of the State Council, 2022). This was a long process that covered deep reforms of the agricultural sector, incremental industrialization, investment in infrastructure, development of areas such as education, health, public services, and overall a well-thought and effective plan designed by the government, government agencies and non-government stakeholders that assured that these changes were well implemented and integrated in order to benefit the poor.

The improvements in productivity adjacent to the introduction of market incentives, the development of low-skilled, labor-intensive industries were crucial to create employment opportunities in both rural and urban areas, which favored workers mobility and money transfers. In addition to this, the fact that China implemented export-oriented strategies since the 1980s allowed the country to capitalize its own comparative advantages in more labor-intensive light industry, “using export demand as a driver for investment and special economic zones in coastal areas as a platform for attracting foreign investment and technology” (World Bank & the Development Research Center of the State Council, 2022, p. 17).

Throughout the years China moved up the value chain in many sectors and was able to consolidate itself as “a giant workshop for the global economy” (World Bank & the Development Research Center of the State Council, 2022, p. 19), becoming the largest global exporter by 2009 and accounting for trillions of dollars in export value. The fact that the country became a member of the WTO in 2001 was beneficial in this matter, which represents another advantage presented by globalization. All of this is correlated with poverty reduction primarily because these developments allow new and better paid job opportunities, as well as job diversification.

China shares a lot of these characteristics with other countries in East Asia, which have been beneficial to the region. The importance given to targeted initiatives, public investment, good governance, and social protection systems ensure that large transformations derived from

globalization are beneficial to the poor which translates into a reduction of the poverty rate from 60.9% in 1990 to 1.0% in 2019 (Gao & He, 2022).

As for the impact of globalization on poverty reduction in Europe & Central Asia, the pattern in this region has been troubled in the past due to the fact that globalization was put to the side by many of the countries in analysis, mostly due to political ideologies and constraints. The countries from the old Soviet bloc did not enjoy the advantages of globalization until very late, which undermines its impact on poverty reduction. However, the democratization process and the economic transformations allowed a new set of policies and strategies that include liberalization of trade, deeper integration and participation in the global economy, openness to FDI, contact with Western values and institutions which translated into better opportunities (European Commission: Directorate-General for Research and Innovation, 2014). As shown in section 3, the latest data (2021-2022) point out that this region is both the most globalized one (with a KOF index of 73.91, on a scale of 1 to 100) and the least poor (0.5%).

The effect of globalization on poverty reduction in Latin America & the Caribbean is less prominent because the region moves at different paces. The projections for economic growth are different across the countries (in general the rates are low), and the pace at which poverty is declining has been stalled since 2016 (World Bank, 2024b). Thorbecke & Nissanke (2008) point out that in general globalization channels (like trade liberalization) did not have the expected results in this region, and therefore their impact on reducing poverty has not been very evident for many years. Some of the most important drivers in this context are tourism, remittance flows and public investments, which are promoted by globalization. On the downside, external risks still present a big threat, including a decrease in trade with major partners like the United States and China and the tighter global financial conditions. The region also presents low levels of education attainment, reduced access to services like internet connectivity and lack of digital infrastructure, high percentage of informal jobs, and high inequality rates – all of these conditions undermine the impact of globalization on poverty (World Bank, 2024b).

The Middle East & North Africa region is the least represented in this study (only Iran was considered) due to lack of data, which represents a setback when trying to comprehend globalization's impact in the region in full. Still, it is worth mentioning that regarding Iran, the most recent Poverty and Equity Brief published by the World Bank (2024c) shows a

significant poverty decrease, in line with a pattern of inclusive growth. In particular, it is noted that there is a “positive and inclusive consumption growth (...) fueled by increased earnings from wages, self-employment, and pensions” (p.1) which highlights the importance of implementing structural changes in the employment scenario and invest in strong social safety nets such as pensions. To address this, the government has initiatives in place to improve efficiency and sustainability of social policy which ultimately benefits the poor. A constraint that remains is the high fiscal costs associated with cash transfers, which undermines this source of welfare to the poor.

6. Conclusion

It is undeniable that globalization is a phenomenon that has spread all over the world and that no country, business or institution is able to detach itself from it. Despite all the discourse around globalization trends, its rise and fall, negative and positive outcomes, it is certain that it has produced a lot of opportunities. However, when comparing developed and developing / underdeveloped countries, these opportunities are not perceived nor absorbed in the same way, which is something that still raises a lot of discussion.

The relationship between globalization and poverty falls under this discussion, and it has been highly debated by scholars, politicians and economists whether globalization helps reduce poverty or has an aggravating effect on poorer countries. Given the multidimensionality of globalization, it is useful to understand how each dimension has impacted poverty individually in order to have a clearer perspective on this topic.

This study explored the impact of each globalization dimension (economic, social, political) and sub-dimension (trade, financial, interpersonal, informational, cultural) on poverty reduction, using unbalanced panel data for 23 developing and underdeveloped countries for the period between 1970 and 2024. Furthermore, it also explored the distinction between globalization *de facto* and globalization *de jure*, which helped us understand in more depth what variables shape the behavior of each dimension/sub-dimension. Globalization, the main independent variable, was proxied by the KOF Globalization Index and Poverty, the dependent variable, was proxied by the Poverty Headcount ratio at \$2.15 per day (2017 PPP) from the World Bank.

The results obtained reveal that when looking at the main dimensions, the main conclusion is that economic globalization is not contributing to poverty reduction, while social and political globalization are. By looking further into the sub-dimensions, we gather that within economic globalization, its sub-dimensions behave in opposite directions (trade globalization contributes to poverty reduction while financial globalization does not) and that the sub-dimensions with respect to social globalization present coinciding results. It is worth noting that the results for globalization *de facto* and globalization *de jure* reveal high degree of concordance with the results obtained for each dimension and sub-dimension.

The contrasting results between economic globalization and social/political globalization might be explained by the fact that the implementation of most variables comprehended by

the economic dimension tends to be more difficult due to domestic constraints. In general, most variables considered within social and political globalization don't require structural transformations at the level that economic globalization does, which makes them more immediate and effective. In essence, economic globalization takes deeper efforts to be effective and might create aggravating effects on poverty in the short-run, but in the long run, and under the right macroeconomic context and policies, globalization can be beneficial (e.g. Prasad *et al.*, 2003; Santos-Paulino, 2017; Effiong, 2023).

We also addressed whether the main results differ across regions, according to the World Bank categorization. We found that globalization has shown to contribute more to poverty reduction in East Asia & Pacific, followed by Europe & Central Asia. In Latin America & the Caribbean and Middle East & North Africa, globalization has had a weaker impact in reducing poverty. The prominent results in East Asia & Pacific are closely related to China's outstanding efforts to reduce poverty, which made the whole region stand out, and while there are significant results in the other regions, they are less observable due to the absence of a driving force capable of matching China's performance. In Europe & Central Asia, globalization's impact became more evident after democratization and liberalization of the Eastern European countries. As for Latin America & the Caribbean and Middle East & North Africa, the countries in these regions move at different paces and the need to improve a lot of domestic aspects essential to poverty reduction still remains.

In light of these results, the possible policy implications are aligned in two directions: a) governments must keep their efforts related to social and political globalization initiatives since they have shown to be effective in reducing poverty; and b) governments need to be committed to the creation of more inclusive financial measures, that prioritize the adoption of domestic policies that benefit and protect the poor, in order to reserve their aggravating impact on poverty.

The main limitation of this study was the lack of poverty data, which led to the exclusion of a lot of countries from the original sample. Inherently connected to this limitation, the fact that North Africa & Middle East are only represented by one country also undermines the possibility of having a comprehensive view of globalization's impact on poverty reduction in the region. The lack of data also resulted in the exclusion of control variables, such as corruption and institutional and governance quality, both identified by LeGoff & Singh (2014), Deyshappria (2018) and Gnanngnon (2019) as relevant factors that interfere with poverty.

In terms of future research, it would be valuable to further investigate how economic globalization can become more inclusive and beneficial to the poor in order to become effective in poverty reduction. Another interesting approach would be an attempt to bypass the issue with data availability by using and combining the updates on global poverty lines (released by the World Bank in June 2025) and consider the income-level categorization instead of region categorization.

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