



Globalization and Inequality in Central, Eastern and South Eastern Europe

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Received: January 30, 2025

Accepted: July 8, 2025

Published: November 3, 2025

Keywords:

Inequality;
Globalization;
Central;
Eastern and South Eastern
Europe



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Abstract: *The relationship between globalization and inequality has attracted considerable academic attention in recent decades. Despite the numerous attempts to theoretically distinguish the complex globalization-inequality linkages and assess them empirically, the academic literature is far from conclusive. Put differently, the apparent trend of rising income inequality may or may not be a by-product of the unprecedented degree of globalization. The goal of this paper is to examine the globalization-inequality relationship in Central, Eastern and South Eastern Europe. This important relationship is examined empirically through the use of panel data estimates and alternative measures of globalization and inequality. In the group of 16 countries and for the period 1990-2021, a positive impact of the overall KOF index of globalization on inequality is found, with the positive effects also found for economic and social globalization, while the effect of political globalization is not statistically significant.*

1. INTRODUCTION

The relationship between globalization and inequality has attracted considerable academic attention in recent decades. Despite the numerous attempts to theoretically distinguish and empirically assess the complex relationships between globalization and inequality, the academic literature is far from conclusive. In other words, the apparent trend towards rising income inequality may or may not be a by-product of unprecedented degree of globalization. The diversity of estimates can be attributed to inconsistencies in the underlying data, a variety of measures of globalization and economic inequality, different estimation methods, different time periods, etc. Given these different results, further studies are desirable to shed more light on this important relationship.

The aim of this paper is to empirically examine the relationship between globalization and inequality in Central, Eastern and South Eastern Europe. As in other regions of the world, recent decades have been characterized by a sharp rise in inequality, accompanied by increasing globalization tendencies, as former socialist countries decided to switch to a market economy and open up to globalization. By employing alternative measures of globalization and inequality, this paper estimates the relationship between inequality and globalization using panel data estimation techniques for the period 1990-2021 in 16 countries from Central, Eastern and South Eastern Europe.

This article is structured as follows. Section 2 briefly outlines the context of this research, together with the measurement of globalization and inequality. Section 3 is the central part of the paper and presents the results of the empirical analysis. Future research directions are discussed in Section 4, while Section 5 draws a conclusion.

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2. RESEARCH CONTEXT AND MEASUREMENT OF GLOBALIZATION AND INEQUALITY

Theoretical considerations about the relationship between globalization and inequality suggest both positive and negative effects. A natural starting point for exploring the impact of globalization on inequality is the Stolper-Samuelson theorem. Thus, standard trade theory assumes that increased trade, as one of the most important aspects of globalization, increases inequality in developed countries, while inequality in less developed countries might decrease. These distributional effects within countries are often related to the dynamics of the relative demand for skilled and unskilled labor. In particular, it was on these grounds during the 1990s that in developed countries the immiseration of less skilled workers was associated with imports from less developed countries (Freeman, 1995). On the other hand, the increase in exports from developed countries meant an increase in the demand for highly skilled labor, resulting in additional distributional effects and greater inequality. Thus, it appears that the impact of globalization on inequality may differ between developed and less developed countries. This trade channel is only one aspect of globalization. Other aspects relate to financial globalization, in particular foreign direct investment, which may increase the relative demand for skilled labor in both developed and less developed countries (see for example Feenstra and Gaston, 1997 and Gaston and Nelson, 2002). Dreher and Gaston (2008) also argue that as a result of outsourcing, the demand for unskilled labor decreases in developed countries, while the demand for skilled labor increases in less developed countries, as the outsourced activities are relatively skilled for the less developed economies. Eichengreen et al. (2021) also examine the potential impact of financial globalization on inequality and warn that capital inflows can be a double-edged sword, depending on the composition of capital flows, their interaction and overall economic and institutional conditions. These initial arguments suggest that it is necessary to consider different aspects of globalization. In the following we will explain why the recently revised KOF index of globalization (Gygli et al., 2019) will be particularly helpful in the empirical investigation. Since globalization is a complex and multi-layered phenomenon, it is necessary to specify carefully what is meant by globalization. We are interested in globalization and its effects from an economic perspective, and the theoretical channels through which globalization affects inequality are usually set up with trade and financial globalization in mind. In the older literature, traditional indicators of openness were used. These included trade (exports plus imports) as percentage of GDP or FDI flows. In the more recent literature the KOF index of globalization has been used (Dreher, 2006; Dreher and Gaston, 2008; Potrafke, 2015), in particular the revised version of this index due to Gygli et al. (2019). This is particularly convenient as the revised index is available not only as an overall KOF index of globalization, but also with subcomponents of economic, social and political globalization and also distinguishes between trade and financial globalization within economic globalization.

Inequality has also increased in recent decades, particularly in developed economies (see for example Cingano, 2014; Eichengreen et al., 2021). The Gini index is the typical measure of inequality used in empirical studies, and it will also be used in this paper. We use the Standardized World Income Inequality Database (SWIID) (n.d.) by Solt (2020). The Gini index in this database is calculated on the basis of disposable income (after taxes, after transfers), but it is also calculated on the basis of market income (before taxes, before transfers), which allows for a good robustness check, which we will also perform in this study. The SWIID provides comparable Gini indices for most countries in the world. As reported on the SWIID website (<https://fsolt.org/swiid/>) the SWIID includes data from the OECD Income Distribution Database, the Socio-Economic Database for Latin America and the Caribbean generated by CEDLAS and the World Bank, Eurostat, the World Bank's PovcalNet, the UN Economic Commission for Latin America and the Caribbean, national statistical offices around the world, and academic studies, thus providing a reliable source for conducting cross-country research on inequality.

The empirical modelling of the relationship between inequality and globalization in our study follows the previous empirical literature, which usually includes a measure of globalization and a set of control variables. A good example of this literature is the study by [Dreher and Gaston \(2008\)](#). The basic modelling strategy in this and other studies adds GDP per capita (and GDP per capita squared) and then allows for additional control variables such as the age dependency ratio, population, and government consumption. Since the theoretical channel briefly outlined above operates through the dynamics of the relative demand for skilled and unskilled labour, the impact of technological progress cannot be ignored. Indeed, the previous studies have reported that trade (globalization) has only a modest impact on inequality, while most of the increased inequality is due to technology (see, for example, [Freeman, 1995](#) or [Jaumotte et al., 2008](#)). Consequently, a better theoretical specification should include an indicator that represents the impact of technology on inequality. [Jaumotte et al. \(2008\)](#) and [Dorn et al. \(2017\)](#) therefore include ICT capital in their empirical specifications, while [Tabash et al. \(2024\)](#) include R&D. These studies took into account additional variables in the form of domestic financial development, access to education or human capital and the employment shares in the industrial, services and agricultural sectors. In our empirical investigation in section 3, we will follow this broad empirical strategy and consider as many factors as possible.

3. EMPIRICAL ANALYSIS AND RESULTS

In this part of the paper, we report the details of the empirical methodology, the data and the results of the econometric estimations. Following some previous studies that have investigated the relationship between globalization and inequality (see e.g. [Dreher and Gaston, 2008](#); [Jaumotte et al., 2008](#); [Dorn et al., 2017](#); [Tabash et al., 2024](#)), we set up our underlying model quite broadly. We start with a simple model that includes a globalization variable (KOF index of globalization) as the main variable of interest, along with GDP per capita and GDP per capita squared to account for the so-called Kuznets curve. Indeed, [Kuznets \(1955\)](#) long ago hypothesized that inequality increases in the early stages of industrialization and economic growth, but that at higher levels of development, further industrialization and economic growth lead to lower inequality. In addition to these variables, we extend our model and introduce additional control variables such as the age dependency ratio and population growth to account for demographic factors that can be seen as potentially important determinants of inequality. Next, we extend our model to include R&D, expressed as a percentage of GDP, and human capital. The model also includes government expenditure (as a percentage of GDP) and domestic credit to the private sector (as a percentage of GDP), as well as the employment share in industry and employment share in services. We experiment with different models to check the consistency of our results with respect to the main variable of interest, but along the way we also want to see how these additional variables affect inequality.

The data used in the econometric estimates come from the following sources. For the globalization variables (KOF index of globalization and its subcomponents – economic, social and political globalization), we used the Swiss Federal Institute of Technology and [Gygli et al. \(2019\)](#). For the inequality variables (Gini index of disposable income and Gini index of market income), we used [Solt \(2020\)](#). For the control variables, we used the [World Bank's \(n.d.\)](#) WDI (World Development Indicators) database and the [Penn World Table \(Version 10.0\). \(2023\)](#) due to [Feenstra et al. \(2015\)](#). Our empirical study focuses on 16 countries from Central, Eastern and South Eastern Europe. The following countries were included: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia for the period from 1990 to 2021. We collected annual data and in most of the models estimated and listed in Tables 1 to 4, we had a respectable number of observations,

with the highest number of observations being 451. In some models that include R&D and human capital, the number of observations drops to 220 due to unavailability of data for some countries or a smaller number of years covered. The number of countries and observations are reported at the end of each table. For our econometric estimates, we used panel data estimation techniques and specified the Hausman test for each model (at the end of each column in Tables 1 through 4) to decide whether to use the fixed-effects (FE) or random-effects (RE) model. The Hausman test favoured the use of a fixed-effects model for the vast majority of models.

We report our results in four tables. Since they contain a large number of models that were estimated, we provide a general guide here to make our results easier to follow and understand. The dependent variable in all models is inequality (as measured by the Gini index due to Solt (2020), which comes in two forms: the Gini index, which is calculated on disposable income and used in Tables 1 to 3, and the Gini index, which is calculated on market income and used in Table 4). Our main variable is globalization, and we are particularly interested in its effect on inequality. In Table 1 we use the overall KOF index of globalization, while in Table 2 we consider the impact of economic globalization on inequality by using the same models as in Table 1, but replacing the overall KOF index of globalization with the KOF index of economic globalization. In Table 3, we additionally consider other aspects of globalization: social, political, trade and financial globalization. Since we are mainly interested in the effects of globalization on inequality, we focus in particular on the signs and statistical significance of the coefficients associated with the globalization variables, but also provide general comments on the other control variables. The decision not to provide too many detailed comments on other variables seems rational for special reasons. After this introductory remark, we present our results, starting with the impact of the overall KOF index of globalization on inequality in Table 1.

Table 1 reports the impact of the overall KOF globalization index on inequality across ten different specifications (columns 1 – 10). The difference in the specifications results from the additional control variables added to the baseline model (column 1), which includes the KOF index of globalization, GDP per capita and GDP per capita squared. The additional control variables are added gradually so that a range of models can be estimated, which increases the consistency of our results with respect to the globalization variable, which is included in all models. In all ten specifications, the coefficient on the KOF index of globalization is positive and statistically significant, suggesting that globalization increases inequality in this sample of countries. GDP per capita is estimated to be positive and statistically significant, while GDP per capita squared is also statistically significant but negative. These effects are consistent across all estimated specifications and confirm the Kuznets hypothesis. The demographic variables (age dependency ratio and population growth) lack consistency with changing signs and statistical significance across different specifications. Among other interesting and consistent results, it is worth mentioning that human capital is estimated statistically significant and negative, suggesting that stronger human capital has the potential to reduce inequality. Domestic financial deepening is also statistically significant and negative, as is the employment share in industry. These results are consistent across the different models and it appears that financial development leads to lower inequality and that more employees in industry also leads to lower inequality. This effect related to the employment share in services is not confirmed by our results, as the coefficients are not statistically significant and change their sign. Without going into these results in more detail, the main finding from Table 1 is that globalization, as measured by the overall KOF index of globalization, has a positive and statistically significant impact on inequality. Next, we examine whether these effects are outweighed when we replace the overall KOF globalization index with the KOF indices of economic globalization (Table 2 below) and social, political and trade and financial globalization (Table 3 below).

Table 1. Globalization and inequality – KOF index of globalization (Gini index: disposable income)

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
KOF index of globalization	0.134*** (0.013)	0.128*** (0.013)	0.125*** (0.013)	0.058*** (0.017)	0.119*** (0.023)	0.118*** (0.023)	0.108*** (0.025)	0.079*** (0.024)	0.036** (0.018)	0.036** (0.018)
GDPpc	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.000*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
(GDPpc)²	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
Age dependency ratio		-0.044** (0.021)	-0.047** (0.021)	-0.006 (0.022)	0.017 (0.025)	0.017 (0.025)	0.025 (0.027)	-0.005 (0.026)	-0.065*** (0.019)	-0.068*** (0.018)
Population growth			-0.207 (0.136)	-0.038 (0.139)	-0.232 (0.170)	-0.266 (0.170)	-0.033 (0.211)	-0.074 (0.198)	0.148 (0.135)	
R&D (% of GDP)				-0.749** (0.307)	-0.364 (0.318)	-0.388 (0.316)	0.512 (0.325)	-0.159 (0.321)		
Human capital (PWT)					-3.960*** (0.980)	-4.007*** (0.974)	-6.838*** (1.248)	-8.636*** (1.178)		
Government expenditure (% of GDP)						0.095** (0.044)	0.098** (0.049)	-0.015 (0.049)	0.069* (0.036)	0.069* (0.036)
Domestic credit to private sector (% of GDP)							-0.012 (0.005)	-0.016*** (0.005)	-0.019*** (0.004)	-0.019*** (0.004)
Employment share in industry								-0.235*** (0.048)	-0.241*** (0.035)	-0.242*** (0.035)
Employment share in services								0.081** (0.040)	-0.003 (0.032)	-0.004 (0.032)
No of countries	16	16	16	16	13	13	13	13	16	16
No of observations	451	451	451	353	285	285	285	220	315	315
Hausman test (test statistic and p value)	29.98 (0.00) FE	52.40 (0.00) FE	79.31 (0.00) FE	48.68 (0.00) FE	24.16 (0.00) FE	26.26 (0.00) FE	173.72 (0.00) FE	406.80 (0.00) FE	53.38 (0.00) FE	23.74 (0.00) FE

Standard errors in parentheses; *** significant at 1% level, ** significant at 5% level, * significant at 10% level

Source: Own calculations

Table 2 contains the same specifications as Table 1, but this time the globalization variable is the KOF index of economic globalization. Our results remain virtually unchanged, as the variables have the same sign and statistical significance as in Table 1. Of particular importance to us is that the coefficients for economic globalization are again consistently positive and statistically significant. However, it should be added that the estimated coefficients for the KOF index of economic globalization, while having the same sign and statistical significance, are somewhat lower. Nevertheless, they confirm the previous result that globalization increases inequality.

In Table 3 we experiment further with alternative KOF indices of globalization. In the first two columns, we repeat the already estimated specifications for the overall KOF index of globalization (column 1) and for the KOF index of economic globalization (column 2). They are included to allow a comparison with the models containing the KOF social globalization index (column 3),

the KOF political globalization index (column 4), the KOF trade globalization index (column 5) and the KOF financial globalization index (column 6). Again, we are primarily interested in the coefficients relating to the globalization variables. In all but one model (column 4, in which the KOF index of political globalization is the globalization variable), the coefficients on globalization are positive and statistically significant. The coefficient relating to political globalization is also positive, but not statistically significant. Taken together, the statistically significant coefficients for five of the six globalization variables support the conclusion that globalization increases inequality in the group of Central, Eastern and South Eastern European countries. As for the other variables estimated in Table 3, the Kuznets hypothesis is again confirmed, as well as the finding that human capital, financial deepening and employment in industry lead to lower inequality. Another aspect worth mentioning is the positive impact of the share of employment in the service sector on inequality (statistically significant in three out of six estimated models) suggesting that higher employment in the service sector leads to more inequality.

Table 2. Globalization and inequality – KOF index of economic globalization (Gini index: disposable income)

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
KOF index of economic globalization	0.099*** (0.012)	0.093*** (0.012)	0.090*** (0.013)	0.038*** (0.014)	0.075*** (0.017)	0.071*** (0.017)	0.113*** (0.023)	0.111*** (0.022)	0.050*** (0.018)	0.048** (0.018)
GDPpc	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
(GDPpc)²	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
Age dependency ratio		-0.032 (0.023)	-0.036 (0.023)	-0.002 (0.023)	0.035 (0.026)	0.034 (0.026)	0.062** (0.028)	0.044* (0.027)	-0.044** (0.021)	-0.047** (0.021)
Population growth			-0.252* (0.141)	-0.061 (0.139)	-0.288* (0.173)	-0.313* (0.173)	0.073 (0.210)	-0.038 (0.192)	0.166 (0.135)	
R&D (% of GDP)				-0.722** (0.310)	-0.280 (0.324)	-0.306 (0.323)	0.617* (0.324)	-0.240 (0.309)		
Human capital (PWT)					-3.304*** (0.971)	-3.263*** (0.968)	-6.337*** (1.143)	-8.469*** (1.035)		
Government expenditure (% of GDP)						0.079* (0.045)	0.114** (0.048)	-0.012 (0.048)	0.078** (0.036)	0.077** (0.036)
Domestic credit to private sector (% of GDP)							-0.013** (0.005)	-0.015*** (0.005)	-0.019*** (0.004)	-0.020*** (0.004)
Employment share in industry								-0.302*** (0.043)	-0.257*** (0.035)	-0.258*** (0.035)
Employment share in services								0.027 (0.040)	-0.022 (0.034)	-0.023 (0.034)
No of countries	16	16	16	16	13	13	13	13	16	16
No of observations	451	451	451	353	285	285	220	220	315	315
Hausman test (test statistic and p value)	43.66 (0.00) FE	68.42 (0.00) FE	114.43 (0.00) FE	64.83 (0.00) FE	31.35 (0.00) FE	31.28 (0.00) FE	40.48 (0.00) FE	19.00 (0.06) RE	44.02 (0.00) FE	19.61 (0.01) FE

Standard errors in parentheses; *** significant at 1% level, ** significant at 5% level, * significant at 10% level

Source: Own calculations

Table 3. Globalization and inequality – KOF index of social globalization (Gini index: disposable income)

VARIABLES	(1) KOFGI	(2) KOFECGI	(3) KOF SOGI	(4) KOFPOGI	(5) KOFTRGI	(6) KOFFIGI
KOF index of globalization (different indices)	0.079*** (0.024)	0.111*** (0.022)	0.110*** (0.031)	0.015 (0.011)	0.112*** (0.026)	0.056*** (0.017)
GDPpc	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
(GDPpc)²	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
Age dependency ratio	-0.005 (0.026)	0.044* (0.027)	0.003 (0.026)	-0.018 (0.027)	0.003 (0.026)	0.031 (0.029)
Population growth	-0.074 (0.198)	-0.038 (0.192)	-0.094 (0.192)	-0.067 (0.202)	0.055 (0.196)	-0.069 (0.198)
R&D (% of GDP)	-0.159 (0.321)	-0.240 (0.309)	-0.378 (0.316)	-0.269 (0.328)	-0.115 (0.316)	-0.166 (0.321)
Human capital (PWT)	-8.636*** (1.178)	-8.469*** (1.035)	-6.137*** (1.053)	-7.650*** (1.247)	-8.705*** (1.117)	-7.623*** (1.071)
Government expenditure (% of GDP)	-0.015 (0.049)	-0.012 (0.048)	-0.012 (0.049)	-0.033 (0.050)	0.003 (0.049)	-0.003 (0.050)
Domestic credit to private sector (% of GDP)	-0.016*** (0.005)	-0.015*** (0.005)	-0.018*** (0.005)	-0.015*** (0.005)	-0.017*** (0.005)	-0.016*** (0.005)
Employment share in industry	-0.235*** (0.048)	-0.302*** (0.043)	-0.182*** (0.050)	-0.237*** (0.050)	-0.263*** (0.048)	-0.248*** (0.049)
Employment share in services	0.081** (0.040)	0.027 (0.040)	0.026 (0.047)	0.123*** (0.040)	0.037 (0.043)	0.076* (0.041)
No of countries	13	13	13	13	13	13
No of observations	220	220	220	220	220	220
Hausman test (test statistic and p value)	406.80 (0.00) FE	19.00 (0.06) RE	29.01 (0.00) FE	85.05 (0.00) FE	29.36 (0.00) FE	23.35 (0.02) FE

Standard errors in parentheses; *** significant at 1% level, ** significant at 5% level, * significant at 10% level

Source: Own calculations

To finally check the consistency and robustness of our results, we experiment with an alternative dependent variable in Table 4. Instead of the Gini index based on disposable income, we include the Gini index based on market income. For this purpose, we estimate the same specifications as in Table 3, but the dependent variable is the Gini index based on market income.

Table 4 confirms our previously reported results. It shows that with the sole exception of political globalization, which is estimated to be statistically insignificant, the coefficients for all other globalization variables (the overall KOF index of globalization and the KOF indices of economic, social, trade and financial globalization) are positive and statistically significant. This additional evidence based on the Gini index, which is based on market income, thus confirms that globalization increases inequality. The Kuznets hypothesis is also reconfirmed, as is the finding that human capital, financial deepening and employment in industry lead to lower inequality. With this alternative dependent variable, we also notice that with respect to the age dependency ratio it is more often statistically significant (in four out of six specifications) and the impact is negative on inequality. The employment share in the service sector is found to be statistically significant and positive in all models suggesting that more employment in the service sector increases inequality.

Table 4. Globalization and inequality – KOF indices of globalization
(Gini index: market income)

VARIABLES	(1) KOFGI	(2) KOFECGI	(3) KOF SOGI	(4) KOFPOGI	(5) KOFTRGI	(6) KOFFIGI
KOF index of globalization (different indices)	0.106*** (0.025)	0.150*** (0.023)	0.172*** (0.032)	0.013 (0.012)	0.133*** (0.028)	0.102*** (0.017)
GDPpc	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
(GDPpc)²	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
Age dependency ratio	-0.060** (0.028)	-0.001 (0.028)	-0.046* (0.027)	-0.076*** (0.029)	-0.052* (0.027)	0.010 (0.030)
Population growth	-0.337 (0.209)	-0.255 (0.199)	-0.371* (0.204)	-0.323 (0.218)	-0.182 (0.208)	-0.336* (0.201)
R&D (% of GDP)	-0.023 (0.340)	0.161 (0.324)	-0.281 (0.327)	-0.155 (0.353)	0.047 (0.336)	0.098 (0.325)
Human capital (PWT)	-9.273*** (1.245)	-9.219*** (1.112)	-5.782*** (1.090)	-7.564*** (1.342)	-9.075*** (1.188)	-8.329*** (1.087)
Government expenditure (% of GDP)	-0.003 (0.052)	-0.039 (0.050)	0.006 (0.051)	-0.027 (0.054)	0.016 (0.052)	0.029 (0.050)
Domestic credit to private sector (% of GDP)	-0.022*** (0.005)	-0.024*** (0.005)	-0.026*** (0.005)	-0.021*** (0.005)	-0.024*** (0.005)	-0.023*** (0.005)
Employment share in industry	-0.145*** (0.051)	-0.182*** (0.0049)	-0.063 (0.052)	-0.145*** (0.053)	-0.177*** (0.051)	-0.169*** (0.049)
Employment share in services	0.287*** (0.043)	0.223*** (0.043)	0.193*** (0.048)	0.343*** (0.042)	0.241*** (0.045)	0.257*** (0.041)
No of countries	13	13	13	13	13	13
No of observations	220	220	220	220	220	220
Hausman test (test statistic and p value)	406.80 (0.00) FE	100.65 (0.00) FE	41.40 (0.00) FE	267.92 (0.00) FE	53.46 (0.00) FE	237.38 (0.00) FE

Standard errors in parentheses; *** significant at 1% level, ** significant at 5% level, * significant at 10% level

Source: Own calculations

The evidence presented in Tables 1 to 4 can be summarized as strongly supporting the view that globalization increases inequality in the countries of Central, Eastern and South Eastern Europe. This result is consistent with the various models that have been estimated and with alternative globalization and inequality indicators that have been used.

4. FUTURE RESEARCH DIRECTIONS

As globalization has increased dramatically over the last four or five decades, empirical studies examining the consequences of this phenomenon are highly desirable. While this empirical study examines an important effect on inequality and provides consistent evidence that globalization increases inequality in the countries of Central, Eastern and South Eastern Europe, further research may be needed to shed additional light on this important relationship. In particular, this research could become more relevant by broadening the sample of countries included. Including as many of the world economies as possible would provide a more solid basis for drawing conclusions about the relationship between globalization and inequality. Extending the study period could also be a desirable step, especially if all countries are included. In the present study, the choice of the period from 1990 onwards was dictated by the particular aspect of the countries involved that these

countries have transitioned to capitalism. The inclusion of more economies and the extension of the study period therefore offer promising opportunities for further research on the relationship between globalization and inequality.

5. CONCLUSION

This paper examines the impact of globalization on inequality in a group of 16 countries from Central, Eastern and South Eastern Europe. The paper contributes to the empirical literature on the impact of globalization on inequality. A particularly valuable contribution comes from the use of the recently revised KOF index of globalization, which distinguishes between different aspects of globalization, economic, social and political globalization. Since the theoretical literature explains the relationship between inequality and globalization from an economic perspective, identifying two main channels of influence operating through trade and financial globalization, the KOF index, which distinguishes between trade and financial globalization within economic globalization, is particularly useful for empirical studies. Using panel data estimation techniques, this paper finds a positive impact of the overall KOF index of globalization on inequality, with the positive effects also found for economic and social globalization, while the effect of political globalization is not statistically significant. In addition, the results obtained also support the statistically significant and positive effects of trade and financial globalization.

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