The Evolution of Personal Debt Dynamics in Developed and Emerging Markets Amidst Globalisation: A Longitudinal Analysis from the Third Era of Globalisation(1989 Onwards).

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Abstract

This study examines personal (household) debt dynamics in developed and emerging markets from 1989 to present, encompassing three distinct globalisation phases. Using a longitudinal dataset spanning 35 years and comprising 65 variables, the research analysed the impact of trade openness and income inequality on personal debt levels. The primary objectives of this research are: 1)to examine personal accumulation patterns influenced by globalisation phases; 2)to identify globalisation driven factors including trade openness and income inequality influencing borrowing behaviours and 3) to contrast personal debt patterns to uncover market specific challenges and opportunities. Theoretical frameworks based on modernization theory, dependency theory and the world systems theory highlights the differing responses of developed and emerging markets to global economic changes. Modernization theory suggests that as countries develop, they undergo a transformation leading to increased financial access and consumer behaviour, while dependency theory posits that emerging economies may remain reliant on developed economies, impacting their debt dynamic. This research reveal significant variations in personal debt accumulation patterns, with emerging markets exhibiting greater volatility influenced by globalisation phases. This research contributes new insights, with shifting dynamics between developed and emerging markets, in the interplay between globalisation and personal debt essential for policy makers and financial institutions aiming to navigate the complexities of modern economies.

Introduction

The way we finance our lives profoundly shapes our economic realties and societal structures and vice versa. As globalisation reshapes economic landscapes, understanding the dynamics of personal debt becomes imperative, particularly in distinguishing between developed and emerging markets (Arrigoni, 2024). While numerous studies have explored public and external debt (Reinhart & Rogoff, 2010; Krugman, 2014), there is a notable gap in research regarding personal debt in perspectives of globalisation and structural issues (Kumhof & McCulley, 2010; Mian, Sufi, & Verner, 2017). The current research investigates how these factors measured influence borrowing behaviours in developed and emerging markets, offering critical insights into financial landscapes shaped by globalisation. Trade openness, a vital component of globalisation, is often associated with enhanced economic growth and improved living standards. However, this relationship is complex and varies across different market classification. For instance, developed markets open experience increased leverage due to financial systems, innovation and credit accessibility, while emerging markets face unique structural challenges linked to lower financial inclusion and higher income disparities. Income inequality, measured using Gini index and income quintile share ratios, serves as critical variable in this research. Higher inequality can lead to disparities in access to credit, significantly impacting borrowing behaviours (Law et.al., 2014). In developed markets, increasing inequality may limit opportunities for lower income households to participate in the credit market, there by stifling economic growth while households in emerging markets low-income category face barriers to credit access that constrain their consumption capabilities.

Table 1. Panel Data Analysis -compare debt trends between developed and emerging markets over time.

Analysis Type		Variable	Estimate	p-value	Significance
Developed Markets	FEM Model	KOF_GI	3.99	0.00	***
		KOF_Econ_GI	-1.14	0.00	**
		KOF_Trade_GI	-0.74	0.02	*
	REM Model	KOF_GI	3.52	0.00	***
	Hausman Stat	Chi-squared	24.08	0.00	**
Emerging Markets	FEM Model	KOF_GI	1.92	0.00	***
		KOF_Econ_GI	-0.84	0.00	**
		KOF_Trade_GI	0.24	0.12	
	REM Model	KOF_GI	2.51	0.00	***
	Hausman Stat	Chi-squared	12.75	0.01	**

Fig 1: Range of Household Debt to GDP over the phases of globalisation

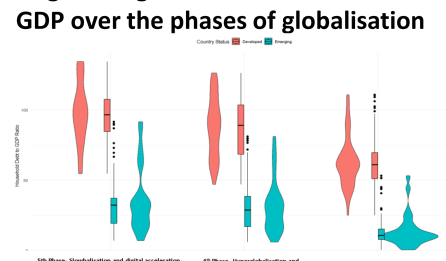


Fig 2: Density of Personal (Household) Debt to GDP over the phases of globalisation

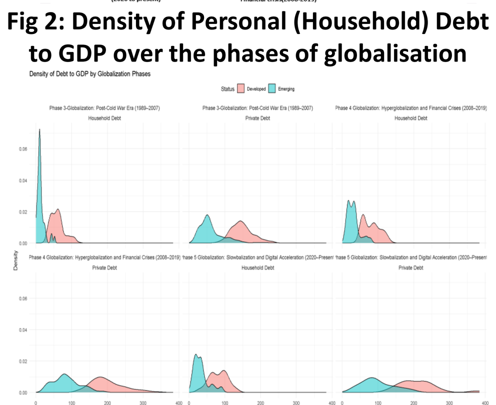
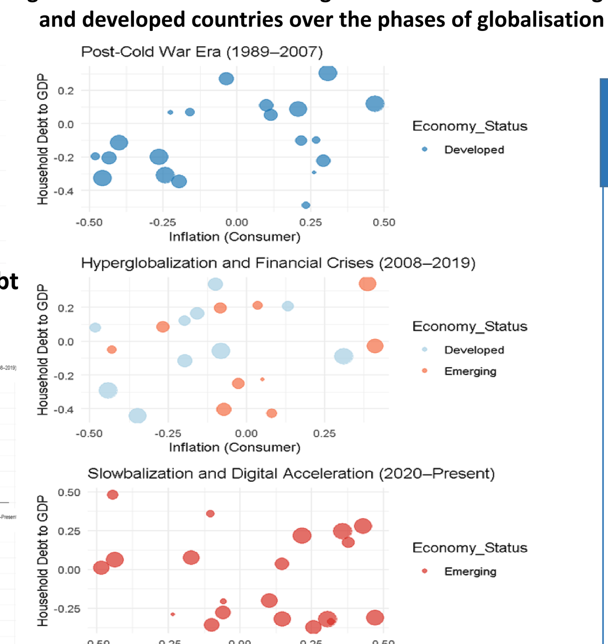


Fig 3: Household Debt to GDP against inflation across emerging and developed countries over the phases of globalisation



Methods and Materials

The study employs a quantitative research design, analysing longitudinal dataset spanning from 1989 to present, focusing on 20 developed and 20 emerging markets classified based on IMF classifications. The analysis spans three phases of globalizations: the post cold war era (1989-2007), hyperglobalisation (2008-2019) and slowbalisation (2020- present). Utilizing a comprehensive dataset encompassing 65 variables, the research categories these into several thematic areas of trade openness, income inequality, control variables and globalisation indicators. trade openness includes variables such trade openness index, trade to GDP ratio and import/import values. Income inequality variables include Gini coefficient, income quantile shares. Globalisation includes all KOF variables. The analytical framework includes several statical techniques of descriptive, correlation with chi square, and regression analysis, ANOVA (t tests), fixed and random effects with Hausman stat to account for unobserved heterogeneity, Robust Standard errors, PCA and factor analysis.

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Results

RO1: **Personal debt accumulation pattern influenced by globalisation phases**
The analysis revealed significant differences in personal debt accumulation pattern across globalisation for both developed and emerging markets. The hypothesis stating that globalisation phases significantly influence personal debt accumulation in developed market is accepted, while it is partially accepted for emerging markets, indicating while there is a positive trend, the impact is less pronounced.

RO2:Regression analysis demonstrated a strong positive correlation between **trade openness and personal debt levels** in developed markets while a weaker relationship in the emerging market, suggesting structural limitations in credit access. The hypothesis that trade openness positively influences borrowing behaviour in developed markets is accepted. Conversely the hypothesis concerning income inequality, negatively impacting borrowing behaviour is accepted across both market types indicating the higher inequality constraints.

RO3:**Comparative analysis** revealed that developed markets had an average household debt to GDP of 70.25% significantly higher than the 25.70% of observed in emerging markets. The hypothesis regrading the influence of market specific challenges on personal debt patterns in emerging markets is also accepted suggesting a need for target policy interventions to enhance credit access and promote financial inclusion.

Fig 6: Average household debt(%) by Average GDP Percapita (USD) with regression fit and country levels

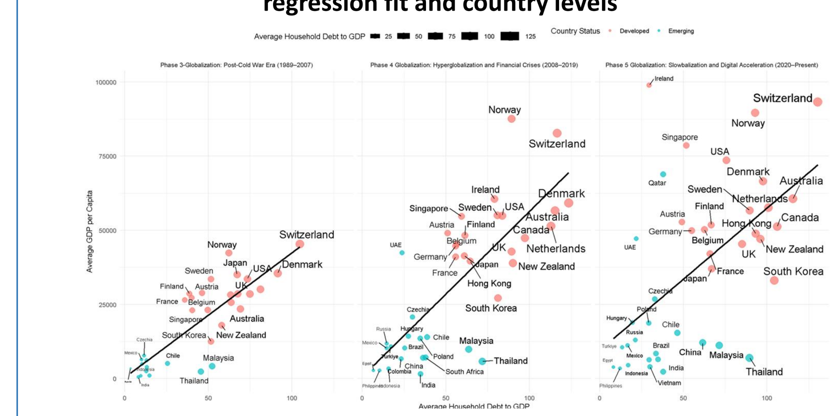


Fig 7: Household Debt to GDP(%) with Unemployment(%)

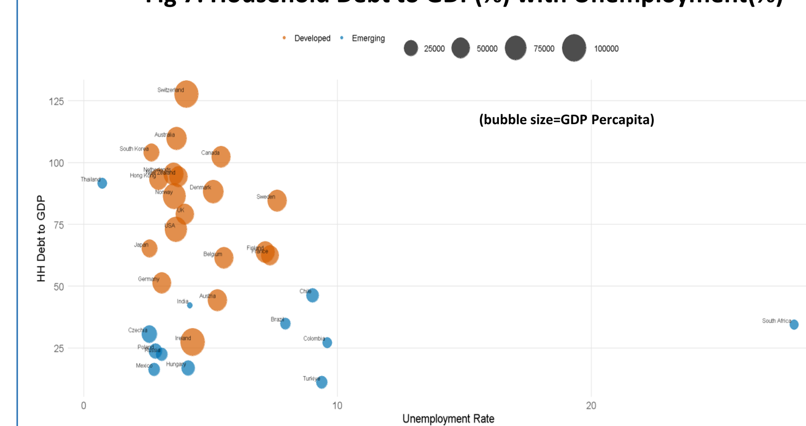


Fig 8: Personal Debt correlation (out of 100) with globalisation and structural variables

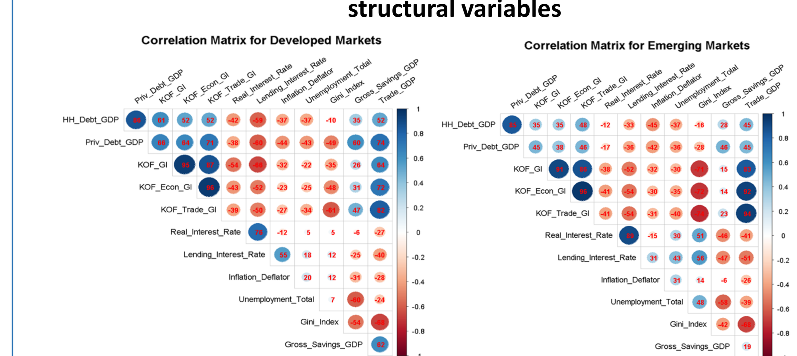


Fig 9: Household debt to GDP%) vs Disposable income(USD)

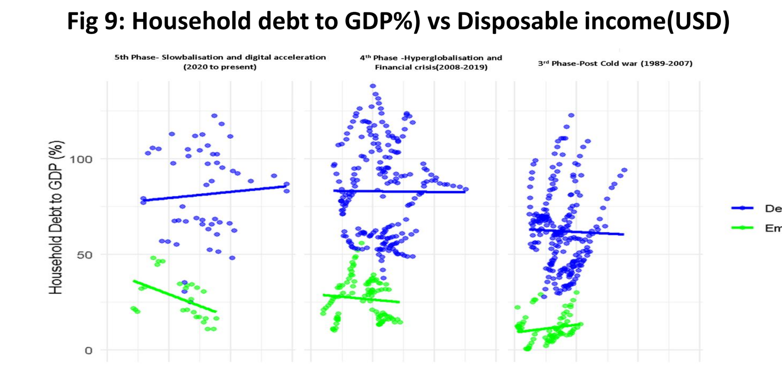


Fig 10: Private Debt growth by interest rate category and by market

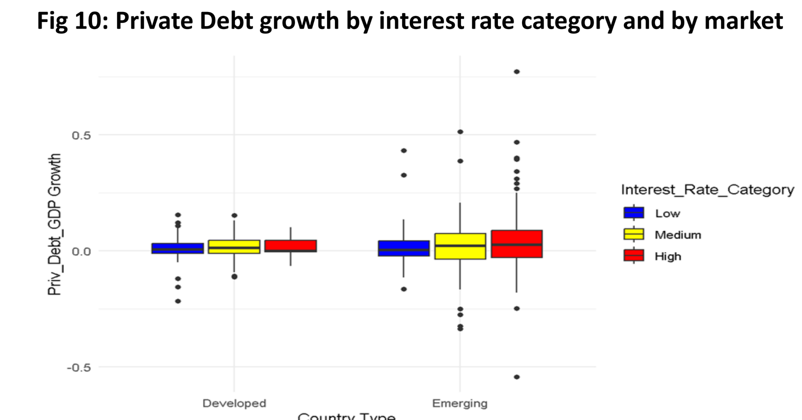


Fig 4: Trend - household debt vs trade openness by market

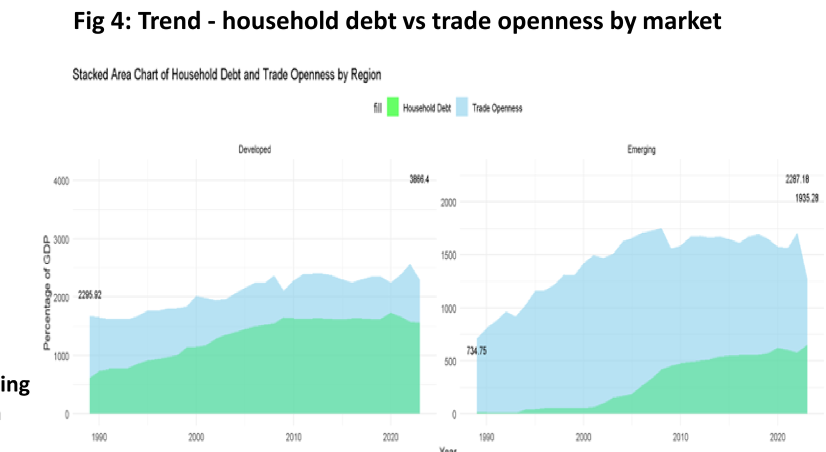
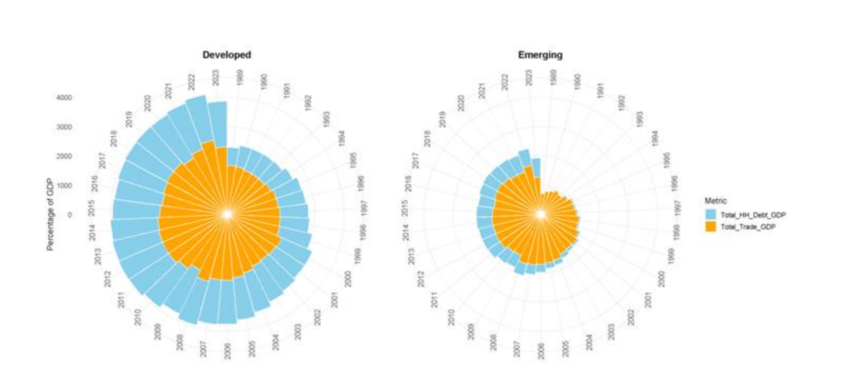


Fig 5: Household debt (%) and Trade Openness(%) by year and market



Discussion

The study indicate a clear divergence in personal debt accumulation patterns between developed and emerging market which is consistent with the broader theoretical discourse on globalisation and financial system. While developed market exhibit a clear consistent relationship between globalisation and personal debt accumulation (Beck& Levine,2005) emerging markets show more volatility and less pronounced effects, suggesting that benefits of globalisation are not equally distributed. Emerging markets nuanced relationship between globalisation and debt accumulation, support the notion that globalisation effects are pronounced in more mature developed financial systems (Klein & Olivei, 2008). The relationship between trade openness and borrowing behaviours reveals an important distinction between developed and emerging markets. Although trade integration can promote growth, it does not automatically lead to increased credit access (Kumhof and McCulley, 2010), due to various structural and institutional barriers. In more unequal societies, wealth disparities prevent lower income households from accessing formal credit market, limiting theory consumption and investment

Conclusions

While existing studies often focus on developed economies or the general impact of globalisation, this research highlight the heterogeneous effect across market types. In contrast to previous studies that generally find a strong link between financial liberalization and debt, this study demonstrate that the relationship is more complex in emerging markets, where other factors such as income inequality, financial access and institutional maturity play critical roles. Emerging markets face a unique opportunity to expand their credit markets through financial inclusion initiatives yet must overcome significant barriers to create the inclusive financial systems that reach undeserved populations.

References

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