

## Chapter 19

# The Impact of Global Economy and Global Liquidity on Domestic Economic Growth

Musa Bayir

 <https://orcid.org/0000-0002-6877-4032>

Bandırma Onyedi Eylül University, Turkey

### ABSTRACT

*Economic globalization has considerably accelerated in recent years. Therefore, they are expected that developments in the global economy have an impact on domestic economies. The chapter aims to analyse empirically the effects of global economic growth, global import demand, and global liquidity on Turkish economic growth. The method of the study is NARDL. The analyses include the 1987-2019 period. According to the empirical results, the growth in global economic output and global import demand has a positive effect on Turkish economic growth. Interestingly, the contraction in global economic output and global import demand also increases more strongly Turkish economic growth. In addition, while the increase in global liquidity has a positive effect on Turkish economic growth, the effect of the decrease in global liquidity is statistically insignificant.*

### INTRODUCTION

Countries' cooperation with each other, more generally, the subjects connecting countries have increased significantly in the last three decades. This is the result of globalization. Globalization causes that the development in one country affects other countries quickly and strongly. There are several forms of globalization. In the literature on globalization, economic, socio-cultural, and political aspects of globalization are most emphasized (Held et al., 2000). However, globalization is often portrayed as an economic phenomenon (Giddens, 2006: 50). Economic globalization is the result of three processes generally referred to as globalization of production, financial globalization, and commercial globalization (Bayraktutan, 2003). In these three processes, the rise and accelerate in short-term international

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capital, foreign direct investment (FDI) and foreign trade have increased the economic dependence as well as the economic relationship between countries. As a reflection of this, it is expected that the countries could be affected by the situation of countries that have strong economic relations or the global economy. Therefore, it would be an important deficiency ignoring external factors in the analysis of the determinants of domestic economic variables.

When an evaluation is made in the context of economic growth, the mainstream growth theories assert domestic variables as the source of economic growth. However, the fact that globalization approximates the economies of the country with each other has altered this opinion. Accordingly, models that take into account external factors in domestic economic growth have begun to be created. The studies investigating the effect of external factors on economic growth can be separated into two groups. In the first group, the impacts of some external variables on economic growth are investigated. These are factors such as FDI and financial capital movements, export and import, foreign remittances. The approach in the second group, which this paper also adopts, explains the economic growth with reference to the synchronization of business cycles in the global economy. According to this approach, liberal policies have increased international commercial and financial connections between countries. These relations, which increase with globalization, cause various spillovers among countries (Köse et al., 2003: 57). Based on this view, it is stated that global output growth or liquidity expansion will also have an impact on domestic economic conditions. Accordingly, while international trade is positively affected during the global economic growth, the demand shrinking in the global economy in the global economic crisis affected many emerging economies negatively. Similarly, while foreign capital inflows to developing countries increased during the global liquidity expansion, increases in global interest rate canalize international funds to developed economies. In this context, this paper aims to investigate the impact of the global economic situation on economic growth in Turkey. More specifically, this study aims to analyse empirically the impact of global growth, global import demand, and global liquidity on the Turkish economy. The studies which investigate the impact of global or external variables on Turkish economic growth, almost all are in the first group that above-mentioned. This study will add originality to the literature with this feature.

The countries benefit from increased international economic relations in the global economic expansion era, they were left in a much more difficult situation with the reversal of commercial or capital flows in the global economic crisis. Therefore, there is considerable debate about the impact level of global expansion or contraction on domestic economies in the literature. More clearly, there is a consensus in the literature that the effects of positive and negative shocks in these variables are not similar or equal. As stated above, the impacts of negative shocks, especially during the economic crisis, are very severe. Accordingly, nonlinear ARDL (NARDL) is preferred as the analysis method. NARDL is a nonlinear prediction method and separately model the impact of positive and negative shocks in the independent variable on the dependent variable. It is thought that the use of nonlinear estimation method will give more reliable results and will enhance originality to the study.

The rest of the study is organized as follows. In the next section, definitions, theoretical background, the empirical literature, on globalization and economic growth and the relationship between two variables are engaged. Data, methodology, and empirical results are in Sections 3 and 4, respectively. Finally, the conclusion is in the last section.

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