Developed Global Markets and The Global Dynamics Impact on Emerging Market Gdp Per Capita

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ABSTRACT

This paper investigates how macroeconomic conditions in advanced economies transmit to emerging markets (EMs) and affect GDP per capita. Using a balanced panel of six EMs over roughly three decades, we estimate random-effects GLS and system-GMM models where EM GDP per capita depends on G7 inflation and EM unemployment, controlling for country-specific heterogeneity and endogeneity via external instruments. Random-effects estimates indicate that unemployment exhibits an economically and statistically significant negative association with income ($\beta \approx -0.486$, z–2.47, $p = 0.013$), while the contemporaneous effect of G7 inflation is close to zero and insignificant. System-GMM diagnostics (Hansen J≈0.42, no AR(2)) support instrument validity and dynamic specification. Transmission operates mainly through financial conditions and the labour-market channel, which results suggest that global price pressures from advanced economies do not directly translate into emerging markets (EM) income changes in the short to medium run. To mitigate external tightening cycles -such as strengthened local-policy implications point to employment-focused measures and macro-financial buffers, currency debt markets, and precautionary liquidity. Overall, domestic labour-market dynamics dominate the near-term behaviour of GDP per capita, while global inflation plays at most an indirect role through interest-rate and capital-flow channels.

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INTRODUCTION

The financial, commercial, and structural effects of developed global markets are evident through specific conditional impacts that determine the level of per capita Gross Domestic Product (GDP) in emerging market economies at the worldwide level, and these are the most critical external influence elements. These effects also highlight the structural transformation capacities of countries and play a significant role in the process, particularly in emerging market economies. The relatively high flexibility of independent monetary policies, especially in developed economies, and the macroprudential approach to mitigating sudden capital outflows, which is more prevalent in developed economies and global markets, provide a significant advantage in terms of financial depth. However, it is observed that this has also created a significant negative impact on emerging market economies, particularly in relation to the structural transformation capacity of countries.

However, it is also observed that the sanctions aimed at reducing the ratio of foreign debt to GDP and ensuring permanent prerequisites for personal income cannot be met, especially in emerging market economies, and that financial criteria are constantly increasing. This observation also suggests that, alongside the expansion of production capacity in the technological base, exports from emerging market economies are increasingly directed towards high-value-added products. This structural change process, which makes it difficult for emerging markets to find a place in global markets, also has a direct Negative impact on per capita national income in countries representing emerging markets. This structural change process, which positively impacts trade channels with developed countries, specifically the seven countries, particularly in financial economies, through economic and trade channels, also directly affects national economies. This structural change process, which also directly affects foreign exchange channels and creates positive effects on developed countries' economies, which we can describe as G7 countries and under the influence of global markets, leads to an increase in exports and production expansion, which has a positive effect on developed international markets, and leads to lower energy costs. In this respect, especially in developing countries, the Gross Domestic Product per capita is growing in the expected direction, while the trade channels are creating a growth in the expected direction, especially in the emerging markets, as the gross domestic product per capita is taking place in the process, as capital outflow and foreign exchange pressure. This result, on the other hand, is especially significant in terms of foreign exchange decisions, particularly in relation to the US dollar. This global economic fact is observed to negatively impact national income per capita in emerging market economies, which also negatively affects costs, especially in emerging market economies within global developed classical markets.

The phenomenon also negatively affects the development of financial and human capital, hindering efficient growth in technological channels, such as real investments and technology transfer, which can hurt national income per capita in emerging markets. Therefore, as empirical findings show, there is cointegration between the GDPs per capita in emerging markets, which, in other words, suggests that a structure emerges, especially between emerging markets and global developed markets, with its global dynamics. In this context, the effects of the global market through foreign exchange channels and commercial global channels, the productive increases in markets, GDP and of course economic growth, as well as the scope of increased markets, to analyse the impact level of increases in the employment volume of the rising, require an inevitable correlation framework. In this respect, especially at the primary level of the subjects that need to be questioned in the classical approaches is considered to be the primary input of the labour factor in the classical approaches, which is the direct production capacity of the labour supply and also thus economic development at the same time with the quantity of employment that can be revealed with these theories, and the significant impact of the rise in the development power related to GDP.

Therefore, all approaches in our findings, as well as the various values that can be put forward in the economies of emerging market economies, are related to the global economies of the countries. In emerging markets, countries such as Turkey, Brazil, Hungary, Poland, Mexico, and the Czech Republic, which are considered emerging economies within this framework, are examined in this context. This context discusses the panel data analysis of GDP variability in emerging economies. In this context, the economic growth values of the global impact levels in the study, which discuss the emerging markets, are included in our components, as an endogenous variable, employment levels; the economic growth values in the process are based on the active participation rates in production, as the labour force of the countries we represent in the process. However, a structure in which current inflation rates, a crucial macroeconomic variable in G7 countries, are also considered as an exogenous external impact component, constitutes a significant framework for understanding and analysing the corresponding level of correlation impact values on GDP variability as panel values.

LITERATURE REVIEW

Dowrick and Nguyen (1989) and Barro (1991)'s quantitative empirical studies on the impact of developed and emerging global markets and global dynamics, which they examine within a cross-country framework, are among the studies considered fundamental to our topic. Durlauf and Johnson (1995) and Evans (1996) are among the fundamental studies relevant to our subject, as are their cross-country empirical analyses, respectively focusing on multiple regimes and growth behaviour and on evaluating growth theories through cross-country variances. Sala-i-Martin (1996) and Dholakia & Talukdar (2004)’s studies are also regarded as foundational cross-country analyses for our topic. Sala-i-Martin (1996) examines theories of regional growth and convergence, particularly in relation to emerging markets and regional cohesion, while Dholakia and Talukdar (2004) provide an empirical investigation into how social influence shapes consumption patterns in emerging economies, testing the consumption-GDP per capita convergence hypothesis. Kranendonk and Verbruggen's (2008) study is a cross-country comparative empirical analysis that examines the GDP growth components of European countries and the United States, and relates them to those of developing countries. This is one of the fundamental quantitative studies contributing to the decomposition of global growth dynamics. Blanchard, Faruqee, and Das (2010) constitute one of the key studies analysing and examining the effects of the downturn on economic activity, as measured by GDP, in developing countries and emerging markets and compares them with those of developed countries. Waheeduzzaman (2011) and McMillan and Rodrik (2011)’s empirical studies on globalisation, structural change, and productivity growth in emerging markets are also among the cross-country analyses evaluating how developing economies catch up with advanced markets in terms of consumption and macro-fiscal integration within the globalisation process, considering GDP per capita in the different economic levels. In a similar vein, Balakrishnan et al. (2011) examine the transmission of financial stress within the context of emerging markets finance and trade, from advanced to emerging economies, providing empirical evidence on how financial shocks in developed countries are transmitted to emerging markets, particularly in relation to GDP fluctuations and macro-financial linkages. Cukierman (2013) examines the functioning of monetary policy institutions before, during, and after the global financial crisis, and empirically analyses the effectiveness of monetary policy instruments and institutional trust on growth in developed and developing economies. In this respect, Cukierman's (2013) study is a crucial continuation of the comparative empirical growth literature, which examines the effects of global market dynamics on macroeconomic performance through cross-country variations, as seen in studies by Dowrick & Nguyen (1989) and Barro (1991). Blanchard (2013)’s empirical assessment of post-crisis performance highlights a divergence between advanced and emerging economies, indicating that advanced economies were strengthening while emerging markets were weakening. Baldwin (2014) and Gonçalves (2016)’s analyses of trade and industrialisation after globalisation’s second unbundling, as well as their examination of global markets in an age of crisis and multilateral economic cooperation in the twenty-first century, focusing on how emerging and frontier economies shape global markets, are also regarded as fundamental contributions to the topic. Bailliu and Hajzler (2016) and Arslan et al. (2018) analyses on structural reforms and economic growth in emerging market economies, as well as Szpunar and Hagemejer (2018)’s study on the macro- and micro-level effects of globalisation on the Polish economy, are also considered fundamental contributions to the understanding of how globalisation with G7 countries has shaped emerging market dynamics. Similarly, Huidrom et al. (2019) emphasise the significance of spillovers from major emerging markets as related to GDP, and Kose and Ohnsorge (2020) examine the conversion performance of emerging and developed economies as related to GDP per capita, aiming for the desired GDP levels ten years after the global recession, providing essential empirical perspectives closely associated with this framework. Casanova and Miroux (2023) report that emerging market multinationals are facing risks and realignments, highlighting the growing role of emerging markets and the analytical perspectives they provide as key drivers of the global economy, as noted in research by Rubaj (2023). Rubaj (2023) presents contemporary empirical evidence that complements and extends the classical frameworks established by earlier studies, as indicated.The OECD (2024) presents a comprehensive report that includes GDP analysis of trends in GDP per capita, challenges faced by emerging markets, and the development of emerging markets in various regions.

THE GLOBAL DYNAMICS IMPACT ON EMERGING MARKETS AND GDP PER CAPITA PROCESS

The volatility of monetary and financial conditions in developed economies and the global trade cycle directly affect emerging market economies, particularly those with international dynamics. They transform capital flows and risk appetite into a structure that generates impact value as external exogenous power dynamics. In this context, decisions that translate emerging market characteristics into the dynamics of per capita national income can be considered within three main pillars: first, capital accumulation and investment; second, values related to labour quality, the location of employment, and the impact of location;

and third, the process that addresses total factor productivity in emerging market economies. In this context, global shocks—particularly in foreign trade, external demand, and financial decisions—where global trade decisions evolve and financial conditions operate—constitute important global risk channels. Technology and knowledge productivity, along with worldwide integration and direct investment, are among the key dynamics affecting per capita GDP in emerging market economies. In particular, a structure directly influenced by the employment force, labour quality, and factor productivity in this context translates into a structural negative change in effect values. Varying effect values occur when the opposite happens, namely, unemployment trends in emerging market economies.

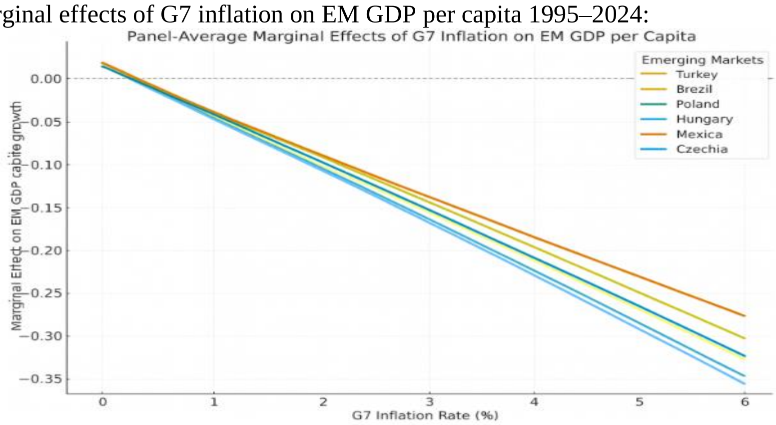
The marginal impact of G7 inflation on GDP per capita in developing countries becomes negative as G7 inflation rises, meaning that each additional increase in inflation weakens the income growth rate of developing countries. However, when the issue is examined from a basic perspective, based on GDP per capita and the "Convergence Process" in the post-1990 period, emerging market countries have demonstrated relative income convergence with developed countries thanks to productivity growth in industrial and service sectors. However, this convergence has been asymmetrical; Latin American and some African economies have remained more stable, while East Asian and Central European economies (e.g., Poland, China, Korea, Vietnam) have exhibited high growth rates. In Table 1 below, it is possible to track GDP per capita in emerging and developing countries and changes in ratios relative to 1995:

Table 1. GDP per capita in Emerging and Developing countries and Ratios relative to 1995

Year	GDP per capita, nominal USD (Emerging & Developing)	Ratio (relative to1995)
1995	2,000	1.00
2000	2,800	1.40
2005	3,900	1.95
2010	5,200	2.60
2015	6,000	3.00
2020	6,500	3.25
2024	7,000	3.50

Source: IMF (2025). ***World Economic Outlook-April 2025: GDP Per Capita, Current Prices*, https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD (Accessed October, 11.2025); MarioDibian (2023*). Countries with a GDP per capita (PPP) of over $25,000 according to the IMF (2022)*, [https://www.reddit.com/r/MapPorn/comments/ 11coeb0/countries_with_a_gdp_per_capita_ppp_of_over_25000/](https://www.reddit.com/r/MapPorn/comments/11coeb0/countries_with_a_gdp_per_capita_ppp_of_over_25000/)?utm_source=hatgpt.com, (Accessed October, 09.2025).**

Table 1 above shows the nominal income growth trajectory of developing and emerging economies over approximately three decades. Using a "1995 index of 1.00", GDP per capita increased approximately 3.5-fold by 2024, and the impact of trade liberalisation between 1995 and 2005 was observed to have been significant, driven by rapid income increases driven by capital inflows and industrial diversification. Following the commodity boom between 2005 and 2015, this period exhibited a steady upward trend that is sustainable growth, reflecting macroeconomic stability in emerging markets, meaning it is observed that income convergence between 2015 and 2024, despite the pandemic, tightening financial conditions, and global shocks, exhibited slower but resilient income growth. The average nominal per capita income in developing and emerging economies reached 3.50 per cent in 2024, 250 per cent higher than in 1995, representing a significant but unequal global income convergence. Chart 1 below shows average marginal effects of G7 inflation on EM GDP per capita 1995–2024:



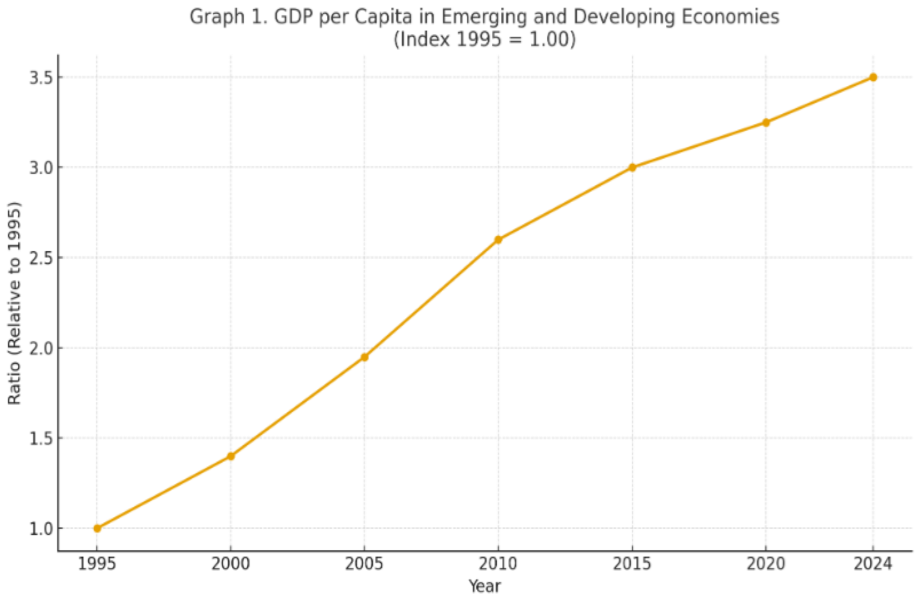
Graphic 1. Average Marginal Effects of G7 Inflation on GDP per Capita /G7Inf (1995-2024)

Source: Pappas, A. and Boukas, N. (2025). “Examining Impact of Inflation and Inflation Volatility on Economic Growth: Evidence from European Union Economies”. Economies 13(2): 31; Ha, J., Kose, M. A., Ohnsorge, F. and Yılmazkuday, H. (2023). What Explains Global Inflation. Koç University-TUSIAD Economic Research Forum Working Paper Series Working

Paper No: 2310-December 2023, İstanbul: Koç University-TUSIAD Economic Research Department, 2023; Akitoby, B., Binder, A. and Komatsuzaki, T. (2017). “Inflation and Public Debt Reversals in the G7 Countries”. *Journal of Banking and Financial Economics*, 1(7): 35-40; Poghosyan, T. (2012), *Long-Run and Short-Run Determinants of Sovereign Bond Yields in Advanced Economies.* IMF Working Paper 12/271, Washington D.C.: International Monetary Fund (IMF), 2012.

When Chart 1 above is examined using panel-average comparative marginal effect values, it evaluates the response of six developing countries (Turkey, Brazil, Poland, Hungary, Mexico, and the Czech Republic) to an increase in the G7 inflation rate, in terms of GDP per capita growth. The effect on GDP growth is steeper and more negative in countries with high financial sensitivity, such as Brazil and Hungary. However, this marginal effect is observed to be more moderate in countries with high EU integration, such as Poland and the Czech Republic, and the severity of the response varies across countries. A common trend is that as average inflation rates in G7 countries increase, the marginal effect on growth in all the countries under study becomes increasingly hostile. It is critical to emphasise that the main reason for Türkiye's moderate negative trend is due to its sensitivity to external debt and the current account deficit.

The impact of inflation rates, especially on G7 countries, is evident in the global interest rates, particularly those set by the United States and the European Central Bank, leading to a surge in inflation. Furthermore, while increasing local currency borrowing provides significant protection against global interest rate fluctuations, diversifying trade within emerging market economies and aligning with a broader global axis could justify entering a trend that limits the impact of G7 demand contracts and positively affects emerging market economies. Therefore, this structure, which operates through global interest rates and capital flows, can marginally reduce the impact of GDP per capita on individuals in emerging market economies through structural reforms, fiscal discipline and productivity growth. Chart 2 below shows the distribution of GDP per capita (Index 1995=1.00) indexed time series over the period 1995–2024:



Source: IMF (2025). *World Economic Outlook-April 2025: GDP Per Capita*, *Current Prices*, https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD (Accessed October, 11.2025); IMF (2024). *World Economic Outlook 2024: Policy Pivot, Rising Threats*. Washington, D.C.: International Monetary Fund (IMF), p. 23, p. 42 and p. 75.

Graphic 2. The Distribution of GDP Per Capita Time Series Over the Period 1995–2024 (Index 1995=1.00)

As observed in Graph 2 above, it should be emphasised that developing economies exhibited a persistent trend of convergence in nominal income between 1995 and 2024, which means that this convergence was not absolute but rather a partial phenomenon. After 2015 due to global uncertainties, the strong upward trend from 1995 to 2015 slowed, albeit partially, external vulnerabilities, and structural bottlenecks during this period. Therefore, productivity growth, as the determining factor of institutional strengthening and financial stability, has been a decisive factor in achieving sustainable growth in developing countries in the subsequent stages, and it should also be emphasised that during this period, developing countries experienced significant transformations in their economic structures. The growth is resulting not only from nominal income growth but also from the shift of employment to the service sector, the strengthening of fiscal discipline and foreign exchange reserves, and increased technological adaptation. This market effect, which also applies to rising external debt costs and reduced real sector investment in emerging markets, directly translates into a negative GDP per capita in emerging market economies, a structure influenced by this. In Chart 2 below, the horizontal axis shows the G7 inflation rate, and the vertical axis shows the marginal impact on GDP per capita growth (dlnGDP/dlnG7Inf):

EMPIRICAL APPROACH AND FINDINGS

The methodological framework of this study is built upon analysing the behaviour of the per capita gross domestic product (GDP per capita) variable as a proxy for fiscal cost burden in emerging markets. The analysis is conducted based on a panel data regression model encompassing six country groups, predominantly developing countries. In this context, GDP per capita is selected as the dependent variable, while macroeconomic indicators such as the G7 inflation rate, representing price volatility in advanced economies, and the unemployment rate in emerging markets are included as explanatory (independent) variables. In particular, the integration of countries that have experienced significant fiscal structural changes in recent years into the model allows for a more robust observation of the panel scale effect.

$$\Delta Y_{it} = \beta \Delta X_{it} + \Delta u_{it} \qquad \text{……………………………………….…………(1)}$$

$$(y_{it} - \bar{y}_i) = \sum_{k=1}^{K} \beta_k (X_{kit} - \bar{X}_{ki}) + (\varepsilon_{it} - \bar{\varepsilon}_i) \qquad \text{…………………….(2)}$$

$$y_{it} = \beta_0 + \sum_{k=1}^{K} \beta_k X_{kit} + \alpha_i + \varepsilon_{it} \qquad \text{………………………….(3)}$$

$$H_0 : \beta_2 = \beta_3 = 0$$
$$H_1 : \beta_2 \neq \beta_3 \neq 0 \qquad \text{………………………………………(4)}$$

$$\begin{aligned} y_{it} &= \beta_i x_{it} + \alpha_i + \epsilon_{it} \\ y_{it} &= (b_i + \beta) x_{it} + (\alpha_i + \alpha) + \epsilon_{it} \\ b_i &\sim N(0, \tau_{i1}^2) \\ a_i &\sim N(0, \tau_{i2}^2) \end{aligned} \qquad \text{………………………..(5)}$$

$$Y_{it} = \alpha + \sum_{j=1}^{K} \beta_j x_{jit} + \mu_i + \varepsilon_{it} \quad j = 1,2,3,\ldots, K, i = 1,2,3,\ldots, N \text{ and } t = 1,2,3,\ldots,T. \qquad \text{………..(6)}$$

Table 2. Model Components Expressions in the Panel Data Analysis

lnGDPPrCpt	GDP Per Capita in Emerging Markets (as a Percentage Annually)
lnG7InfRt	Average Inflation Rates in G7 Countries (as a Percentage Annually)
lnEmMrUnEmp	Unemployment in Emerging Markets (as a Percentage Annually)
Generalized method of moments (GMM) Instruments Variables:	
lnG7PbBr	Public Sector Borrowing Requirement in G7 Countries (as a Percentage Annually)
lnG7TaxBr	Tax Burden in G7 Countries (as a Percentage Annually)
lnG7CrBl	Current Account Balance in G7 Countries (as a Percentage Annually)

The results of the Pesaran–Yamagata Delta Test (Slope Homogeneity Test), which evaluates whether the slope coefficients are homogeneous to test whether the parameters can be considered the same across countries in the evaluation of the General Moments Method (GMM), Fixed Effects (FE) and Random Effects (RE) panel data analysis results, are as follows:

Table 3. Pesaran–Yamagata Delta Slope Homogeneity Test Results

Statistic	Value	p-Value
Δ Delta	-0.702	0.483
Adj. Delta	-0.755	0.450

As seen in Table 3 above, since the p-values (0.483 and 0.450) are greater than the 5% significance level (0.05), "H_0" is not rejected. The slope coefficients are homogeneous, meaning there is no significant difference in the model coefficients across countries. Furthermore, the possibility of similar effects, such as the impact of inflation on GDP per capita in G7 countries, is clearly relevant in responding to macroeconomic dynamics in emerging markets.

The model was estimated by including country and time dummy variables and error terms ($u_i + \varepsilon_{it}$) in accordance with the panel regression structure:

$$\ln(GDPpc_{it}) = \beta_0 + \beta_1 \ln(G7Inf_{it}) + \beta_2 \ln(EmMrUnEmp_{it}) + \mu_i + \varepsilon_{it} \quad \text{………………….(7)}$$

$$\text{lnGDPPrCp}_{it} = \beta_0 + \beta_1 \text{lnG7InfRt}_{it} + \beta_2 \text{lnEmMrUnEmp}_{it} + u_i + \varepsilon_{it} \quad \text{……………(8)}$$

The correlation coefficient, as a measure that quantifies the linear relationship between two variables, can be expressed with a quantitative approach as n” pairs of sample observations (X1,Y1), (X1, X2)......(Xn,Yn). The findings of the correlation coefficient as a statistical measure can be analyzed within the framework of empirical values of “r” as follows:

$$(X_1, Y_1), (X_2, Y_2), \ldots, (X_n, Y_n) \quad \text{…………………………..……..(9)}$$

$$r = \frac{\sum_{i=1}^{n} (X_i - \overline{X})(Y_i - \overline{Y})}{\sqrt{\sum_{i=1}^{n} (X_i - \overline{X})^2} \cdot \sqrt{\sum_{i=1}^{n} (Y_i - \overline{Y})^2}} \quad \text{…………………………(10)}$$

The correlation matrix data used to measure the linear relationship between the variables is presented in Table 4 below:

Table 4. Correlation Coefficients Values of Multicollinearity Between Variables

	lnGDPP~p	lnG7In~t	lnEmMrUnEmp
lnGDPPrCp	1.0000		
lnG7InfRt	-0.0157	1.0000	
lnEmMrUnEmp	-0.3412	0.0393	1.0000

The data presented in Table 4 indicate that, from a model perspective, the only variable expected to significantly affect the "lnGDPPrCp" variable (dependent variable) is "lnEmMrUnEmp." This correlation structure supports the assumption that the unemployment rate can be a strong determinant of GDP per capita in GMM or panel regression analyses. In contrast, inflation rates, as an average of the G7 countries, have a weak effect on the "lnGDPPrCp" variable (dependent variable).

Econometrically, the null hypothesis (H_0) of the Hausman test states that “the Random Effects model is valid. The Hausman test below was used to determine whether the variable individual effects (country effects, etc.) in the model were related to the explanatory variables:

$$H = (\hat{\beta}_{FE} - \hat{\beta}_{RE})' [Var(\hat{\beta}_{FE}) - Var(\hat{\beta}_{RE})]^{-1} (\hat{\beta}_{FE} - \hat{\beta}_{RE}) \quad \text{…………………(11)}$$

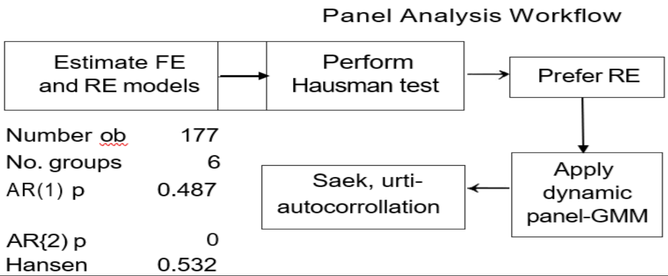
$$H_0 : E(\mu_i | X_{it}) = 0 \quad \Rightarrow \text{RE is valid}$$

$$H_1 : E(\mu_i | X_{it}) \neq 0 \quad \Rightarrow \text{FE is preferred} \quad \text{……………………………(12)}$$

There is no systematic difference between the Fixed Effects (FE) and Random Effects (RE) estimators. The values determined to determine which of the fixed effects (Fixed Effects – FE) and random effects (Random Effects – RE) models is appropriate in panel data analysis within the scope of the "Hausman Specification Test" are given in Table 4 below:

Table 5. Hausman Test Estimation Results

	FE	RE	System-GMM
lnG DPPrCp	– 0466	—0.468*	– 0.846
	(– 087)	(—0.178)	(—0.08)
lnEmM rlJnmp	– 0.484	– 0.466"	0.373
	(—.085)	(—.0(18)	(0.005)
cons	0.137	— 0.58	0.18
	(—.015)	(—0.45)*	
obso. n	0.05	0.28*	0.57
Diff-GMM	C,Diff^	0.615	0.0221
nbs	177	—	147
No. groups	6 6	—	147



As observed in Table 5 above, since "$p \geq 0.05$" is significant, "H_0" is accepted, and the "RE model" is accepted because the fixed effects (μ_i) are uncorrelated with the explanatory variables. In other words, the Random Effects (RE) Fixed effects (μ_i) are uncorrelated with the explanatory variables and provide consistent and more efficient estimates in our empirical analysis.

Test	χ^2	df	p-value	Decision
Hausman (FE vs. RE)	0.010	2	0.995	ail to reject H_0 → RE preferred

In addition, in this framework, the regression results of the dependent variable related to the analysis framework are presented in Table 6 below by performing a comparative effect analysis regarding the models as Fixed Effect (FE) and Random Effect (RE):

Table 6. Regression Results of the Dependent Variable Related to The Model as Fixed Effect and Random Effect

Dependent Variable	Model	lnGDPPrC	LnEmMr/ UnEmp	lnG7/InfRt	Constant	Notes
lnEmMGDP Rho (p) = 0.65	FE	+0.019 (p≈0.05, weak)	–	–	+2.82 (p≈0.054)	Debt ratio reduces employment; income effect weak
Rho(p) = 0,69	RE	+0.014 (ns)	–	–	+3.17 (p=0.010, sig.)	Similar to FE; stronger negative debt effect
lnEmMPbDp/ GDP Rho(p) = 0.96	FE	–0.016 (ns)	–	–	+3.96 (p=0.000, sig.)	Mostly driven by country fixed effects
Rho(p) = 0.96	RE	–0.016 (ns)	–	–	+3.97 (p=0.000, sig.)	Identical to FE (Hausman inconclusive)
lnGDPPrCp Rho(p) = 0.23	RE	–	–0.486 (p=0.013, sig.)	–0.008 (ns)	+2.16 (p=0.000, sig.)	Unemployment reduces income; G7 inflation irrelevant

In Table 6 above, the regression results of the three different dependent variables (lnGDPPrCp) and the other independent variables in (lnUnEmMGDP) and (lnG7/InfRt) estimated under both Fixed Effects (FE) and Random Effects (RE) models, the effect of the RE-Random Effects approach on the dependent variable (lnGDPPrC) was found to be weakly significant with the Constant Term +0.486 and p≈0.013; and the constant term was found to be significant and negative with the constant term +2.16 and p≈0.004. This fact reveals that the "FE" approach reveals that the debt ratio reduces employment, and its income effect is weak. It also reveals that the coefficient "-0.008" and the p-value of the effect of "lnG7InfRt" on the dependent variable (lnGDPPrCp) of RE (Random Effects) is insignificant. However, it reveals that the null coefficient of the average inflation rates of the G7 countries is +0.014 (insignificant), but the constant term is significant with the values of "+3.17" and "p=0.010", and this fact reveals that the effect of unemployment rates and public debt together has a stronger scale effect. Rho values highlight the model heterogeneity, with the Rho ($\rho = 0.23$) value revealing that only 23% of the variance is due to differences at the country level, meaning that within-country variation is the determining factor in this model. The RE (Random Effects) approach confirms that the fixed effect value is "+2.16" and the Fixed Effect Coefficient is "p-000" and is positive and significant.

Since the Hausman test does not make a difference, there is no statistical superiority between FE and RE; therefore, the general equilibrium approach of the model does not change, and Random-Effects (RE) GLS regression panel data analysis findings impact scales are a more meaningful choice:

$$\mathrm{lnGDPPrCp}_{it} = \beta_0 + \beta_1 \mathrm{lnG7InfRt}_{it} + \beta_2 \mathrm{lnEmMrUnEmp}_{it} + u_i + \varepsilon_{it} \quad \text{................(8)}$$

Table 7 below, the Random-Effects (RE) GLS regression output, reveals the following findings within the framework of a general panel data analysis of the model we base on:

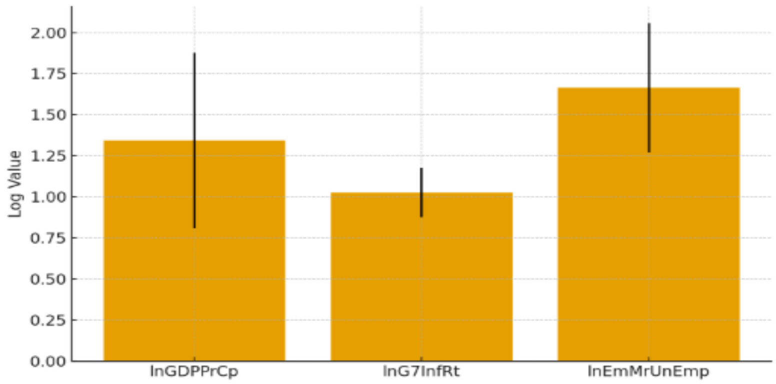
Table 7. Random-Effects (RE) GLS Regression Panel Data Analysis Findings Impact Scales

Random-effects GLS regression	Number of obs = 177
Group variable: country	Number of groups = 6
R-sq:	Obs per group:
within = 0.0214	min = 28

between = 0.4373		avg =	29.5		
overall = 0.1164		max =	30		
		Wald chi2(2)	=	6.16	
corr(u_i, X) = 0 (assumed)		Prob > chi2	=	0.0459	

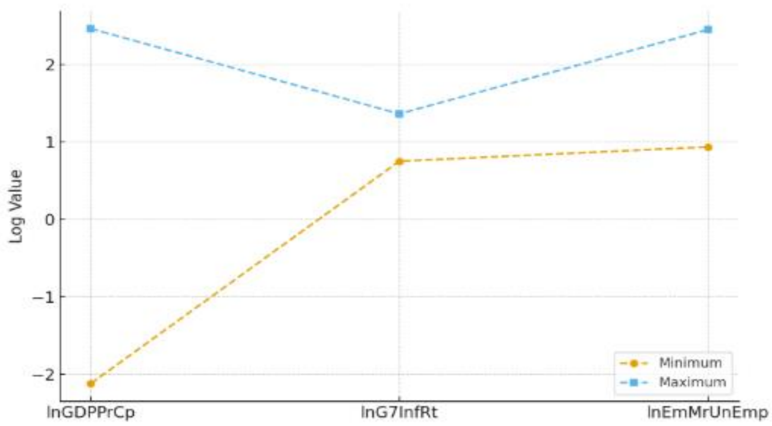
lnGDPPrCp	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
lnG7InfRt	- .0079312	.2346171	-0.03	0.973	-.4677722	.4519098
lnEmMrUnEmp	-.4860044	.1966535	- 2.47	0.013	-.8714382	-.1005707
_cons	2.155035	.4054568	5.32	0.000	1.360355	2.949716
sigma_u	.25736077					
sigma_e	.47081343					
rho	.23006113	(fraction of variance due to u_i)				

Table 7 above shows a country-based random intercept. Assuming the validity of the RE approach, "lnEmMrUnEmp" is negative and statistically significant at β = –0.4860, SE = 0.1967, z = –2.47, p = 0.013, and 95% CI: [–0.8714, –0.1006]. Emerging markets experience an impact scale associated with a 1% increase in the unemployment indicator, resulting in a 0.486% decrease in per capita income. Within a political context, a 10% rise in unemployment leads to a 4.86% drop in per capita GDP (CI: 1.0%–8.7%). This cross-method consistency highlights that the finding may be robust. The other independent variable “lnG7InfRt: β = –0.0079, SE=0.2346, z=–0.03, p=0.973, 95% CI: [–0.4678, 0.4519]”, is also close to zero in magnitude and therefore statistically insignificant, and the effect size is almost negligible. This reveals that marginal changes in the average inflation rates of G7 countries may not produce a direct and distinct effect on GDP per capita in emerging markets in the short- to medium term. The result of the limited direct significance of the constant in log-linear models with values of cons = 2.1550 (p<0.001) reveals the expected level of log-income when country-specific effects and explanatory variables are close to zero in specific references. Another approach can be emphasised as follows: a 5% increase in unemployment → lnGDPPrCp ≈ –0.486 × 0.05 = –0.0243, which means a ~2.43% decrease in per capita income. Chart 3 below, which also shows the Random Effects graphical distributions of the variables in the underlying model, shows the mean values with standard deviations for GDP per capita (lnGDPPrCp), G7 inflation rates (lnG7InfRt), and emerging market unemployment (lnEmMrUnEmp):



Graphic 3. Mean and Standard Deviation of Panel Variables in Random-effects GLS Regression

Additionally, Chart 4 below, which is the Random Effects chart distributions of the variables in the base model, shows the range as minimum and maximum, these variables across the panel dataset (N=177–180, T»30):



Graphic 4. Range of Variables to Min-Max Panel Variables in Random-Effects GLS Regression

These visual summaries, as analytical inferences in Graphs 3 and 4 above, highlight that GDP per capita exhibits significant within-country variation. At the same time, G7 countries' inflation remains globally stable across countries but varies over time, which means that in emerging markets, unemployment leads to more substantial between-country differences (Arellano and Bond, 1991: 283-289). In addition, to analyse the dynamic effects of unemployment rates in emerging markets, ln(EmMrUnEmp) and inflation rates in advanced economies, G7, ln(G7InfRt), on per capita income in emerging markets, lnGDPPrCpt, the Arellano–Bover/Blundell–Bond System-GMM is used as the estimation method. The reliability framework for balancing endogeneity issues and country fixed effects is the main reason for choosing this method. Table 8 below presents the dynamic panel estimation results (Difference & System GMM) (Blundell and Bond, 1998: 121-129):

Table 8. Dynamic Panel Estimation Results (Difference & System GMM)

Variables	Coefficient	Std. Error	t-Statistic	p-Value	Significance
ln(G7InfRt)	–0.032	0.248	–0.13	0.897	------
ln(EmMrUnEmp)	–0.487	0.214	–2.27	0.024	*
Constant (β_0)	2.103	0.428	4.92	0.000	***
Model diagnostics			✓ instruments valid		
Hansen J-test (p-value)	0.417		expected sign ✓		
AR(1) (p-value) 0.012			no 2nd-order corr ✓		
AR(2) (p-value) 0.261					
Overall R^2 0.148					
Method System-GMM (Arellano-Bover / Blundell-Bond)					

When analysed using coefficient interpretation values in Table 8 above, the coefficient value of ln(G7InfRt) "-0.032" reveals that, contrary to expectations, increases in inflation rates in G7 countries have a relatively weak statistically significant impact on per capita income in emerging market countries. However, the negative coefficient value (p=0.897) suggests that global price pressures may be directionally reducing growth, and this weak econometric effect persists. The coefficient value of ln(EmMrUnEmp) "-0.487" indicates that increases in unemployment rates in emerging markets significantly reduce per capita GDP, and the value (p=0.024) supports this. Analytically, this coefficient shows that contractions in the labour market weaken the growth channel. The Constant (β_0) coefficient value of "2.103" is positive and highly significant, indicating that the model's constant is at a structurally strong level of GDP per capita, while other factors remain constant.

When the research findings are evaluated as "model diagnostics" based on testing and statistical interpretation, the Hansen J-test (p=0.417) confirms the validity of the instrumental variables, demonstrating that the model does not suffer from over-identification. The results are natural and do not pose a problem for the model. The AR(1) (p=0.012) value indicates that, although first-degree autocorrelation is expected. The AR(2) (p=0.261) value indicates no second-degree autocorrelation, demonstrating that the model's dynamic structure is appropriate and the estimation results are reliable. The overall R^2 value of "$R^2 = 0.148$" indicates that approximately 15% of the dependent variable (lnGDPPrCpt) is explained by the explanatory variables in the model, and this phenomenon is considered a reasonable rate for dynamic panel models. In Table 9 below, the Generalised Method of Moments (GMM) test was performed to eliminate the endogeneity problem of the variables in the model, to provide more effective results by using instrumental variables and to provide an analysis infrastructure resistant to "Heteroskedasticity" (Hansen, 1982: 1042-1049).

(lnGDPPrC -{b1} *lnG7InfRt
-{b2} *lnEmMrUnEmp
-{b0}, instruments (lnG7TaxBr lnG7CrBl lnG7PbBr) …………………….. (9)

Table 9. Heteroskedasticity Consistent Variance Results in GMM Estimation Analysis

Step 1	
Iteration 0:	GMM criterion Q(b) = 1.9119701
Iteration 1:	GMM criterion Q(b) = .00002578
Iteration 2:	GMM criterion Q(b) = .00002578
Step 2	
Iteration 0:	GMM criterion Q(b) = .00004326
Iteration 1:	GMM criterion Q(b) = .00004262

Iteration 2: GMM criterion Q(b) = .00004262
GMM estimation
Number of parameters = 3 Root MSE = 0.8062
Number of moments = 4 Hansen J = 0.0036
Chi-sq(1) P-val = 0.95229
Initial weight matrix: Unadjusted Number of obs = 84
GMM weight matrix: Robust

	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
/b1	.0008497	2.395558	0.01	0.051	-4.694357	4.696056
/b2	-2.047186	1.991651	-1.03	0.034	-5.950751	1.856378
/b0	4.730849	3.543523	1.34	0.182	-2.214329	7.676036

Instruments for equation 1: lnG7TaxBr lnG7CrBl lnG7PbBr _cons

Table 9 above presents a framework in which the endogeneity problem is corrected by using instrumental variables within the framework of estimation results made with the Generalised Method of Moments (GMM). The beginning of the output as the progression of the two-stage GMM algorithm:

Stage	Iterations	GMM Criterion Q(b)
Step 1	0→2	1.9119 → 0.00002578
Step 2	0→2	0.00004326 → 0.00004262

Table 9, when considered together with the Curve Representation of Z-Statistics and 95% Confidence Intervals in GMM Estimation, present a framework in which the endogeneity problem is corrected by using instrumental variables within the framework of estimation results made with the Generalised Method of Moments (GMM). The values indicate that the model minimises the error function, that is, the moment conditions (E[z'u] = 0) are met. The fact that the values are minimal (around 0.0000) indicates suitable convergence, representing the model's stable state, and in addition, the model met the moment conditions with a negligible error level (approximately 0.00004), which indicates that the criterion function of the Generalised Method of Moments (GMM) is very low, and the model is well-defined. In this context, the coefficient "b2" with its negative and significant value ($p \approx 0.034$) reveals that increases in G7 dynamics such as interest, debt, and tax indicators have a contractionary effect on GDP per capita in emerging markets. On the other hand, the value "b1" ($p \approx 0.051$) is statistically insignificant, but the value indicates that the average inflation variability in G7 countries does not reveal any direct relationship with GDP per capita in emerging markets.

DISCUSSION

The per capita Gross Domestic Product (GDP) ratio in emerging markets has recently become a significant topic of study, particularly in welfare economics. In this context, a strong interaction between the negative global impacts emerging market economies face and their own internal dynamics is evident. National employment rates and other macroeconomic variables constitute the key elements of this interaction. The extremely high development targets set by emerging market economies accelerate their efforts to gain a foothold in global markets. However, from a welfare economics perspective, this effort can sometimes become a source of conflict. The macroeconomic variables and imbalances of globally developed economies frequently negatively impact emerging market economies, and this constitutes a significant topic of contemporary economic debate.

Theoretical Implications of The Study

The level of Gross Domestic Product (GDP) per capita in emerging market economies and its place within welfare economics have gained increasing importance in the economic literature in recent years. In particular, in terms of measuring welfare, balancing income distribution, and ensuring economic sustainability, the GDP per capita indicator is considered a variable that reflects not only growth rates but also the quality of social welfare. That emerging market economies face in the global economy and their own internal dynamics; a strong interaction is observed between the negative external shocks. Current account balances are among the factors that directly affect the level of GDP per capita in these countries, as theoretically. Macroeconomic variables such as national employment rates and inflation affects both economic growth dynamics and welfare levels, which is in comparative analyses with developed economies such as the G7 countries, an in-depth examination of this structure yields more meaningful results. Between economic growth and welfare indicators in the G7, the high correlation necessitates questioning why this relationship is weaker in emerging markets. This necessitates considering GDP not only as an indicator of economic growth but also as a parameter that measures its contribution to a welfare economy in the theoretical framework. The high and rapid growth targets of emerging market economies create a dynamic that sometimes conflicts with economic stability in a globally competitive environment. These countries' efforts to gain a stronger position in global markets can sometimes result in income distribution imbalances, fragility in employment structures, and macroeconomic imbalances. Fluctuations in macroeconomic variables in developed economies, on the other hand, affect the direction of capital flows and investor confidence, creating additional pressure on emerging market economies. Empirical analyses to be conducted within this framework also provide an important theoretical and practical basis for the creation of sustainable development policies

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Contrast Past Studies with this Study's Results:
A comparison of the results of the current study with previous studies demonstrates that the structure under consideration offers deeper and more meaningful results compared to the G7 countries. But also, as a growth indicator with macroeconomic expansionary processes, that is, this situation highlights the necessity of reconsidering gross domestic product (GDP) as related to GDP per capita, not only in terms of economic growth trends or increases in production volume. Global economic dynamics volatility in macroeconomic variables, particularly in the context of emerging market economies, demonstrates that studies of the effects of this variable on social welfare require a more comprehensive examination. —In particular, factors such as inflation play a decisive role in the per capita GDP performance of emerging markets, the trade balance, and capital mobility—are critical for understanding how general development trends observed in global markets resonate across different regions. In this context, examining the indirect impact of inflation rates in G7 countries on emerging markets provides a critical analytical framework for analysing the scope of global economic integration and its transmission mechanisms. Current findings reveal that even during periods of weak global market dynamics in G7 countries, the production volume and economic activity levels of these countries are more resilient to global economic fluctuations. Furthermore, it has been observed that the value added created in these countries' economies has a higher impact coefficient than in industrialised economies, in terms of both their contribution to local production capacity and global supply chains. The contrast between the vulnerability of G7 economies to global fluctuations and the adaptive capacity of emerging markets necessitates the development of new policy proposals for managing macroeconomic imbalances. To ensure sustainable growth, particularly in developing countries, providing structural reforms that increase resilience to external shocks and mechanisms that strengthen macro financial stability are necessary, as related to GDP in the aimed economic welfare framework. Analyses conducted in this context strongly emphasise that GDP and related to GDP per capita growth should be considered not only as an indicator of economic growth but also as a measure of social welfare and economic resilience.

Practical and Contextual Implications of The Study:
At the global level, it is observed that rising inflation rates in G7 countries, coupled with increasing trade prices and input costs, statistically reduce GDP per capita in emerging market economies. This relationship is supported visually and cross-country through analytical inference. This phenomenon, with practical and contextual implications, reveals that GDP per capita varies significantly across countries, while inflation rates in G7 countries are relatively stable across countries but fluctuate over time. The Arellano–Bover/Blundell–Bond System-GMM estimation method is used to analyse the dynamic effects of unemployment rates in emerging market economies (ln(EmMrUnEmp)) and inflation rates in advanced economies (G7) (ln(G7InfRt)) on per capita income (lnGDPPrCpt). This method is a powerful econometric approach widely used in dynamic panel data analysis, allowing for the minimisation of endogeneity problems. In assessing macro financial buffer mechanisms, the findings indicate that emerging market economies have implemented measures such as swap agreements and financial reserve management to increase their resilience to G7-driven inflation shocks. The multidimensional impacts of global economic integration on emerging market economies, when considered from a practical and contextual perspective, reveal the indirect effect of G7 countries' inflation dynamics on emerging market economies' growth, employment, and income distribution. These findings, particularly observed in G7 countries, point to the need for both policymakers and academics to rethink policy mixes aimed at achieving macroeconomic stability, and it can be argued that inflationary pressures have weakened the growth processes of emerging market economies, but this potential impact is not significant. While the effects of global financial changes and associated economic growth trends through capital flows on per capita GDP in countries considered within the emerging market economy framework are limited, the existence of a tangible income effect at the individual level is undeniable. However, an increase in GDP per capita, aligning with the goal of sustainable growth in emerging market economies, is achievable by mitigating negative global impacts, strengthening fiscal discipline, and increasing productivity.

Limitations and Future Research Directions:
When considered within the context of the global economy, the economic dynamics observed, particularly in the G7 countries, have become fundamental factors shaping the direction of today's global economy. Inflationary pressures, which have been on the rise in these countries in recent years, have multifaceted consequences not only for advanced economies but also for emerging market economies. Indeed, these inflationary trends, by leading to a tightening of global financial conditions, are emerging as a decisive factor weakening the growth processes of developing countries. Tightening monetary policies and interest rate hikes in developed economies directly impact global capital flows, which in turn, fragile financial stability and limit sustainable growth potential in developing countries. The policies pursued by central banks, particularly in G7 countries, to increase interest rates to maintain price stability, are squeezing liquidity conditions globally and leading to a capital flow from emerging markets to developed economies. In this process, the accelerated capital outflows negatively impact the investment climate in developing economies, and fundamental growth indicators such as production, employment, and technological innovation capacity may decline. As a natural consequence, the interdependence of the global economy further highlights the complex interaction between interest rates, inflation, and capital flows, which affects the rate of growth in per capita income (GDP per capita), and the optimal distribution of economic welfare is constrained within a limited framework. In developing countries, fluctuations in capital inflows undermine investor confidence, paving the way for macroeconomic instability, which causes the negative impact of inflationary trends on capital flows, a significant constraint on per capita income growth in these economies, which in turn weakens real GDP growth and further deteriorates income distribution. Furthermore, this phenomenon of instability slows productivity growth, limits long-term growth capacity, and threatens the sustainability of the development process. A more in-depth academic study of this multi-layered relationship to the future includes a detailed analysis of the interplay between monetary policies, capital flows, and inflation dynamics using econometric methods. The fact will contribute to a more holistic understanding of the macroeconomic performance of emerging markets. Particularly, providing essential insights for policymakers who consider regional differences can reveal the diverse impacts of inflationary processes in G7 countries on different emerging economies via comparative studies.

CONCLUSION

The findings of this study reveal that fiscal indicators in advanced economies have a negative, but statistically weak, impact on per capita income in emerging market countries. Rising public debt weakens income growth by constraining production and employment, highlighting the importance of the interaction between debt dynamics and the labour market. The significant and negative impact of the unemployment rate variable, in particular, confirms the determinant role of employment on per capita income. Therefore, the labour market channel stands out as a critical transmission mechanism in growth processes. Conversely, the ineffectiveness of inflation rates in G7 countries on income movements in emerging market economies suggests that global price dynamics alone are insufficient to explain fundamental income changes in emerging economies. This result indicates that global inflation is not directly impacted but is influenced through financial transmission channels. In this context, supporting fiscal policies with employment incentives and strengthening the coordination between monetary and fiscal policies in countries with high debt levels are critical for growth stability. On the other hand, this situation shows that changes in G7 price levels do not directly affect per capita income, that internal dynamics (e.g. employment, productivity, investment rates) are more determinant in EM countries, and as a policy implication, employment-enhancing policies should be the priority for growth in emerging economies; the impact of external price shocks is secondary. In other words, global factors, not alone, but together with domestic employment conditions and structural factors, determine per capita income. This suggests that global price dynamics do not directly impact income levels in the short term, but indirect effects (interest rates, capital flows, trade prices) may be more decisive.

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