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Evaluating the global economy's reactions to financial globalization, with a focus on economic growth, trade, and income convergence

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Abstract: Financial globalization refers to the expansion of country communication through various types of international trade and financial and capital flows. This process can also be realized through financial liberalization and integration in inter-bank and financial institution relations, as well as the formation of monetary unions, which, of course, can present countries with various strategies for gradually adapting their domestic and national economic conditions. Meanwhile, each of these strategies, as a program or a development, causes reactions in national and global economies. With proper planning for income distribution, international trade increases income, which can lead to economic and social stability, and finally, an improvement in national security.

Keywords: Financial globalization, economic growth, international trade, program evaluation

Introduction

The global economy has seen several rounds of globalization, each with its own set of requirements, but the most recent round of globalization, which began in the 1990s, is highlighted. Various and numerous definitions of globalization have been presented in this context. For example, globalization can be defined as a process that focuses on the expansion of global communications and media, the expansion of multinational companies' activities, the acceleration of global financial and commercial transactions, the globalization of the production, distribution, and exchange processes, and the facilitation of cross-border transfer of labor, ideas, and goods. Transnational and international organizations indicate the strengthening and deepening of relationships between governments and diverse communities, as well as the eventual erasure of geographical barriers (Bozorgi, 2012).

Financial globalization refers to the expansion of financial links between countries that run parallel to other world trends. Although globalization has many facets, its true manifestation has been primarily in the process of economic globalization, the expansion of trade and commercial interactions between countries. This process gained importance following the conclusion of the Uruguay Round negotiations (1990-1986) and the founding of the World Trade Organization (WTO) in 1990. On the other hand, new concepts such as "capital liberalization," "financial liberalization," and significant growth in foreign investment have been proposed in the literature of financial globalization and international economic relations in recent years, each of which indicates the intensity and level of participation of countries in the global economy.

Financial globalization is a concept that refers to the increase and extension of countries' worldwide ties through various sorts of international financial and capital flows (Prasad et al., 2013). In this case, factors such as international capital flows, country financial convergence, the expansion of regional and international financial relations, the formation of regional and international financial blocs and areas such as monetary unions, the performance of financial institutions, and the reduction of controls can lead to the creation and development of financial globalization and cause convergence in regional and international interest rates, the possibility of monetary unions, the possibility of monetary unions, the possibility of monetary unions, the possibility of monetary unions, the possibility of monetary unions.

Financial globalization is a phenomenon that emerges and grows in tandem with other global trends, posing difficulties, possibilities, and even threats to countries' economies through the impact on internal and external variables and indicators. This impact can be seen in indicators such as domestic and international financial relations, capital market and international capital transfer, domestic and international financial institutions, integration of international financial standards, control removal, creation, contagion, or adjustment of regional and international financial crises, and portfolio diversification. Assets, exchange cost reduction, national currency and monetary and financial policies of countries, exchange rate changes, local and international interest rates, economic growth, and international trade ties should all be studied and reviewed.

In this regard, scientists and researchers such as Tobin (1998), Obstfeld and Taylor (2002), and Mishkin (2005)" have studied the impact of financial globalization on economic and non-economic variables in national and transnational contexts, using theoretical analyses and sometimes estimating econometric models.

Following the early efforts for trade liberalization, Southeast Asian countries, for example, switched their attention to financial markets, particularly the capital market, resulting in a rush of foreign capital entering these countries either directly or through stock market investments. Although this wave, along with the use of internal forces and potentials, became the basis for economic transformation in East Asia, and the upward trend of economic growth in these countries continued until early 1997, the crisis Finance became widespread in this region after the emergence of signs of crisis in some countries such as Thailand. In studying the origins of the financial crisis, the lack of preparation of these countries' financial sectors for globalization, as well as the countries' non-compliance with global economic standards, were identified as the primary causes of the catastrophe (Shiva and Mikayelpour, 2013).

Many economists believe that the expansion and liberalization of international trade has an impact on economic growth. However, this concern cannot be used to justify unrestricted trade expansion and liberalization. The experience of several countries throughout the world with trade liberalization and expansion demonstrates that this strategy can have varied consequences in different countries with diverse economic and social structures. One of the most important elements in the differences between countries' social and institutional frameworks is the interaction of the government and the market. The government, as an institution-building social institution, should establish a favorable environment for regulating the economic connections of the people of the society in a low-cost, simple, and time-efficient manner, and therefore act as a helping hand of the market. Good governance is commonly used to describe the successful operation of these institutions. As a result, government can influence the manner and direction of international trade and thus economic growth. In this regard, the purpose of this study is to explore the impact of international trade on economic growth in relation to each country's social and institutional systems, as measured by the good governance index.

Foreign trade and its relationship with economic growth is a contentious issue, particularly in the choosing of development strategies in poor nations, and economists are still divided on how trade policies and economic growth rates might be associated. It has been demonstrated in new theories and endogenous growth models that international trade influences the growth rate of the economy by providing access to foreign markets, technology, and resources (Kazemi, 2014).

If the world's countries follow the features of the global economy, the necessary conditions for a crisis will not be met, or the severity of the crisis will be minimized. For example, despite factors such as Thailand's devaluation of its national currency in world to increase exports and compete with other countries, the lack of transparency in Southeast Asian financial markets, the weakness of the financial system, and the improper functioning of the banking system in these countries, China's entry into global markets and this country's use of policies such as devaluation of the national currency to develop exports, profiteering, and financial corruption in the countries in question are among the most important reasons for the crisis in Southeast Asian countries, but in the event of globalization in different dimensions, particularly in financial aspects, removing or adjusting inefficient financial systems, and countries' inability to unilaterally change the value of their nation are among the most important reasons for the crisis in Southeast Asian countries. On the other hand, in today's complex financial systems, safety and strength are realized when three variables are present: good management, market order, and supervision. Apart from management and supervision, the main issue in creating (financial) market order in national and international dimensions is the integration of financial standards, so that financial globalization can create these standards in various ways, such as the formulation of integrated financial laws and regulations; however, there are examples of it in the European Union and even the High Committee regulations.

It is envisaged that the standardization and unification of capital regulations in regulating the basic risks of the banking industry will strengthen the strength of the countries' financial systems, encouraging banks to apply better risk management and market order (Manochehri, 2009). This process is reflected in the international integration of relationships between banks and other financial institutions. Furthermore, because some countries, particularly developing countries, face limitations in providing financial resources needed by companies and institutions from domestic sources, such as administrative bureaucracy, limitations in the volume and size of facilities, and multiple interest rates, and it is possible Factors such as a lack of familiarity between the lender and the borrower, asymmetric information, and the existence of exchange charges for these countries all contribute to the utilization of foreign resources. on a global scale On the other hand, the formation of monetary unions such as the European Union, in the sense of the joint use of a single currency by several member states in exchanges with other countries, is the most comprehensive form of convergence and expansion of countries' financial relations, which can affect more than just the economy. Member countries are influenced by factors such as economic growth, trade, and income convergence, but non-member countries are also influenced by the behavior of the countries in question, and some even seek to form new monetary unions, such as the monetary unions of Southeast Asian countries and the Persian Gulf countries. As a result, monetary unions demonstrate another effect of financial globalization.

literature review

Financial globalization's success or failure can be assessed by examining its impact on three response variables. These three variables are as follows:

International trade

International trade refers to the export and import of products and services between countries throughout the world. Because, from the start, no country can meet all of its demands without trade links. To meet its needs, it must create trade links with other countries. As a result of the provisions and profitability, international trade is developed as a result of supply and demand linkages for commodities and services between different countries throughout the world. Today, international trade has taken on a more advanced and modern form, creating eases for trade relations between countries, and these eases and technological progress have accelerated the effects on supply and demand for goods at the global market level, which can be cited as an example of these eases. For example, the value of one US dollar rises against the Pakistani rupee. According to information in both nations, this example is considered a convenience and plays a big influence in the speed and progress of company. People have had trade interactions since ancient times, with individuals engaging in this activity to obtain provisions and meet the demands of society. For example, trade links have been in our country (Afghanistan) from ancient times, when traders brought products and goods from China to Transoxiana and then moved them to Baghdad or from Transoxiana to China via this route. The father of economics was English economist Adam Smith, and David Ricardo was the founder of the school of freedom of international exchange, which specialized due to the international division of labor (Adam Smith), and David's relative superiority has been considered as one of the driving factors of international trade and its development, and the freedom of exchange for all Nations has been considered progress and progress. Adam Smith, who emphasized the international division of labor in his theories, specialized in the global production of goods and still felt that reducing trade barriers and establishing exchanges in free trade would benefit all countries involved in the transaction. If no country can produce all of the goods needed in the world and cannot even produce the needs of its own country, or if they do not have all of the raw materials used in factories to produce essential and luxury goods, a country must first produce that it has the raw materials at its disposal, and then it must produce that it has complete expertise in its production. For example, if a country produces goods while considering expertise and using domestic raw materials, on the one hand, it will be lower in proportion to consumption; on the other hand, by using expertise, it will strengthen the quality and quantity of the produced goods, earning it a special place in the market. International exchanges and markets are profitable, and if a country enters the global market by importing goods with the lowest production costs, that country has an absolute edge (Sarel, 2017: 5).

• *David Ricardo and his theory of relative value*

As previously stated, international specialization and division of labor necessitate that the consumption of production in each society differs according to their specialization. Consider Afghanistan and India, where Afghanistan specializes in carpet manufacture and India in television production. Afghanistan produces ten carpets with a hundred hours of effort and, of course, has comprehensive experience in carpet production. Or in television production, which requires two hundred hours of labor to generate ten television sets. However, India manufactures ten TV stands with 100 working hours and ten carpets with 200 working hours. In this situation, each producer lacks knowledge in the material they create, or they make it at a greater cost. And they prefer to procure through exchange in lower-cost contracting countries (BanHabib and Spiegel, 2014: 16).

This basic example illustrates the relative superiority of two countries, India and Afghanistan, as a result of a difference in absolute consumption based on two specific items. However, Ricardo considers the difference in absolute consumption of commodities produced in two countries to represent the difference in production consumption of things produced in separate countries. that the exchange of produced commodities provides additional benefits The fact is that the consumption level of goods and goods is not the same in all nations, but consumption of goods production is higher in one country and lower in another. Is this interaction between countries beneficial or not? According to Ricardo, if the relative consumption of products among countries is not the same, i.e. (in one country, production costs are higher and in another country, less, in this case, in principle, exchange will be possible and useful). And trade will benefit both trading countries (Lichtenberg et al., 2016: 10).

Stuart Mill's international value theory

The exchange relationship determines the purchasing power ratio of two items exchanged between two countries and represents the profit or benefits gained from such exchanges. It allows for cross-national exchanges. This article conveys the concept of international value theory precisely. Those who promote these theories, as well as their supporters, think that if there is free exchange between countries, the society's economy will grow naturally without the need for government involvement. It leads to prosperity, and this balance always remains stable in the established time and place, but these theories are fundamentally based on the economic realities of the nineteenth century, that is, from the time of British economic superiority, and subsequent developments have proven to be contrary to these theories. Indeed, each country's or different countries' absolute and relative advantage in production has practically led to their economic superiority in international or global trade. As a result of the development of economic dominance and the enrichment of countries with relative advantages (England and many European countries and North America), on the other hand, other countries have become poorer and poorer, and the existing gap has been persistent and established, and the world is divided to some extent. The component, i.e. the countries, has become clearly affluent and impoverished (Griliches, 2018: 5).

• Heckscher-Ohlin international trade theories

According to the author's theories of production factors, differences in supply conditions lead to international trade, and supply conditions include the efficiency of production factors as well as the abundance of production factors. Furthermore, the referenced scientist claims that the frequency of price discrepancies is driven by changes in the relative abundance of production inputs. According to this theory, any country that exports things that it has in abundance, whether raw or completed goods, on the other hand, buys goods that are in limited supply in the country, and a negative point can be conveyed. However, trade without demand will yield no better results (Cheng and Dinopobes, 2012: 14).

International trade's impact on economic development

Today, countries are becoming more economically dependent on one another. Industrialized countries require raw materials, inexpensive labor, and markets from developing countries, whereas developing countries require industrial products, expertise, and technology from developed countries. Naturally, economic developments and currents can quickly spread from one country to another and become global in such a setting. As a result, it is no longer possible to contain the consequences of economic and commercial changes within the framework of country borders. Countries' economic interdependence takes several forms, the most important of which are trade in products, trade in services, investment, and labor. Globalization can be presented in three ways: market, company, and rights globalization. Globalization in one of the aforementioned kinds does not necessitate globalization in others. Globalization is a multifaceted process in which nations' economic, political, social, and cultural ties become more intimate and inclusive of one another. The globalization of the economy means that nation-states no longer have economic independence, and economic phenomena within countries are influenced by the process of global economic advances. According to Halm and Saranson, the globalization of the economy extends beyond the interconnectedness of national economies. This is a qualitative shift toward a global economic system centered on the needs of the global market for production, distribution, and consumption rather than an autonomous national economy. As a result of economic globalization, the world economy will become more independent of national economy decisions, and its authority to control and influence its economy and society will diminish.

Business strategies

Countries, particularly developing countries, adopt support methods and policies in order to protect their political interests and national economy, as well as to encourage national production and employment. Policies such as long-term import substitution strategies or export development can be undertaken, as can approaches such as limiting imports and increasing exports to control the balance of payments deficit.

Many experts and governments now regard business strategy as the indication that determines the type of economic development, and this orientation is so significant that most experts design economic development programs first by identifying the program's orientation in reference to replacement strategies. They assess the growth of imports and exports. It goes without saying that the strategy chosen should be in accordance with the goals of the social system and the specific social structure, which necessitates a great deal of information about the various types of business strategies, their preparations, and results, which should be combined with the performance of those strategies in specific countries and a comprehensive evaluation of those performances, and be available to policymakers and planners. Foreign trade and its relationship with economic growth are two of the most contentious issues, particularly in the choosing of development strategies in poor nations, and economists continue to disagree about how trade policies and economic growth rates can be related. There is no consensus. International trade (economic openness) affects the growth rate of the economy through access to foreign markets, technology, and resources, according to emerging theories and models of endogenous growth.

Organizations, trade unions, and free zones

Creating free trade zones is another alternative for various countries to accomplish their economic plans and objectives. Ports and free zones have almost taken their place as an important and effective economic policy tool in many countries, to the point where the Industrial Development Organization, which is affiliated with the United Nations, established free trade zones as a means to encourage production and has recommended export and development. In the world literature of economics, free zones refer to areas that are outside the scope of some of the respective country's current regulations within the protected port and non-port areas and by attracting foreign investment, benefit from a number of advantages such as ease and acceleration in the export and import processes. Furthermore, technology transfer aids the growth of the mainland.

Results

It can be argued that the realization of financial globalization through the completion and formation of its processes, such as financial liberalization, the expansion of capital and financial flows, the integration of relationships between banks and financial institutions, the formation of monetary unions, and so on, can provide various strategies to countries that gradually adjust their domestic and national economic conditions with it. Despite the fact that each of these strategies, as a program, causes reactions in the economies of countries and the global economy by influencing certain variables and indicators. However, because access to the economic growth rate is greater than the most important economic goals of the countries, which can lead to economic development and greater prosperity, the convergence and convergence of the countries' per capita income is one of the most important goals of globalization, and international trade is the second branch of the economy. This article highlights the impact of financial globalization in the form of strategies such as the development of monetary unions, international capital flows, and even monetary crises on these three indicators as the most important reactions evaluates the global economy.

Program evaluation is an econometric method for determining and estimating the economic relationship of variables in which the impact of program implementation (on both groups) is evaluated in different ways by separating units (countries) into two treatment and control groups. Zhao, 2006). In this regard, a sample of units is included in the transformation and, thus, is placed in the program, while other units are also outside the transformation and, thus, are placed outside the program, which is known as the control group, but their response variable (for example, economic growth and convergence) is affected by this transformation (program).

However, when assessing the global economy's response to a program's strategies, such as financial globalization, the program in issue is a complicated and preset version for countries that must accept and adjust to it over time. Understanding the concept of financial globalization in relation to related factors, examining financial globalization indicators and constituent factors, and evaluating the impact of financial globalization on global economic reactions in terms of economic growth, income convergence, and trade flows are all important. Because, as previously stated, economic growth is one of the most important goals of countries, convergence is a result of economic globalization, and trade and finance are two branches of the international economy, and the global dimensions of both are current issues, the world is one of the main goals of this article. According to theories such as "supply leadership" and studies, the development of the financial sector has a substantial impact on economic growth and, eventually, corporate expansion.

Direct foreign investments

A variety of financing sources are required to supply the necessary capital for investment. In this regard, financial managers should analyze various sources of financing while paying attention to the company's risk and return and its effect on the risk and return of the company's common stock in the stock market. The capital structure of a company is one of the risk elements of the company. (the amount of debt and how much the company has contributed to its capital structure). Because employing debt generates a series of set responsibilities (financial costs) for the company, these fixed obligations raise the company's risk because if the company cannot repay the principle and sub-loans, it will fall into financial impotence (and eventually bankruptcy). In capital markets, the risk creation process is critical. Financial leverage is one of the risk variables, according to financial theories. Choosing an optimal debt ratio that can minimize risk while considering appropriate return is a step toward the main goal of corporate financial managers, which is to raise the value of the company and thus increase the wealth of the shareholders (Islami Begdali et al., 2008: 91).

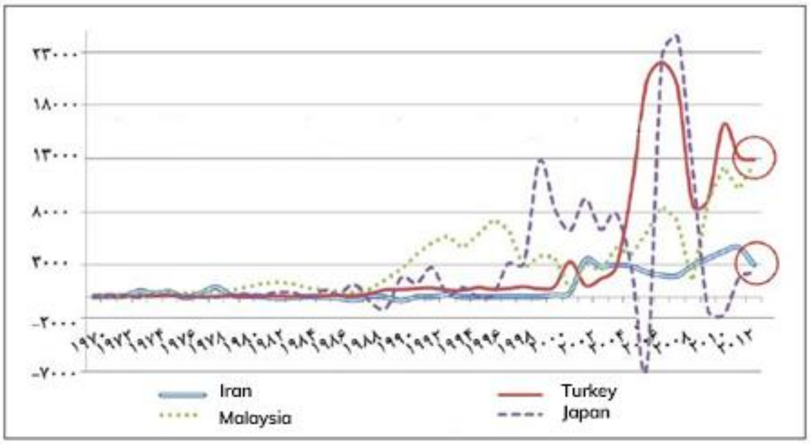

Figure 1: Bringing in Foreign Investment

Bringing in Foreign Investment in Iran is one third of countries such as turkey and Malaysia

Financial strategies

With the expansion, development, and transformation of economic enterprise services, the process of separation of ownership and management of economic enterprise administration has taken on a growing trend following the transformation and expansion of financial services and economic relations of organizations, as well as the expansion of joint stock companies. Due to economic difficulties and the increase of business operations and specialization, investors delegate control of their capital to managers and review and control manager performance through independent auditors' managers. Managers defend the company's plans from three perspectives: technical (access to raw materials, technology, production rate, etc.), economic (competitors, sales, consumption pattern, etc.), and financial (return rate, risk, investment return period, net present value of the plan, and so on). In carrying out its business activities, an economic enterprise faces numerous risks. These risks manifest themselves at various periods of the organization's life cycle and according to its sector of activity. Whole risk refers to the total quantity of risks that an economic enterprise faces. Total risk is divided into two categories: company-specific risk (unsystematic) and risk generated by macro-factors (systematic). Many studies have been conducted in order to quantify and control the risk of entire enterprises. It is apparent that in today's changing world, organizations and economic enterprises gain success through concurrent activities.

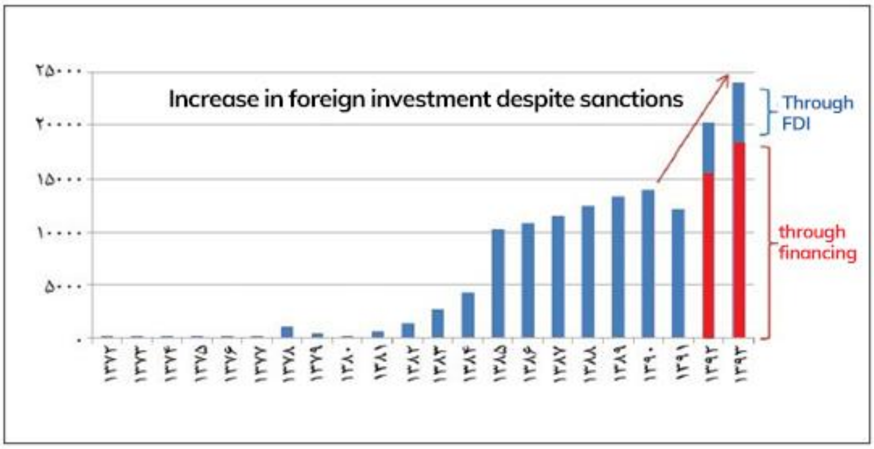

Figure 2: Increase in foreign investment (Carlson, 2014)

Despite the simultaneous operations of multiple departments of the organization, two significant and fundamental activities of finance and strategy are still formed individually and separately in most departments of the organization. Decisions and activities in these two areas are made by various experts in various working groups, which frequently results in pursuing distinct, if not contradictory, aims and standards. Managers and strategists are seeking for the integration of these two sectors in order to produce a financial strategy and by establishing a link between the organization's essential strategies and financial activities in the new debates of corporate strategy and finance. A company should approach the goal of making better and more effective judgments in the organization. The following are the expected outcomes of this approach:

- Developing a clear strategy for future output.
- Appropriate business decisions that deploy scarce resources efficiently to realize strategic innovations.

• It establishes proper performance evaluation criteria for the organization.

In general, "finance" is concerned with the allocation of a firm's scarce resources, whereas "strategy" is concerned with differentiating a company from its competitors in an industry. Michael Porter defines the nature of competition in an industry as having five main factors: alternative products, buyers (bargaining power of consumers), sellers (bargaining power of suppliers), new entrants (threat of possible competitors), and industry competition in general. It is related that any type of competition analysis must analyze and identify four processes, which include future goals, current strategy, assumptions, and capabilities (Baghaei et al., 2018: 130-133).

Economic conditions, as well as commercial and financial conditions

Reduced interest rates can be an important factor in enhancing return investments. When interest rates fall, investment costs fall as well, increasing the return on investment. However, when the interest rate is determined by supply and demand mechanisms, the issue of time is ideal, because this type of interest rate reduction, if not accompanied by appropriate tools to control its effects, can increase the investment rate, but it is most likely that investments in non-productive and sometimes "destructive" sectors will be harmful to the economy. Another aspect to consider is that if this job is done without the requisite estimates, given the country's current inflation rate, it may result in some form of invisible loss (risk) for depositors. An increase in the interest rate, on the other hand, increases the risk of interest rate fluctuations since an increase in the interest rate lowers the price of fixed interest bonds, and if the holder of these bonds sells them before maturity, he would experience a loss (Nove, 2013: 14).

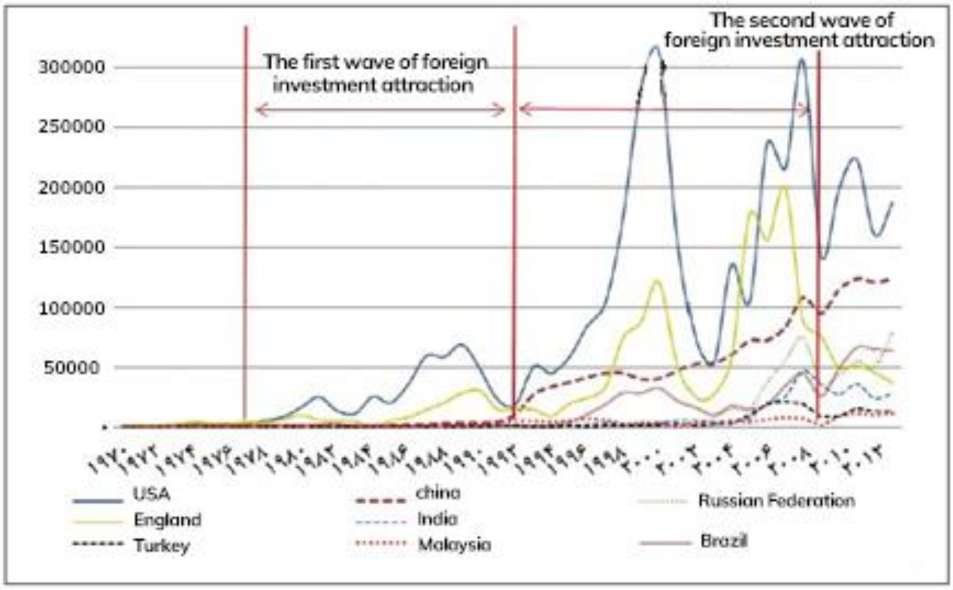

Figure 3: Attraction of foreign investment (Carlson, 2014)

An increase in the expected inflation rate affects investment in financial products in such a way that as the expected inflation rate rises, so does the expected rate of return on physical assets in comparison to financial assets (financial products), and physical assets replace financial assets in the economy and becomes the asset portfolio. In a developing economy (business development cycle), as people's wealth and income expand, so does the demand for investment in financial products, which leads to an increase in the price and return on investment in these products. Economic downturns and employment losses increase systematic risk and reduce investment (Ekins et al., 2019: 7).

Policies of the government

The government plays a key role in the capital market as an observer and policymaker, and one of the government's obligations is to establish a program that can promote the capital market. However, in general, the multiplicity of power and decision-making centers, the ambiguity of these centers' roles and relationships with one another, the interference of the country's three powers, the lack of transparency of the laws and the existence of different and contradictory perceptions of them, the existence of inappropriate and cumbersome laws, the violation of economic freedoms, and the government's political instability, cause The rise in systematic risk, and thus a significant drop in investment (Novo, 2010: 11). The government's measures and level of involvement in the economy, industry, and commerce also have an effect on investment in financial products, which means that the greater the level of government involvement in the economy (reducing private sector participation), the systematic risk rises and the amount of investment in financial products falls. For example, if the government issues bonds to cover its budget deficit, the price and interest rate of these bonds will rise, resulting in a fall in the price of bonds and an increase in the interest rate (Ekins et al., 2019: 4).

Investment risk perception dimensions

According to Diakon and Ionio (2011), the risk perception of expert and beginner investors can be described using the following five major suitable factors:

1- Concerns about stock providers
2- Worry about unforeseen happenings
3- Concerned about yield fluctuations
4- a lack of information transparency
5- violation regulations

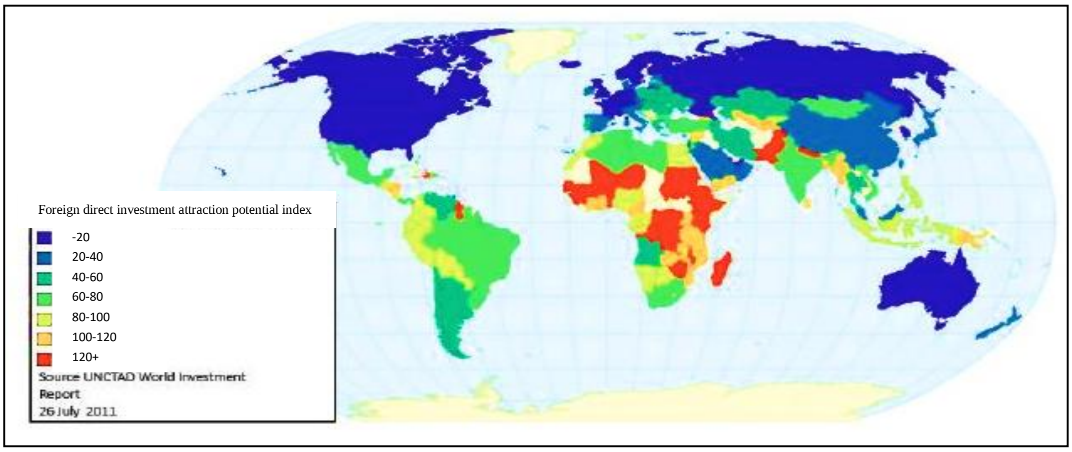

Figure 4: Index of prospective foreign investment attractiveness (Carlson, 2014)

Uncertainty regarding stock providers

For example, if the global price of oil rises, industries associated to petroleum goods will benefit and their stocks will rise; if there is a drought, agricultural industries would suffer and their stocks will fall.

• Lack of information transparency

The more frequently and clearly the company's periodic information is disclosed, the sooner its influence on the market will be, and the share will have more liquidity and correct circulation, reducing the risk of investing in shares (Abdollahzadeh, 2011: 16).

• violation and regulation regulations

In general, the plurality of power and decision-making centers, the ambiguity of the role and relationship of these centers with each other, the interference of the country's three powers, the lack of transparency of the laws and the existence of different and contradictory perceptions of them, the existence of inappropriate and cumbersome laws, the violation of economic freedoms, and the government's political instability all increase the risk. Investment is being reduced in a systematic and harsh manner (Modres Sabzevari et al., 2017: 15). Today, fixed-interest-rate financing is common in the capitalist financial system, and it is employed on a fairly broad method of financing debt instruments, the most important of which are bonds. This tool's use in the Islamic financial system is usurious and has been condemned (Salehabadi, 2014: 3).

Conclusion

In the economic ties between developed and developing countries, international trade is defined by the export of food raw materials and raw materials from developing countries, as opposed to the import of industrial products from developed ones. This predicament continues to be an issue for the world's poorest developing countries. However, most developed countries are unaffected. In 1980, industrial items accounted for only 25% of developing countries' exports; by 2005, this figure had risen to 70%. Although the degree and rate of economic development are mostly determined by developing countries' domestic conditions, international trade can play a significant role in the development process. This situation was confirmed until the 1980s, despite the fact that many economists believe that international trade and the international monetary system work in the world, rather than improving the development process, has slowed down the developing process by lowering trade terms and causing large fluctuations in developing countries' export earnings.

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