

Globalization and Economic Growth as Drivers of Financial Development: Empirical Insights from BRICS Countries

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Abstract

This study examines the effects of globalization and economic growth on financial development in the BRICS (Brazil, Russia, India, and China) over the period 1994–2023. Using panel data techniques, including Fully Modified Ordinary Least Squares (FMOLS) and Dynamic Ordinary Least Squares (DOLS), along with panel unit root and cointegration tests, we investigate the long-run relationships among the variables. The empirical findings reveal that both economic growth and globalization exert a positive and significant impact on financial development. Rising economic activity enhances financial services by increasing income levels, investment opportunities, and capital requirements, while globalization stimulates the expansion of the financial sector through greater trade openness and cross-border capital flows. The cointegration results confirm the existence of a stable long-run equilibrium relationship among the variables. Overall, the findings support both traditional theories and recent empirical evidence on financial development in emerging markets. The study offers important policy implications for BRICS economies, emphasizing the need to promote sustained economic growth, deeper global economic integration, and stronger institutional and regulatory frameworks to foster financial sector development. By doing so, policymakers in emerging economies can better harness the benefits of globalization to strengthen their financial systems.

Keywords: Globalization, economic growth, financial Development, BRICS countries

INTRODUCTION

Background of the Study

Due to their rapid economic development and increased exposure to globalization, the financial markets of South Africa, the three countries have seen significant transformations. These economies have seen novel financial progress in the last 20 years as a result of increased international commerce, foreign direct investment, and capital flows brought about by globalization (Zafar et.al. 2022). Lately, researchers have studied how financial

development connects with globalization. With globalization, now being marked by more trade, financial markets opening up worldwide, and technology spread, these countries can use worldwide finance, upgrade their financial systems, and attract finance. Global financial disruptions highlight that the good sides of globalization may appear only after experiencing periods of instability and sudden external challenges. Through globalization, China and India have made significant progress in their financial systems; however, this also increases the risk of financial and economic problems for them (Batten and Associates, 2021).

A higher economy helps the process of financial deepening, because it encourages modernization in financial sectors. A number of researchers (Kutan et al., 2018; Raza et al., 2023) suggest that financial development helps boost growth in BRICS nations, and this relationship works both ways. Ongoing financial innovations and the introduction of new services support the country's economic growth. Moreover, efficient and well-developed markets can encourage long-term growth through improving resource usage and stimulating businesses. But this is not true for every one of the BRICS countries. China was able to grow its financial market by maintaining swift economic growth and joining global value systems, which Brazil and South Africa failed to achieve due to the slower development of their financial sectors at home (Asongu et al., 2023). Russia's financial system has also been negatively affected by factors connected to international conflicts and economic limits caused by sanctions (Singh et al., 2023).

In addition, institutional quality is crucial for assessing how globalization affects financial development. According to Hassan et al. (2022), strong state organizations, rules, and financial agencies are essential for making the most of globalization. Furthermore, when BRICS countries have low-performing institutions, globalization could make it more difficult for them to achieve financial equality, economic balance, and good capital allocation. Recent studies have suggested that, due to changes in the global economy, the relationships among globalization, economic growth, and financial development have shifted. Because of the COVID-19 pandemic, BRICS nations now face the challenge of balancing inflation and financial stability as their economies grow together with globalization. Due to constant changes at the geopolitical and trade levels, these relationships have become more complex, in the hope that greater financial growth will come to these economies (Mishra & Kumar, 2023). Because there are still gaps in connecting globalization, economic expansion, and financial improvement within the BRICS countries, this study is especially needed. Since the

global economy is always changing, these countries influence the decisions of policymakers and managers.

The BRICS bloc, consisting of Brazil, Russia, India, China, and South Africa, has kept on improving over the years, even as these countries have actively incorporated into globalization. But even though globalization allowed these economies to access International capital and trade services, the benefits were not gained simultaneously in all of the BRICS countries. Despite the largest flaws in the country's financial markets for a long period, China and India were able to successfully integrate with Globalization. But on the other hand, Brazil and South Africa were unable to increase their financial growth along with their economic growth. Furthermore, the research outlines that the financial systems in those developing countries to date remain exposed to external factors, geopolitical uncertainties, and a sustained credit and liquidity crunch in the international economy. But this is also facilitated by the nature of institutions; where effective regulatory institutions exist, the resources of globalization are utilized more effectively, and economic and financial chaos is typically less prevalent than in the more fragile states.

In addition to the mathematical models it presents, this research fills a vacuum in the literature by examining the relationship between globalization, economic growth, and financial development within the BRICS countries. This research focuses on the combined behavior of these concerns in rising economies, namely in the BRICS nations, while previous studies have dealt with them separately. The growing body of research on the operational mechanisms of such interactions in developing financial markets will benefit from the final interpretations. The study's findings will assist policymakers in the BRICS countries by enabling them to make appropriate use of globalization so as to improve their financial development. Given that various risk factors impact financial systems, this study will provide ways of enhancing financial stability, managing outside threats, and boosting economic growth. The results will be beneficial in pursuing and advocating for policies that have objectives to enhance sound financial markets.

For economists, investors, and financial planners, the presented research will be useful for decision-making purposes. The study will assist in developing forecasting tools, investment decisions, as well as revamping the financial sector in the BRICS nations by explaining how the financial development process takes place in these emerging markets. Owing to the increasing weight of the BRICS nations in the world economy, this research

will be of utmost importance to the international audience as well, which includes global investors, economists & financial institutions, as well as policy makers from other growth economies. The question of how the BRICS countries seek to combine the requirements of inclusion into a global economy, as well as achieving economic development while creating financial infrastructure, will be beneficial for other economies that are also in transition.

Mattering Risks and Opportunities: This paper examines the benefits and the risks which are brought about by globalization, cross border integration of economic activity, Financial market bubbles and abusing extreme shocks, Unit of purpose of this paper will be able to show how the BRICS can make utilization of the globalization phenomenon to enhance their financial systems and promote overall development of the economies of these nations. The result of this paper can be critical in dealing with both the immediate and the structural issues of financial equilibrium in developing countries.

In closing, this study creates interest among scholars, policymakers, and investors as it matches the development of finance with that of economic growth and globalization, as well as the provision of impactful policies that would enable robust and sustainable development of the financial sector.

LITERATURE REVIEW

Many factors have played a role in financial development, such as shifting money abroad, accelerating business activity, and making employment and trade easier. Thanks to globalization and growing economies, BRIC nations such as Brazil, Russia, India, China, and South Africa have made various achievements in their finances, although how successful they were depended on their own strategies and external factors.

Globalization and Financial Development

There are many authors who argue that BRICS countries have gained access to more global investment, increased their trading, and adopted new technologies, all of which have helped their finances (Zafar et al. 2022). Their integration made financial services and the stability of financial markets better for the BRIC countries.

On the other hand, not every change caused by globalization is helpful. Globalization, as described by Batten et al. (2021), brings more markets into development, which in turn introduces developing countries to risks from the global financial cycle and economic shocks.

The BRICS nations are particularly at risk because their weak regulation can lead to greater exposure when global financial trouble occurs. Asongu and Nwachukwu (2023) also believe that globalisation may help the financial system grow, but it also requires special arrangements to avoid problems such as capital leaving the country and economic instability. They suggest that improving governance in BRICS countries will ensure that the financial development processes from globalization are well-managed.

The Relationship between Economic Growth and Financial Development

The BRICS countries' academics have put a lot of thought into how financial development impacts economic growth. Raza et al. (2023) report that studies have demonstrated that good financial infrastructure increases the movement of money and helps lower transaction costs, which are both beneficial for economic growth. The growth of the economy is leading more people to use financial services, which is driving the sector's growth. They suggest that the BRICS will achieve even faster growth due to the connection between their economies and their financial sectors (2018). The rise in GDPs of China and India has led to financial technology and a larger financial sector, which has improved economic competitiveness.

Even though all BRICS countries are economically growing, their financial development does not always follow the same pattern. According to them, economic sanctions and challenges in international relations are mostly responsible for Russia's slow growth and the collapse of its banking sector. According to Abdul-Rashid et al. (2020), Brazil and South Africa are now considered places where important economic problems, such as unequal wealth and instability, block progress in finance and the economy. So, it appears that the financial sector can only advance when each country has suitable laws in place. BRICS countries' financial industries and how they interact with globalization and economic development: Do the benefits outweigh the risks?

It would seem that the BRICS nations' finances are complicated, given the combined effects of globalization and economic growth. Financial development, increased capital access, and improved capital market performance may result from combining these two actions, according to the literature. Financial development benefits from more global connectivity, greater competition, and easier access to international markets, and improved

methods of investing abroad (Mishra and Prasad, 2023). As a result of these factors, the financial sector may see technological and monetary shifts that allow it to expand its reach.

On the other hand, Abdul-Latif et al. (2023) bring up the fact that every globalization-economic growth combo does not necessarily lead to positive results. When BRICS countries experience economic growth, there may be issues with the economy's stability if the regulation of the countries is not yet fully established. In their work, the authors stress that no regulation can cause the financial industry's fast development from globalization to pose dangers like asset bubbles and financial crises. So, BRICS nations must design housing finance policies very carefully to avoid undermining their efforts to liberalize their financial sectors

Emerging Challenges and Opportunities

The recent, and very acute, challenges have also emerged for the BRICS countries as they seek to promote financial development within the context of globalization and transformation of infection, the COVID-19 pandemic, followed by geopolitical circumstances. BRICS countries reassessed their economic and financial policies due to the COVID pandemic, which highlighted the weaknesses in global supply chains and financial markets. Mishra and Kumar (2023) propose that the economic consequences of the pandemic heightened the urgency for BRICS countries to develop resilient financial structures in the international order. With geopolitical tensions taking center stage along with transformations in global trade, these emerging economies face even greater threats to financial stability.

Overall, the literature suggests that while globalization and economic growth have decent chances of facilitating financial development in BRICS countries, this will not happen automatically but depends on several conditions: the quality of institutions, the strength of regulation, and the stability of the economy. The same would apply to a globalizing world, as is the case with the BRICS countries, which are to be further incorporated into the world economy, making policy choices that capture the positives of globalization, at the same time neutralizing the negatives for proper and sustainable financial development.

RESEARCH FRAMEWORK

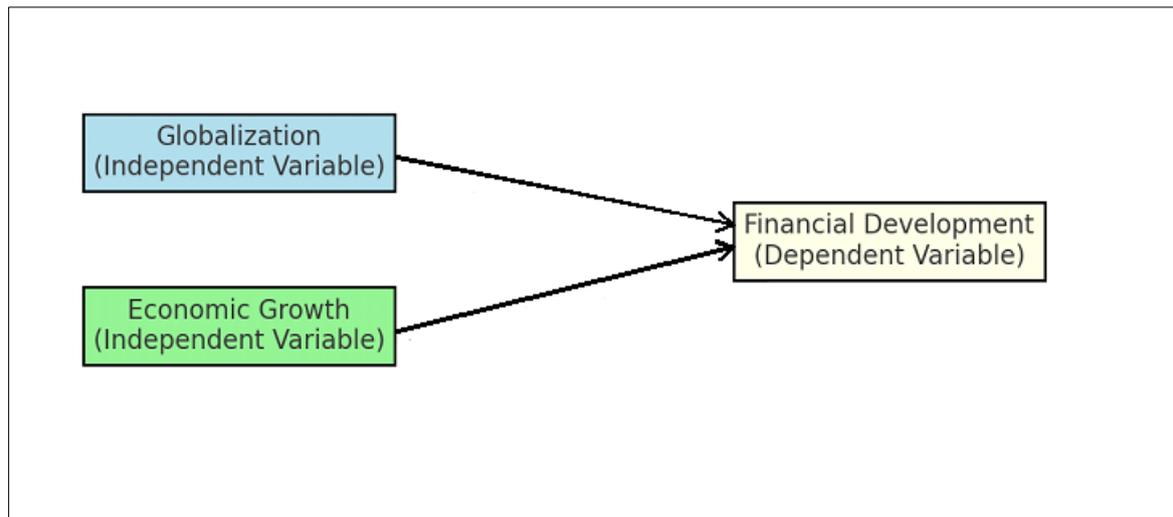


Figure 1: Research Framework of the study

HYPOTHESES

H0 Financial development in BRICS countries is not impacted by globalization.

H1: Globalization influences financial development in BRICS countries.

H0: Economic growth does not affect financial development in BRICS countries.

H2: Financial progress in BRICS countries is affected by economic growth.

METHODOLOGY

Model Specification

Analyses using the panel data model are done to find out the relation between globalization, economic growth, and some measures of financial development among BRICS countries. As you would expect, such assets create a strong base for economic development, as seen in the case of domestic credit to the private sector and the breadth of financial markets. As well, improved standards for institutions and rising globalization, along with boosted GDP and open trade, have helped the finances of countries in the BRICS bloc (Anwar et al., 2020; Fernández et al., 2018a).

Below is the model of the study.

$$FD_{i,t} = (GI, GDP, TO, INF, GS) \quad (1)$$

This functional form is thus linear in terms of econometric models such as:

$$FD_{i,t} = B_0 + B_1 GI_{i,t} + B_2 GDP_{i,t} + B_3 TO_{i,t} + B_4 INF_{i,t} + B_5 GS_{i,t} + E_{i,t} \quad (2)$$

FD is financial development in the country at the given time, and GI stands for globalization index. GDP represents real GDP divided by the population at that time. TO is the amount of trade openness is calculated by dividing total imports and exports by a nation's GDP. INF is Inflation used as an indicator of a stable macro economy, and the GS is government spending. $E_{i,t}$ is the term of error. Parameter i represents the different cross-section units (countries), and parameter t is the date between 1994 and 2023.

DATA AND VARIABLES

We utilize panel data via the BRICS nations, South Africa, Brazil, Russia, India, and China, covering 1994–2023. The data for all of the variables came from well-known sources, such as the International Finance Corporation and the KOF Globalization Index.

Dependent Variable:

In this study, the development of the finances (FD) indicator is treated as a controlled variable, which makes it a Government loan to businesses, and a more robust financial market are two more factors that can boost FD. The financial industry has become more sophisticated as FD rises.

Independent Variables:

By combining commercial, social, and political metrics, the KOF Globalization Index illustrates globalization. By basing GDP per capita measurements on a constant \$US rate beginning in 2010, the growth rates can be compared in real terms.

Control Variables:

TO is measured by dividing total trade by a nation's GDP. Inflation shows the year-over-year change in the consumer price index and is a sign of how stable and reliable the economy is. GS is found by looking at the overall government expenditure and converting it to a percent of the country's GDP.

EMPIRICAL METHODOLOGY

Cross-Sectional Dependence (CD)

Pesaran CD is used to assess the cross-sectional reliance of BRICS nations in order to analyse the collaboration of BRICS countries as well as the global market. This test

illustrates the potential influence of a country's shocks on other nations. Eliminating CD is necessary for accurate estimations; so, it should be addressed before econometric analysis (Pesaran, 2004).

Unit Root Tests

By using the Im-Pesaran-Shin (IPS) and Levin-Lin-Chu (LLC) unit root evaluations, we can validate stationarity and prevent potentially illogical results from regression analysis. These studies determine whether the variables need to be differentiated by checking their levels. It is important to be cautious while doing unit root analysis on data that contains nations and decades from different time periods.

Cointegration Analysis

Long-term analysis of relationships was performed by conducting residual-based cointegration tests before other methods. Johansen Fisher Panel Cointegration is used to evaluate whether the panel shows a long-term relationship. This test adds further support for the existence of cointegration. They are useful because they measure whether any variables in the group have a lasting impact on the one we are studying.

Long-Run Estimators

We use FMOLS and DOLS for the long-run estimation. The Fully Modified Ordinary Least Squares (FMOLS) is used to help forecasts get more accurate over time; the model assumes serial correlation and endogeneity. The Dynamic Ordinary Least Squares (DOLS): It is possible to get unbiased estimates with small samples by setting the criteria of correlated and jointly determined regressors. This allows one to quantify the magnitude and trend of the effects of factors like globalisation and economic expansion on monetary development.

Panel Granger Non-Causality Test

The study looks for correlations between variables by using the Dumitrescu-Hurlin Panel Granger causality. Test. The short-term goal is to determine if one variable is a Granger cause for a different one. Valid findings may be obtained even with limited samples since it tackles the issue of panel unit non-uniformity. Reliable findings on the link between globalisation, economic growth, and financial progress in the BRICS nations are provided by the research, which is made possible by legitimate econometric methodologies.

RESULTS AND DISCUSSIONS

This chapter presents the findings and their significance in light of the study objectives and hypotheses, as derived from the data analysis. A data descriptive profile, model validation, hypothesis testing, and a summary table assessing the hypotheses are the four main types of outcomes.

Descriptive Profile of the Data

Financial development, national income (GDP), and globalisation (GLB) are the most important factors in this study, which are discussed in this part. Descriptive statistics provide light on key features of these variables, including their distributions, clustering patterns, and means.

Table 1: Descriptive Statistics

Statistic	FD	GDP	GLB
Mean	76.34	3.74	60.39
Median	59.58	4.06	62.00
Maximum	182.87	13.64	72.00
Minimum	16.84	-7.83	38.00
Std. Dev.	42.07	3.91	8.42
Skewness	0.48	-0.31	-0.79
Kurtosis	2.03	3.27	2.83
Jarque-Bera (JB)	10.30	2.48	14.13
JB p-value	0.0058	0.2899	0.0009
Observations	133	133	133

The mean and the standard deviation are the greatest for FD relative to the other variables, which means that there is a greater divergence in the data from different countries within different years. The range of GDP is from -7.83 to 13.64; therefore, a high rate of economic activity is coupled with a low rate of economic activity. GLB is more stable with a narrower range. FD and GLB are not normally distributed (JB $p < 0.05$), while GDP seems to be normally distributed.

Correlation Analysis

This shows how the variables are related to one another. FD has proven a weak correlation with GDP but a moderate correlation with GLB. GDP and GLB have a weak negative correlation. The suitability of the model was examined with a number of unit root tests and cointegration tests.

Table 2: Results of Correlation Matrix

	FD	GDP	GLB
FD	1	0.124	0.210
GDP	0.124	1	-0.236
GLB	0.210	-0.236	1

Panel Unit Root Test Results

Stability is not seen at the FD or GDP levels, but both achieve stability after being first differenced. Since GLB is found not to move over time or its differences, it could be a stationary variable of either order.

Table 3 Unit Root Summary

Variable	Level Stationarity	First Difference Stationarity	Decision
FD	Mixed (IPS $p = 0.0086$)	Strong (All $p < 0.01$)	I(1)
GDP	Mixed (IPS $p = 0.0005$)	Strong (All $p < 0.01$)	I(1)
GLB	Strong (All $p < 0.01$)	Strong (All $p < 0.01$)	I(0)/I(1)

Panel Cointegration Test

To see if there is a stable relationship over time, we performed a Johansen Fisher test on the panel dataset.

Table 4 Johansen Fisher Panel Cointegration Results

Hypothesis	Trace Test Stat.	Prob.	Max-Eigen Stat.	Prob.
None	60.91	0.0000	27.24	0.0024
At most 1	46.51	0.0000	28.06	0.0018
At most 2	43.82	0.0000	43.82	0.0000

The results show that FD, GDP, and GLB are all related in the long term. As a result, using FMOLS and DOLS to predict the effects in the long term is a good idea.

Hypotheses Testing

Two long-run estimation approaches, Full Modified Ordinary Least Squares (FMOLS) and Dynamic Ordinary The smallest Squares (DOLS), were used to assess the hypotheses.

FMOLS Results

Table 5 FMOLS Estimation (Dependent Variable: FD)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP	1.99	0.54	3.69	0.0003
GLB	1.58	0.24	6.48	0.0000
R-squared	0.825			
Adjusted R-squared	0.821			

Financial Development (FD) is positively and significantly affected by both GDP and GLB. The dependent variable explains 82.5% of the changes in FD.

DOLS Results

Table 6 DOLS Estimation (Dependent Variable: FD)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP	2.53	0.70	3.60	0.0005
GLB	1.82	0.32	5.61	0.0000
R-squared	0.870			
Adjusted R-squared	0.857			

Gross domestic product (GDP) significantly and positively affects financial development (FD) according to both the FMOLS and DOLS models: A long-term correlation of roughly 1.5 units of monetary growth tends to accompany a one-unit gain in GDP (GDP coefficient: 1.99, p-value: 0.0003), according to the FMOLS model, all other variables being equal. The very high DOLS coefficient of 2.53 with a p-value of 0.0005 confirms the finding's resilience. These findings provide credence to the idea that growing markets and financial organisations accompany robust economies. Since a nation's GDP grows, so does the demand for monetary services, since more disposable income means more people can save and invest. This view is consistent with conventional economic wisdom and the results of many empirical investigations that have shown the importance of finance to economic growth (e.g., King & Levine, 1993; Raza et al., 2023). Especially for countries aiming to fortify their financial systems, the tremendous size of this coefficient demonstrates that GDP is economically important.

The relationships of globalization (GLB) with financial development remain positive, statistically significant, and strong in both models. The globalization coefficient in the FMOLS estimation is 1.58, with a p-value <0.0001. The value increases even further to 1.82 in the DOLS estimation, and remains highly significant ($p < 0.0001$). The analytic results suggest that an increase of one point in the globalization level leads to approximately a 1.6 to 1.8 unit increase in financial development. This means countries more integrated globally, be it through trade and capital interaction, technological contact, or even financial admission, tend to have more advanced and deeper financial institutions. These corroborate the other findings from Abdul-Rashid et al. (2020) and Batten et al. (2021), where they argue that

globalization brings foreign expertise, investment, and competition that fuels innovation in the financial market. The other strong and consistent results with high multiplier respondent measures also imply that globalization tends to act as a booster, especially for those countries that have some basic financial system already established.

Overall Model Performance and Significance

- The value of R-squared for FMOLS is 0.825, which indicates that when combined, GDP and GLB account for 82.5% of the variation in financial development.
- In DOLS, the R-squared value rises to 0.870, which indicates that 87% of the variance in FD is captured by the model.

All the models created have shown considerable changes that rely heavily on GDP movement and globalization, which are greatly dependent on economic performance, as evident by the high R² measurements. In both models, it was also noticed that there was a minimum standard error and a maximum t-statistic, depicting that the estimates in both models are precise, stable, and enhance the credibility of the findings.

HYPOTHESES ASSESSMENT SUMMARY

Table 7: Summary of Hypotheses Testing

Hypothesis	Method	Result	Supported
H1: GDP has a significant effect on FD	FMOLS	$\beta = 1.99, p < 0.01$	Yes
	DOLS	$\beta = 2.53, p < 0.01$	Yes
H2: GLB has a significant effect on FD	FMOLS	$\beta = 1.58, p < 0.01$	Yes
	DOLS	$\beta = 1.82, p < 0.01$	Yes

DISCUSSION OF FINDINGS

In this section, we compare the literature with the actual results, focusing on the effects of GDP, GLB, and FD (financial development). Recent studies' conclusions, as well as theoretical presumptions, are consistent with the tendencies in developing and emerging market economies.

Economic Growth and Financial Development

A robust and statistically significant relationship between GDP and FD is shown by both the FMOLS and DOLS estimations. This relationship is often encapsulated by the gap developing correlations with FD. This is the essence of finance-led growth theory, according to which governments seek to diversify their economic activities in order to enhance their economies (King & Levine, 1993; Schumpeter, 1934). New markets and banks will emerge to fulfil a higher need for financial services, savings rates, and capital accumulation that comes with a growing economy (Friedman & Schwartz, 1963; Greenwood & Jovanovic, 1990; Beck & Levine, 2004).

Modern statistics from the developing world also lend credence to such claims. According to a comprehensive research by Raza et al. (2023), the most crucial factor for monetary growth in low- to middle-income countries is economic growth. Kutan et al. (2018) found a similar pattern, demonstrating that GDP and financial growth in BRICS states are continuously causal, meaning they mutually assist one another. The factors we calculated (FMOLS = 1.99; DOLS = 2.53) indicate a much stronger impact than found in previous studies, but the direction and strength of the association are the same. It is most likely because during the global financial crisis, changes in developing countries' financial systems were mostly driven by economic reasons.

Globalization and Financial Development

In accordance with previous studies, the FMOLS and DOLS models point out that globalisation greatly contributes to higher financial growth. This finding matches research that indicates globalisation helps financial growth by creating more competition within the country, attracting foreign funds, and encouraging new financial ideas (Dreher, 2006; Claessens & Laeven, 2003). This finding is similar to those of Abdul-Rashid et al. (2020), who found that globalisation allows emerging countries to use international markets and technology more freely, which helps improve their finances. Anwar et al. (2020) found in their study of developing countries that globalisation through trade and capital account liberalisation is pushing financial development.

How globalisation shapes Africa's financial growth depends on how strong its institutions are, say recent studies (Asongu & Nwachukwu, 2023). Even without considering institutions, the research found that economic openness still seems to influence the financial sector's growth. The financial effects of globalisation are felt differently by countries, and

those with better regulations experience them more clearly, according to Batten et al. (2021). All the findings were similar, suggesting that globalisation benefits the average panel nation, no matter how strong its institutions, even though we did not separate by regulatory quality.

Summary of Theoretical and Empirical Alignment

The results of this study are in line with both established economic theories and modern findings from data. Even now, economic growth and globalisation are the main long-term signs of financial development, much as they were in the past. The results show that these connections are still present in today's highly integrated and economically developing world, and they confirm earlier research (e.g., Levin, 2005; Ang, 2008; Fernandez et al, 2018). It is very important for developing countries to do this if they want to make use of globalisation and economic growth by building a strong financial system, giving more people access to finance, and boosting their private sector.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Between 1994 and 2023, this study looked at how FD, GDP, and GLB are connected in a range of emerging nations. To perform the analysis, panel data frames were used along with unit root tests, Johansen-Fisher panel cointegration, and long-run estimators, FMOLS and DOLS. The results reveal that the variables under study are strongly connected at the macroeconomic level. GDP and GLB are the main factors that positively and significantly influence financial development in developing countries. The findings support the theory proposed by King and Levine (1993) and then by Levine (2005), which says that a country's financial system deepens as its economy grows. As shown by Dreher (2006) and Abdul-Rashid et al. (2020), these findings confirm that globalisation has boosted financial conditions through FDI, cross-border banking, and international trade.

It is also important for policymakers to understand that the cointegration findings show the three variables are in a steady and lasting equilibrium. This result supports the argument that improving financial institutions should focus on globalisation and long-term economic growth. The authors add to the body of research that demonstrates the key role of economic liberalism in shaping today's financial systems, mainly for developing and emerging nations (Raza et al., 2023; Batten et al., 2021). Researchers discovered that economies with faster growth and stronger ties with the world tend to have better and more

inclusive financial sectors. This finding is consistent with traditional economic theory and also reflects reality in Southeast Asia, Sub-Saharan Africa, and the BRICS countries.

Recommendations

Based on the research, this study offers the following advice to policymakers, financial institutions, and future researchers:

1. When productivity rises, financial development also grows. Hence, policymakers should pay attention to economic growth by upgrading public infrastructure, encouraging different industries, and supporting small and medium enterprises (SMEs) (Beck & Levine, 2004; Raza et al., 2023).
2. In order to attract more foreign capital and services, the government should increase its trade, liberalize transactions related to capital, and improve the rules for foreign investment (Zafar et al., 2022; Anwar et al., 2020).
3. Digital technologies help financial institutions give cross-border clients access to credit more quickly, which increases financial inclusion (Mishra & Kumar, 2023; Asongu & Nwachukwu, 2023).
4. Because globalization has many risks, the financial markets depend on strong oversight. This means tracking changes in capital movements and making sure that compliance standards are followed (Claessens & Laeven, 2003; Hassan et al., 2022).
5. Further studies should examine short-term changes using panel VAR and other advanced methods to find out how institutional quality, political stability, and digital globalization affect the link between macroeconomics and financial development (Kutan et al., 2018; Svirydzenka, 2016).

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