GLOBALIZATION AND INTERNATIONAL COOPERATION - A THEORETICAL APPROACH OF FINANCIAL MARKETS AND MACROECONOMIC GROWTH, IN THE CONTEXT OF THE WORLD CRISIS

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Abstract: *The last half century has been characterized by increased economic and financial integration. In the counterparty of the benefits brought by this development, financial markets know new challenges and disadvantages, and interdependence can be an inconvenience in periods of shock or imbalance, in which the same comes more visible. The paper aims to approach a theoretical-conceptual point of view of the correlation between the financial markets and economic development, as well as the interconnectivity of the international financial markets, concatenating representative specialized literature and studying the representative econometric methods for estimating the degree of interdependence. The study's methodology consists in scientific observation. In order to accomplish an in-depth study, the scientific research will use a bibliographical documentation, as well as direct documentation. The research aims to identify the cause-effect relationship between the financial markets and macroeconomic growth. The approach of recent years, under the influence of the experience of the financial crisis of 2008-2009, has underlined the fact that the economic evolution of a single state, a region and, even the evolution of the global economy, are strongly influenced by the stability of financial markets. Though, this paper will conclude that, even from the theoretical and econometrical point of view, the cause-effect relationship is an interchangeable phenomenon, the financial market being significantly affected by the socio-economic environment, this conclusion being supported by the health crisis of 2020 itself.*

Key words: Financial market, economic growth, integrated financial markets, cause-effect relationship.

JEL Classification Codes : F62, F63, G10

1. INTRODUCTION

In recent decades, human society has been converging on globalization. Since the post-war historical and social considerations, which resulted in new frontiers, not only political, military and demographic, but also social and economic, the concept of globalization has become the pillar of connection and the permanent aspiration of developed and developing countries. So, if in the 1970s, an interconnected global society was seen as the future order and development, in recent years globalization is far from being a pioneer, being considered as the foundation of social, economic and technological development. Increasing political, economic and financial interconnectivity between states has intensified an enhancement of the economic growth, developing markets with common interests and, at the same time, a mutual dependence of economies.

In this context, the economic growth of states and international cooperation have become concepts that do not function as a cause-and-effect process, but as a simultaneous action.

The last half century has been characterized by increased economic and financial integration, being associated with increased international relations. However, contrary to the

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obvious benefits of this development, financial markets are experiencing new challenges and also having disadvantages. Their functionality and development depend more than ever on the stability of the environment in which they function and the interdependence can be an inconvenience during periods of shock or imbalance, in which it becomes more visible.

2. THE RELATIONSHIP BETWEEN THE EVOLUTION OF FINANCIAL MARKETS AND THE MACROECONOMIC

This study is based on the assumption unanimously accepted by the scientific environment that the financial markets are in a permanent relationship with macroeconomic developments. Through the increasing phenomenon of internationalization, the phenomenon of interdependence goes beyond demographic boundaries, creating a mechanism of global interdependence, observing regions where the addiction is stronger, identifying mutual economic interests or better compatibility between financial markets.

In his classic analysis of capitalist society, Joseph A. Schumpeter stated for the first time in 1911 that the economy is a natural mechanism of self-regulation, when not disturbed by social interference, and the services provided by financial intermediaries are essential for economic growth.

Robert King and Ross Levine (1993) studied data from 80 countries to compare the relationship between financial development and long-term economic growth. The study covered the years 1960-1989, following financial fluctuations in parallel with the growth rate of the Gross Domestic Product index, the rate of capital accumulation and the rate of improvement of economic efficiency. King and Levine found that higher levels of financial development are positively associated with higher rates of economic growth, accumulation of physical capital and efficiency improvements. In addition, they conclude that financial development is a good tool for estimating long-term growth over periods of 10-30 years. Law and Singh (2013) show that there is a threshold of the relationship between the financial market and economic growth, which correlates to a limit; financial development is positive for economic growth, but once that limit is exceeded, financial development does not translate into economic growth. Prats and Sandoval (2015) conclude that in theoretical terms, the importance of the financial system in a developed economy can be affirmed, and financial development can affect the functions of financial markets and economic growth. At the same time, the study based on 6 Eastern European countries (Bulgaria, Slovakia, Hungary, Poland, Czech Republic and Romania), used the Granger causation test and proved links between value market growth variables and economic growth variables.

In the last decade, scientific research supports the theory of close connections and causality between financial market developments and macroeconomic indicators, but there are limitations of this correlation.

The literature draws attention to the phenomenon of contingent of financial markets and the risks to which they are subjected, creating an interdependence between the two mechanisms which is as beneficial to moments of stability as dangerous to periods of crisis. This is also confirmed by Liljeblom and Senius, who concluded from an analysis using econometric methods GARCH and VAR that the relationship between stock market volatility and macroeconomic factors is closely linked.

In the studies carried out, a demarcation from researchers is observed in the approach to highly developed financial markets and emerging countries. Horváth, Lyócsa and Bauhöhl (2018) show that there is a constant financial contagion from the US stock market to the EEC markets, but it is noted that the degree of contagion is stronger in times of crisis, demonstrating a sensitivity of less developed markets to unexpected negative events.

The literature points out that the degree of financial contagion and interdependencies between stock markets increase significantly during periods of financial convulsion. Moreover, the shock propagation process has significant implications for financial stability, optimization of

international portfolios, risk management and financial operations evaluation. Kaissar (2020), in the context of the current crisis, which makes the relationship of the financial environment with the macroeconomic context even more visible, concludes in the study of the financial market of the United States that it is useful to take into account that the burden of the value market is to convey consensus around companies, not to account for the political and social environment, with the precise aim of supporting stability and reducing the negative effects caused by the external factors.

Mitchell and Mulherin (1994) found a closely interlinked relationship between the information available to the general public and the stock market activity, stressing, however, that this link and the determination of volatility due to these impacts is difficult to predict.

Errunza and Hogan explored the macroeconomic fundamentals affecting the volatility of the European capital market. They studied whether fundamental macroeconomic changes can cause the volatility of the European stock market. They found that, unlike previous studies on the United States, in many cases the temporal amplitudes of the European stock market have been particularly influenced by macroeconomic indicators and monetary policies. In the same study it is concluded that capital market volatility forecasts are of significant importance for decisions relating to capital budgeting.

Bekaert and Harvey (2003) conducted a study that linked macroeconomic fundamentals to stock market movements and explained their effect on foreign portfolio volatility. In this research, the authors took into consideration the evolution of capital uncertainty and investment performance in emerging markets and the impact of liberalization on the exchange rate. They have proposed paradoxical results, which show that capital markets are less volatile in developed, integrated economies than in emerging economies. They also contradict the argument that foreign inflows increase exchange rate fluctuations, which ultimately has an effect on the depreciation of money in the host country. The paper shows that the capital market is also affected by price fluctuations and causes changes in the price of securities.

The securities market facilitates the internationalization of an economy by connecting it with the rest of the world. This link helps through the inflow of capital in the form of portfolio investments. Furthermore, an efficient performance of the domestic stock market is the basis for a high return on domestic corporate market, through which capital is mobilized on the international market (Chittedi, 2020). This process determines the national economy of that state being exposed to international competition, beneficial for the efficiency of those involved in the process. However, there is also the possibility that the financial market could prevent the flow of capital, opting for investment opportunities in the domestic economy. Market size is a significant index, given that the level of savings mobilization and risk diversification depends on this indicator. The size of a stock market is represented by the total capitalization of the market at a time or can be calculated over a time interval by an average of the recorded values. There is also a proportionality between the size of the market and the macroeconomic dimension of a country, which is why the reporting index in most research studies is Gross Domestic Product, as the ratio between the capitalization of the financial market and GDP. As regards the financial market, the number of companies, the volume of transactions and the representativeness of listed companies on the stock exchange may be indicators of quantifying the size of the stock market in each period, but in a simplistic calculation, given that its evolution and volatility involves a complex mechanism of internal and external vectors.

3. INTEGRATION OF FINANCIAL MARKETS

Financial integration is the process by which financial markets relate to each other. The phenomenon of the relationship of financial markets consists in the exchange of information

between financial institutions, in exchange for new technologies, generated in the acquisition of funds on international capital markets, the agreed of good practices between financial institutions, the participation of investors in international markets, the transit of innovative financial products towards their commercialization on international capital markets. Financial integration also includes rapid modeling of newly designed financial products between institutions of different economies. For efficient integration, cooperation between the central banks of the states is essential, with partnerships between them leading to the phenomenon of regionalization of financial markets and facilitating the overcoming of the inconveniences generated by the fast changes in the economic developments. The fast advances in information technology that have taken place over the past decade have made it easier than ever to invest globally. As a result, competition for global capital has increased and there is now a trend towards strengthening stock markets, having the purpose of creating larger and more attractive trading platforms. Boamah analyze the regionalization and integration of financial markets belonging to emerging countries, concluding in research that emerging markets respond similarly to global common events, but demonstrate a different response to events that have an impact to emerging markets. Chittedi (2020) studies the phenomenon of integration into an emerging market such as India, analyzing the process of integrating financial markets, into a study compared to the world's developed economies, bringing into question on the one hand the profitability that a diversity of the portfolio confers, but also the degree of risk to which integrated markets are exposed. However, market vulnerabilities to possible periods of crisis are a risk taken by the market mechanism, even as the globalization of financial systems and the fast exchange of information increase exponentially and increase risk level. The decision to assume is justified in terms of the benefits that financial integration produces for the profitability of the stock market and, therefore, for the whole economy. Thus, emerging countries tend to diversify their portfolios by adhering to interest markets, with the degree of development and aspiration towards a developed economy dependent on the level of integration they are willing to assume.

From an operational point of view, a number of measures are identified to generate coherent financial integration. These include: reducing the number of procedures for drawing up public tender prospectuses and simplifying them, implementing securitized financial products, identifying high standards on processes, legal predictability and comparability between securitization instruments, through a higher degree of product standardization, adopting standardized criteria on the creditworthiness of small and medium-sized enterprises, clarifying the legal and supervisory regime on private placements.

4. STOCK MARKET MERGERS

Mergers on the stock market concatenate a lot of buyers and sellers trading, which reduces trading costs. Direct costs may decrease if intermediaries pass on possible gains (e.g. due to the scale effects of common trading and clearing systems) from merger to investors to lower trading fees. Indirect costs can be reduced if a clearing system makes trading easier.

The literature addresses the theme of financial markets fusion concluding differently. Khan and Vieito deals with the phenomenon of the merger of the Portuguese stock exchange with Euronext, concluding different results depending on the research method used. Khan and Vieito argue from research that the process is beneficial, but the amplitude of the positive effect is not particularly effective. Pagano and Padilla points out in their study that, amplifying the integration process of the Euronext merger, the fact that this process has generated the rationalization of operations, the reduction of direct and indirect costs for investors, as well as a significant increase in liquidity, both in volume and as supply margin.

Price alternations are a component that determines the volatility of related markets. By estimating the volatility of stock prices one can estimate market volatility, a theory studied by Andersen suggests that the study of sudden changes that are excluded from smooth movements can substantially improve the forecast of exchange rate volatility and the capital index yields. Hellström studies the energy market of the Nordic countries, states that the integration of these markets has influenced the evolution of the price in the commercial market, in the sense that it has reduced the frequency of sudden changes.

Lee analyzes the United States stock markets, concluding that they are vulnerable, at a high speed of response to the release of macroeconomic news and information, such as Fed ads, wage news or unemployment, at which point the S&P 500 market index has undergone otherwise unjustifiable changes. In addition to macroeconomic information, Lee notes that price jumping is related to the dissemination of company-specific information, such as analyst recommendations or dividend status. Andersen notes that macroeconomic news announcements cause spontaneous changes in the foreign exchange market and the bond market, which in turn lead to changes in the stock index.

5. CONCLUSIONS

Globalization and the phenomenon of integration of financial markets remains a subject of permanent interest to the scientific environment. Even if the phenomenon of internationalization of financial markets is not a new one, its evolution is constantly changing. The literature adapts perpetually to reality, to markets in constant transformation, by adapting new methods and processes of integration, which seeks the beneficial balance between the risks assumed and profitability. Both the economic and financial environment and in-depth research studies prove an interdependence between the stock market and macroeconomic decisions, but the causality and predictability of the phenomenon is difficult to quantify.

It is noted that the fluctuations of the financial market cause changes in the evolution of macroeconomic indicators and even in the decision-making at the level of fiscal policies, but the interdependence is noticed as being in both directions. Thus, the economic evolution of a state, a region and, as seen in the years 2008-2009, the very evolution of the global economy is strongly influenced by the stability level of financial markets. In reciprocity, we can exemplify by the recent health crisis of 2020, which has led to substantial changes in fiscal policies and the evolution of macroeconomic indices, for individual states, but also at regional and global levels, changes that have had an immediate impact on stock market indices. It should be observed that, however, the reaction time, the level of volatility and the medium and long-term impact of these factors influencing the economic environment are different; the ability of the stock markets to rebound and the repercussions on macroeconomic indices are difficult to predict. The literature and development of new econometric models support the business environment, in a mutual interest of adapt to the real requirements of the market.

From the study carried out above we conclude that the process of globalization has become a fundamental of financial mechanisms, the economies of states being dependent on the level of global and regional integration. In the recent years, however, there has been a trend towards regionalization of financial markets and the delimitation of global interest poles, a phenomenon that the literature considers to be normal, being part of the cyclicality of the evolutionary process. The experience of the Covid-19 crisis once again demonstrates interdependency between the financial markets and macroeconomicc developments, drawing an alarm signal to the financial environment about the risks assumed on the stock market and on the balance between them and profitability. Moments of crisis like this also remind us of the risks that financial integration and economic globalisation implies and which are almost forgotten in times

of economic development. These are the reasons why the scientific environment and the literature recognise the benefits of economic globalization and financial integration, recognising their benefits in achieving well-being, but encourage the participant to caution.

As a final conclusion, we can appreciate that the integration of financial markets and international cooperation bring more benefits than disadvantages, as long as the mechanisms are properly regulated and the participants act with maturity and caution during periods of economic stability. The cyclicality of the evolution of financial markets must also be accepted, being an inevitable phenomenon, but the degree of the impact during crises depends on the ability of the markets to integrally cooperate for self-recovery.

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