Does Globalization Promote Financial Integration in South Asian Economies? Unveiling the Role of Monetary and Fiscal Performance in Internationalization

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Does Globalization Promote Financial Integration in South Asian Economies? Unveiling the Role of Monetary and Fiscal Performance in Internationalization

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Abstract
Presently, monitoring and analyzing financial integration has become a key function and requirement of the financial regulatory bodies and central banks of the countries. It has also been observed that financial integration is important to make the financial system streamlined and efficient which is eventually used to make monetary policies and to judge a country's financial performance. Financial integration also highlights disruption in the financial system of the country if it does not work properly. This study has examined the impact of globalization on financial integration in the case of South Asian countries from 1996 to 2020. The selected South Asian countries are Bangladesh, India, Nepal, Pakistan, and Sri Lanka. Financial integration is selected as the dependent variable, whereas political instability, globalization, fiscal performance, monetary performance, and economic misery are selected as explanatory variables. PP-FC, ADF-FC, IP&S, and LLC unit root tests have been used to check the stationarity of the variables. Panel least squares and fixed-effect model have been used for examining the dependence of financial integration on selected explanatory variables. The outcomes of unit root tests show that there is the same order of integration among the selected variables of the model i.e. first difference. The results show that level of political instability has a negative and insignificant impact on financial integration. The outcome shows that monetary performance, globalization, and economic misery have positive and significant impacts on financial integration. Fiscal performance has a negative and significant impact on financial integration. Based on the results, it suggested that South countries should make stable monetary and fiscal performance with a rise in globalization to raise financial integration. Moreover, political instability and economic misery should be discouraged for higher financial integration.

Keywords: globalization, financial integration, political instability, monetary performance, fiscal performance, economic misery
JEL classification: F60, F36, F50, O23,

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1. INTRODUCTION

After the emergence of the European Union, the idea of socioeconomic, political, and financial integration has got much importance. Simply, financial integration is the procedure through which financial markets among nations are connected. More comprehensively, financial integration removes the barriers related to portfolio investment based on equity and debt, foreign direct investment, bank credit flows, and inter-state payment systems (Eyraud et al., 2017). Recently, it has been observed that with the increased degree of doing international business, financial integration has been the most prominent area of research for many financial experts (Vo and Daly, 2007). Financial integration provides help to the economies in many ways globally and extended research and implementation. With rising financial integration, the financial markets of the world are interconnected. However, few researchers shed light to understand the process of international financial integration and international financial process which in return provide in-depth benefits to the overall economy of the countries (Shirani and Tayebi, 2009; Obstfeld, 1998).

Financial integration is the process through which financial markets between two or more countries are connected (Borensztein et al., 1998; Prasad et al., 2003; Kose et al., 2007; Kose et al., 2010). Financial integration is playing a key role to remove barriers in capital flows between countries, which include direct investment (FDI), portfolio investment (equity and debt), inter-state payment systems, and bank credit flows between countries. With the loss of barriers to capital flows, the flow of capital in each country that is mutually integrated would become highly dynamic. In the macroeconomic context, the level of economic development, such as GDP per capita becomes an essential factor in explaining the tendency of domestic residents to be involved in asset trading between countries (Alotaibi and Mishra, 2014). However, the interference of risk factors such as inflation and high exchange rate volatility could limit investors to invest in the domestic market and disrupt international financial integration (Hardouvelis, 2002; Obstfeld, 1999).

Financial integration in Europe began several decades ago, in 1957, with the Treaty of Rome, which already contained the basic principles for the creation of a single European market for financial services. The adoption of the common currency in 1999 was a major impetus for further financial integration in the European Union (Liebscher et al., 2007). With all the theoretical and empirical evidence, the issue of the Euro undoubtedly offered a strong motivation for the procedure because a single currency is an important component of a common financial system and a strong promoter of financial integration (Obstfeld 1998; Jikang and Xinhui, 2004; Kose et al., 2010).

Now, the world has become a global village, and the financial markets of the world are more integrated (Audi et al., 2022; Audi et al., 2021). Globalization is a process that describes how trade and advanced technology have made the world a more connected and interdependent place. Different studies (Lane and Ferretti, 2003; Vo and Daly, 2007; Garali and Othmani, 2015; Bhattacharya et al., 2018; Cheng and Daway 2018) have highlighted different determinants of financial integration. There is hardly any study that examines the role of globalization on financial integration in the case of South Asian countries. Following empirical and theoretical literature (Kuttner, 2001; Piazzesi and Swanson, 2008; Kearns and Rigobon, 2005; Brunnermeier et al., 2008; Debelle et al., 2009; Mishkin, 2009; Kose et al., 2007; Borensztein et al., 1998; Kose et al., 2010; Osada and Saito 2010; Chinn and Ito 2006; Fischer, 2001; Obstfeld, 1998, 2009; Agénor, 2003), this study also links political instability, economic misery, fiscal performance, and monetary performance with financial integration among the South Asian countries.

The remaining article is comprised of the literature review, the model, the econometric methodology, results and discussions, conclusions, and policy suggestions.

2. LITERATURE REVIEW

This section of the thesis is comprised of a literature review, there are various empirical and theoretical studies and we have examined the determinants and measurement of financial integration. But the most relevant and recent studies have been selected as a review of the literature.

The availability of physical capital in the process of production and growth is as necessary as blood for the human body (Ali, 2015), and the lack of physical capital disturbed the route to economic growth (Arora, 2001). Developing countries e.g. South Asian countries are facing the issue of insufficient physical capital. The insufficiency of physical capital can be overcome by different types of injections (Patinkin, 1973; Todaro, 1995) i.e. foreign aid, foreign debt, issuance of currency notes without reserves, and financial integration. Among them, financial integration is the center of this study, the neoclassical theory of economic growth has approved that financial integration has a multiplier impact on economic growth (Solow, 1956; Baumol, 1986; Romer, 1986; Mankiw et al., 1995), as capital flows from capital abundant countries to capital scare countries (Kose et al., 2009; Vinokurov, 2017). Financial integration is the process through which financial markets among countries are interconnected, and the barriers related to portfolio investment based on equity and debt, foreign direct investment, bank credit flows, and inter-state payment systems are removed (Eyraud et al., 2017).

Being the main indicator of economic growth, a sufficient amount of capital is necessary for production. But developing countries have less amount of capital to achieve the required target of economic growth, for this purpose, developing countries rely on developed countries. It is financial integration that enables developing and developed countries to share capital, the best example of this concern is the European Union. Financial integration refers to the reduction of barriers to the movement of capital among countries. So, the scarcity of capital in developing countries can be overcome with the help of capital-abundant developed counties. Although the concept of globalization is not the new one, still it is a debatable issue among policymakers and researchers. Stiglitz (2002) points out that globalization brings mergers among countries of the world, as there is a huge reduction in transportation costs, low communication, trade, knowledge, services, and individual movement barriers. Hence, globalization promotes the integration of world economies, with the same technological processes, cultural arrangements, religious, environments, socioeconomic norms, financial arrangements, and governances (Ghosh, 2016). Now, the world has become a global village, and the financial markets of the world are more integrated. Different studies (Lane and Ferretti, 2003; Vo and Daly, 2007; Garali and Othmani, 2015; Bhattacharya et al., 2018; Cheng and Daway 2018) have highlighted different determinants of financial integration.

Soldatos (1999) examines the political role of Europe to be more integrated into the financial market and appreciates globalization in the European region. The study concludes that globalization has a direct impact on socio-political factors of national policies which define the flow of capital towards globalization which increases or decrease the integration among countries. the study furthermore states that the welfare nations with unsystematic information and policies lead to the concept of equality vs efficiency. Edison (2002) examines the impact of globalization and financial integration on financial development and economic growth. The study shows that there is no relationship between the data retrieved for 57 countries for twenty years. Hence this study shows no evidence and relation between global financial integration on financial development and economic growth. Moshirian (2003) study the impact of globalization and financial market integration. This study emphasizes the deeper impact on international financial stability and international/global security which takes the lead towards globalization. The study shows the proficient opportunities that the systems and procedures have significantly affected the financial market for the organizations. Morgan et al., (2004) explain the deregulations in the banking sector of the United States from 1976 to 1994. The study concludes that the interstate banking cycle got smaller but gets more similar and there are more risk-sharing opportunities and less financial volatility as they seem to converge with a significant impact over the period through financial integration and globalization.

Bieling (2006) examines the brace of border strategies on Economic Monetary Unions (EMU) and its relation with financial integration and international economic governance. The study shows the dominating position of US policies and governance, especially in the field of political issues, slow-moving or stagnant economic position, and international trade imbalances. Therefore, governance

plays a significant role in financial development integration and financial stability. Chambet and Gibson (2008) study the system of the emerging market to check trade openness, financial integration, and unstable economic conditions. The study shows that the countries with a diversified model for their trade openness have less integrated markets whereas the case is vice-versa with the countries that have undiversified trade openness. Furthermore, the study shows that there was a slow market impact on the integration level during the financial crisis of the 1990s but the integration level revives to a better position immediately once the crisis was over.

Lane (2009) examines and investigates the relationship between the Japanese Economic performance on financial integration and globalization. This study establishes the evidence that there is a positive and significant relationship between financial globalization integration with the financial development of an economy. Evans et al., (2008) empirically examine the impact of unstable policies, regulations, and level of convergence on the European Banking system through assets and liability management, cost-effectiveness, and profitability. The study concludes that there is significant evidence for the convergence of the European banking system in the presence of the international banking system and country-level regularization. Kalemli et al., (2008) empirically examine the impact of financial integration on risk-sharing and the role of monetary union. This study finds that financial integration is linked to the significant convergence process in terms of policies of financial institutions and more accelerated economic systems. Fung (2009) finds the relationship between economic progress and financial development to test the selected countries to see whether the economies converge or diverge. The study concludes that there is a positive significant relationship between the countries that earn a middle and high income and they are financially and economically integrated among each other.

Frinjs et al., (2012) study the impact of the global integration system through the stock market and unstable political conditions in the case of global emerging economies. The study concludes that the political crises had a significant impact on the integration level of stock trading in selected countries. Bruno et al., (2012) find out the pattern of international financial integration and convergence process. This study concludes that there is a significant relationship between the money market or capital market and crises of pension funds that occurs in sample OECD countries and G7 countries. This study shows that there is positive convergence between these variables of the study. Adu (2013) examines the impact of financial integration on economic growth by creating equity flow portfolios for Sub-Saharan Africa. The study shows that portfolios based on equity cash flows have a negative relationship with economic growth. Aizenman et al., (2013) critically analyze the relationship between international economic growth and the capital flow from 1990 to 2010. The study finds that before and after the financial crises show very stunning results which shows that before the crises there is no relationship between economic growth and short-term loans whereas it shows a negative relationship after the crises. Claessens and Horen (2015) empirically examine the impact bourn by the international banking system due to the international financial crises. The study concludes that the banks with high investments tend to reduce their investments abroad and reduce their expansion plan after the systemic risk showed a significant impact on their performance. Broner and Ventura (2016) examine the study on rethinking the effects of financial globalization by analyzing the role of foreign and domestic debt and its interaction with the imperfect imposition of domestic debt. This study concludes that the financial system of developed countries has a distinction over the other financial determinants at the initial stage of development.

Didler et al., (2017) comprehensively examine and analyze the impact of financial integration in the East Asian Pacific Region on economic growth and financial development in the financial market. The study shows that the exchange of investment portfolios and inter-region investment creates a strong and significant relationship between the region's integration process which can be seen through different mergers and acquisitions done in the EAP region over the past few years. According Bertola (2017) empirically examines the results on unemployment that occurs because of economic shocks, quality of institutions, and level of integration. The study shows that the state's policies and

regulations are known as policies economic system help the unemployment system significantly impact. The study shows that over the past few decades unemployment shows a very strong bond between unemployment and integration.

Neaime and Gaysset (2018) empirically examine the impact of financial inclusion on economic misery and financial integration stability in the Middle East / North African countries (MENA countries). This research concludes that financial inclusion has no significant impact on poverty or economic misery. Rillo (2018) examines the risks and opportunities that are associated with the process of financial integration in the case of ASEAN economies from 2001 to 2017. The study concludes that the role of financial integration can only get the maximum results if it works on better trade openness policies, free flow of skilled human capital, and better investment opportunities among the countries. Hammudeh et al., (2020) empirically analyze the relationship between economic growth and governance. This study shows that the countries with a higher quality of governance have provided evidence for a higher level of globalization. This study also shows that the countries with a higher level of financial development and more financial stability are found to have a higher impact on globalization.

Xu et al., (2020) empirically examine the determinants of globalization and governance on the growth of the economy in the case of Asian economies. The study concludes that globalization has a significant and positive impact on economic progress. Globalization also has a positive impact on smooth controls, regulations, and policies and also creates a stable political situation in the country. Hasan and Waheed (2020) conducted a panel study to check the impact of globalization on human well-being in the case of South Asian countries excluding Maldives and Afghanistan. This study concludes that foreign direct investment has a positive and significant impact on human well being whereas an increase in free trade shows a negative impact on human well-being. Coeurdacier et al., (2020) check the role of financial integration on economic growth. The study concludes that the countries with higher sovereign risk and less capital have little benefits from integration in the case of emerging countries whereas financial integration is very positive and has a significant impact on the countries with low-risk profiles and with high-efficiency countries. Guru and Yadav (2021) empirically analyze the impact of financial integration on the growth of Asian countries. The study concludes the research-based socio-economic factors of Asian economies only which shows that financial integration has a positive and significant impact on the productivity of economic growth and capital flow of the country.

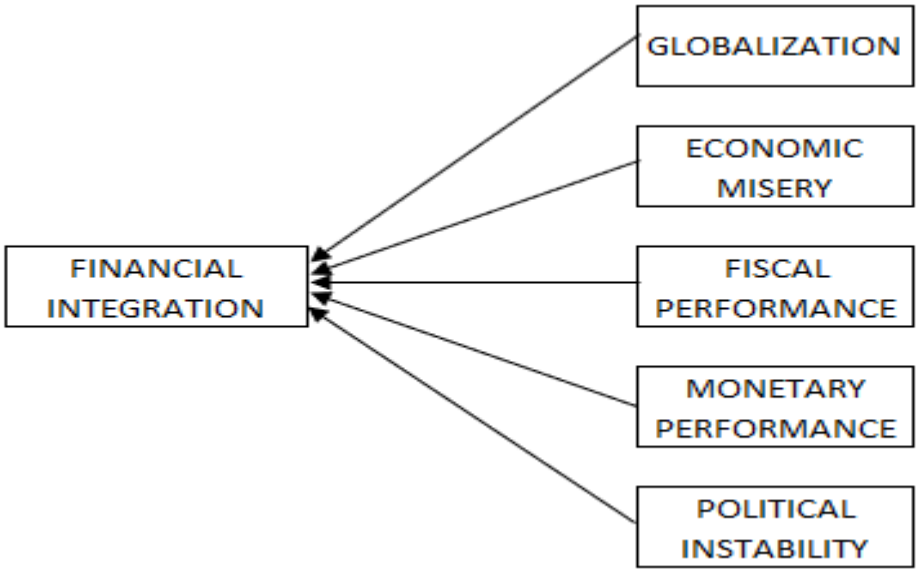
The extensive review of the literature enables us to understand that financial globalization is a topic of discussion among researchers and policymakers. Different studies (Moshirian, 2003; Vo and Daly, 2007; Lane, 2009; De Nicolò and Juvenal, 2010; Dadgar and Nazari, 2018; Broner and Ventura, 2016; Kim et al., 2010; Neaime and Gaysset, 2018; Farooq et al., 2019; Wang et al., 2019; Neaime et al., 2019) provide different measures and determinants of financial integration. But none of the study has tried to link financial integration with globalization, economic misery, political instability, fiscal performance, and monetary performance in the case of South Asian countries. This study is novel and will be a healthy contribution to the respective literature. So, this study opens new avenues and ventures of research.

3. THE MODEL

A sufficient amount of physical resources are necessary for an economy to smooth functioning (Ali, 2015), while the insufficiency of these resources not disturbed the route to economic growth but also creates many socioeconomic issues (Arora, 2001). Most developing countries have insufficient physical resources and this can be overcome by different types of injections (Patinkin, 1973; Todaro, 1995) i.e. foreign aid, foreign debt, issuance of currency notes without reserves, and financial integration. In the last few years, financial integration has got much importance among policymakers as it has a multiplier impact on economic growth (Solow, 1956; Baumol, 1986; Romer, 1986; Mankiw et al., 1995), as capital flows from capital-abundant countries to capital scare countries (Kose et al.,

2010; Vinokurov, 2017). Financial integration is the process through which financial markets among countries are interconnected, and the barriers related to portfolio investment based on equity and debt, foreign direct investment, bank credit flows, and inter-state payment systems are removed (Eyraud et al., 2017). Financial integration is comprised of monetary integration, liberalization of the capital account, foreign entry and existence, harmonization, and convergence of regulatory levels (Liebscher et al., 2007). Literature also distinguishes between indirect, direct, and total integration among the countries (Guha et al., 2004). Different studies have highlighted different determinants of financial integration i.e. tax policy, exchange rate volatility, inflation rate, unemployment rate, financial development, economic development, economic growth, investment, legal environment, and level of institutions (Lane and Shambaugh, 2010; Garali and Othmani, 2015; Bhattacharya and Ghosh; 2018; Cheng and Daway, 2018). Globalization as a determinant of financial integration has been ignored in previous literature, thus following the theoretical framework of Stavarek (2012), the conceptual model will be as follows:

Figure-1. Conceptual Framework



Following the conceptual model, the functional form of the model become as:

$$FI_{iT} = f(\mathrm{EM}_{iT}, \mathrm{Glob}_{iT}, \mathrm{FP}_{iT}, \mathrm{MP}_{iT}, \mathrm{PI}_{iT}) \quad (1)$$

where
FI= Financial Integration
EM= Economic Misery
Glob= Globalization
FP= Fiscal performance
MP= Monetary Performance
PI= Political instability
i= Set of selected South Asian countries (Bangladesh, India, Nepal, Pakistan, and Sri Lanka)
T= Time period of selected countries (1996-2020)
For examining the relationship among the explanatory variables and explained variables, the mathematical model can be converted into the econometric model. The model can be written as:

$$FI_{iT} = \alpha + \beta_1 \mathrm{EM}_{iT} + \beta_2 \mathrm{Glob}_{iT} + \beta_3 \mathrm{FP}_{iT} + \beta_4 \mathrm{MP}_{iT} + \beta_5 \mathrm{PI}_{iT} + \mu_1 \quad (2)$$

where
α = intercept
β_i= slope coefficient
μ = white noise error term

3.1.MEASUREMENTS OF VARIABLES AND DATA SOURCE

Financial Integration is taken as dependent whereas Political Instability, Monetary Performance, Globalization, Fiscal Performance, and Economic Misery are selected as independent variables. The selected South Asian countries include Bangladesh, India, Nepal, Pakistan, and Sri Lanka. The period for this study is from 1996 to 2020.

FI = Financial integration (FI is measured with the help of Foreign direct investment, Portfolio international debt, international reserves, and international income payments by using the Principal Component Analysis (PCA) method). The data source for financial integration is the World Development Indicators (WDI) database.

PI = Political Instability (Political instability is measured with the political governance index). The data source of political instability is the Transparency International database.

MP = Monetary performance (Monetary performance is measured with the help of monetary freedom which includes the interest rate). The data source for monetary policy is the World Development Indicators (WDI) database.

GLOB = Globalization (Globalization is measured with the help of the sum of exports and imports as a share of GDP, tariffs, international tourism, migration, press freedom, internet user, gender parity, and civil freedom by using the Principal Component Analysis (PCA) method). The data source for financial integration is the World Development Indicators (WDI) database.

FP = Fiscal performance (Fiscal performance is measured with the tax collected by the government. In literature it is represented by Tax burden). The data source for tax burden is the World Development Indicators (WDI) database.

EM = Economic Misery (Economic misery is measured with the help of the index of the rate of inflation and rate of unemployment of the country. The index is constructed through the Principal Component Analysis (PCA) method). The data source for economic misery is the World Development Indicators (WDI) database.

4. ECONOMETRIC METHODOLOGY

This section of the thesis presents detailed econometric methodologies used for empirical analysis. This thesis has investigated the impact of economic misery, globalization, fiscal performance, monetary performance, and political instability on financial integration in the case of South Asian countries from 1996 to 2020.

4.1.PANEL UNIT ROOT TEST

By this time, unit root has become one of the main issues in dynamic panel analysis, thus, it is necessary to check the stationarity of the panel data. PP - Fisher Chi-square (PP-FC), ADF - Fisher Chi-square (ADF-FC), Im, Pesaran, and Shin W-stat (IP&S), and Levin, Lin & Chu t*(LLC) unit root tests have been applied.

Levin et al., (2002) have developed panel unit roots with the help of unique specifications. LLC unit root test is based on the homogeneity of the panel, unlike others. LLC unit root test follows the procedure of ADF in the process of unit root problem in the data set the common form of an LLC is as:

$$\Delta y_{i,t} = \gamma_{0i} + \rho y_{it-1+} \sum_{i-1}^{\rho i} \gamma 1i \, \Delta y_{i,t-j} + \mu_{i,t} \qquad (3)$$

γ_{0i} are the intercept in the equation with having unique across the cross-sectional entities and p is identical for the autoregressive coefficient, whereas γ_i denoted for lag order, $\mu_{it}$is the residual term that has been supposed to be independent for all the across-of-panel entities. The equation follows the ARMA stationary process for each cross-section becomes as:

$$\mu_{i,t} = \sum_{j-0}^{\infty} \gamma 1i \, \Delta y_{i,t-j} + \varepsilon_{i,t} \qquad (4)$$

Following the equation above, the null and alternative hypotheses can be developed as:

H_o: $\rho_{i=}\rho_{=}0$

H_o: $\rho_{i=}\rho_{<}0$ for all i

LLC model is based on t-statistics, where p is supposed to fix across the entities under the null and alternative hypothesis.

$$t_p = \frac{\hat{p}}{SE\,(\hat{p})} \qquad (5)$$

In this whole procedure, we have supposed that the residual series is white noise. Further, the regression of the panel has $t_p the$ test statistic, which presents the convergence of standard normal distribution when N and $T \rightarrow \infty \sqrt{\frac{N}{T}} \rightarrow 0$. On the other hand, if any selection unit is not independent, then the residual series are corrected and have the issue of autocorrelation. Under such these circumstances LLC test proposed a modified statistic as:

$$t_p = \frac{t_p - N\,T\,S_N \hat{\sigma}^{-2}(\hat{p})\mu_m^*}{\sigma_m^*} \qquad (6)$$

Where $\mu_m^*$and σ_m^* are modified the error term of the error term and standard deviation of the error term, the values of these are generated from Monte Carlo Simulations by LLC (2002).

Im et al., (2003) develop a panel stationarity test in the case when panel data is heterogeneous. This panel unit root test is also based on ASF unit root methodology, but this test is based on the arithmetic mean of individual series, this test is followed as:

$$\Delta y_{i,t} = \overline{w}_i + \rho y_{it-1+} \sum_{i-1}^{\rho i} \gamma 1i\, \Delta y_{i,t-j} + v_{i,t} \qquad (7)$$

The IPS test allows for heterogeneity in v_i value, the IPS unit root test equation can be written as:

$$\bar{t}_T = \frac{1}{N} \sum_{i-1}^{N} t_{i,T}\ (p_i) \qquad (8)$$

Where $t_{i,T}$ the ADF test statistic, pi is the lag order. For the calculation process, this test follows:

$$A_t - = \frac{\sqrt{N\,(T)[\bar{t}_\gamma - E(t_T)]}}{\sqrt{Var\,(t_T)}} \qquad (9)$$

4.2.HAUSMAN TEST FOR FIXED AND RANDOM EFFECT MODEL

Following the existing literature, researchers consider panel data analysis the most efficient procedure for data handling in econometrics. Our selected panel data are balanced panel data sets, and following the properties of selected data, we have used the fixed-effect method. The intercept is considered group-specific in the case of the fixed effect method. It reveals that the selected model can provide different intercepts for every group. Following the procedure of fixed-effect analysis, it is also known as a dummy variable, because when every group has a different intercept in one equation then a specific dummy has been introduced for every group. So, the following equation becomes:

$$Y_{it} = \alpha_i + \beta_1 X_{1it} + \beta_2 X_{2it} + \cdots + \beta_k X_{kit} + \mu_{it} \qquad (10)$$

Which can be written in a matrix notation as:

$$Y = D\alpha + X\beta' + \mu \qquad (11)$$

$$Y = \begin{bmatrix} Y_1 \\ Y_2 \\ . \\ . \\ . \\ Y_N \end{bmatrix}, \text{D=} \begin{pmatrix} i_T & 0_{\dots} & 0 \\ 0 & i_T & 0 \\ 0 & 0 & i_T \end{pmatrix} NTxk$$

$$X = \begin{pmatrix} x_{11} & \cdots & x_{1k} \\ \vdots & \ddots & \vdots \\ x_{N1} & \cdots & x_{NK} \end{pmatrix} NTxk$$

$$\alpha = \begin{bmatrix} \alpha_1 \\ \alpha_2 \\ . \\ . \\ . \\ \alpha_N \end{bmatrix} NTxk \ , \beta' = \begin{bmatrix} \beta_1 \\ \beta_2 \\ . \\ . \\ . \\ \beta_N \end{bmatrix} NTxk$$

Here dummy variables take different groups' specific estimation procedures in the case of each section separately. For checking the validity of the fixed effects method, we can apply the Hausman test.

5. RESULTS AND DISCUSSION

This part of the study presents the estimated results and discussion. For examining the intertemporal properties of the selected variables, we conducted a descriptive statistical analysis. The descriptive statistics provide information related to Kurtosis, Skewness, Standard deviation, minimum, maximum, median, and mean values of variables. The estimates of the descriptive statistic of all selected variables have been presented in table 1. The results explain that financial integration has a positive average value (35.66208), with a minimum (35.29500) and a maximum (57.19000). The results show that our selected variables are stable over the selected time period. The estimated results reveal that financial integration, monetary performance, and economic misery are positively skewed whereas political instability, globalization, and fiscal performance are negatively skewed. The results reveal that financial integration, political instability, monetary performance, globalization, fiscal performance, and economic misery have positive kurtosis. The estimated results reveal that data of selected variables have reasonable intertemporal properties, to further analysis. Moreover, data fulfill all the requirements of the balanced panel data analysis, as well.

Table-1: Descriptive Statistics

	FI	PI	MP	GLOB	FP	EM
Mean	35.66208	-1.293187	71.32333	49.17317	78.05917	3.901750
Median	35.29500	-1.220596	70.60000	49.82000	77.75000	4.055000
Maximum	57.19000	0.090368	81.80000	62.81000	88.90000	11.35000
Minimum	19.68000	-2.810035	56.80000	30.94000	63.50000	0.400000
Std. Dev.	9.651134	0.631794	5.013993	8.428811	5.845037	2.299938
Skewness	0.180758	-0.292579	0.055936	-0.355982	-0.140464	0.567960
Kurtosis	1.978213	2.953926	2.495639	2.245538	2.257637	3.362084
Jarque-Bera	5.873717	1.722663	1.334476	5.380532	3.150113	7.107091
Probability	0.053032	0.422599	0.513124	0.067863	0.206996	0.028623
Sum	4279.450	-155.1824	8558.800	5900.780	9367.100	468.2100
Sum Sq. Dev.	11084.18	47.50046	2991.675	8454.338	4065.570	629.4761

The results of the correlation among the variables are given in table 2. Correlation analysis provides information that how two variables react to each other. There are several reasons why correlation analysis is important for policymakers; such as correlation analysis is beneficial, as it provides the root for prediction analysis. The results of the correlation analysis of table 2 reveal that there is a negative and insignificant correlation between financial integration and political instability in the case of South Asian economies. The estimated outcomes reveal that monetary performance has a positive but insignificant correlation with financial integration. The estimates show that globalization and economic misery have a positive and significant correlation with financial integration. The estimated results show that fiscal performance has a negative and significant correlation with financial integration in the case of South Asian countries over the selected period. The estimated outcomes reveal that monetary performance has a negative and significant correlation with political instability. The results show that globalization has a negative but insignificant correlation with political

instability. The estimated outcomes reveal that fiscal performance has a positive and insignificant correlation with political instability. The estimated results show that economic misery has a positive and significant correlation with political instability in the case of South Asian economies over the selected period. The estimated outcomes reveal that globalization has a negative and significant correlation with monetary performance. The results show that fiscal performance has a positive and significant correlation with monetary performance. The estimated results show that economic misery has a positive but insignificant correlation with monetary performance. The estimated findings show that fiscal performance has a negative and significant correlation with globalization. The estimated results reveal that economic misery has a positive and significant correlation with globalization. The estimated findings reveal that economic misery has a negative, but significant correlation with fiscal performance in the case of South Asian economies over the selected period. The estimated findings of the correlation matrix describe that most of the variables have significant correlation with each other, but all explanatory have very weak correlation, so there is no issue of multicollinearity among the explanatory variables.

This study is examining the relationship between globalization and financial integration in the case of South Asian economies. So, before examining the relationship among the variables, the stationarity of the variables is a prerequisite. This study has used PP-FC, ADF-FC, IP&S, and LLC unit root tests. The estimated outcomes of panel unit root tests are presented in table 3. The estimated results of PP-FC, ADF-FC, IP&S, and LLC unit root tests show that financial integration, political instability, monetary performance, globalization, fiscal performance, and economic misery are not stationary at I(0). The estimated results of PP-FC, ADF-FC, IP&S, and LLC unit root tests show that financial integration, political instability, monetary performance, globalization, fiscal performance, and economic misery are stationary at I(1). The overall estimated information shows that there is the same order integration among the variables of the model, which is the most suitable situation to apply panel least square and fixed or random effect models.

This study has used data from 1996 to 2020, so, for such a range of panel data, it is necessary to check the trend stationarity of the data. For this purpose, we have applied B-t-stat, PP-FC, ADF-FC, IP&S, and LLC unit root tests in the presence of time trends. The estimated results have been given in table 3, the outcomes B-t-stat, PP-FC, ADF-FC, IP&S, and LLC reveal that financial integration, political instability, monetary performance, globalization, fiscal performance, and economic misery are not stationary at I(0) in the presence of time trend. But all the selected variables become stationary at the first difference, again this is the best situation to apply panel least square and fixed or random effect models.

Table-2: Correlation Matrix

Variables	FI	PI	MP	GLOB	FP	EM
FI	1.000000					
PI	-0.052340	1.000000				
MP	0.031670	-0.214671**	1.000000			
GLOB	0.710841***	-0.044354	-0.156937*	1.000000		
FP	-0.392592***	0.037068	0.202273**	-0.192635**	1.000000	
EM	0.472743***	0.197402**	0.004662	0.389017***	-0.291068***	1.000000
Note: ***, **, *, 1%, 5%, 10% level of significance.						

Table-3: Unit Root Tests Results

	At level without time trend				At level with time trend				
Variables	LLC	IPS	ADF-Fisher	PP-Fisher	LLC	B-t-stat	IPS	ADF-F	PP-F
FI	-1.25742	-1.11788	15.0511	14.304	0.17703	-0.41503	0.17034	8.74725	9.40663
PI	-1.29282	-0.47179	8.97444	7.71301	-2.26124	1.84246	-0.05448	12.924	6.70447
MP	-1.18548	-1.38559	14.5124	10.5482	-0.58797	-1.37111	0.13113	7.93327	3.71109
GLOB	-3.42796	-1.20744	15.4356	21.9692	1.10761	2.59564	3.10353	1.85484	1.43891
FP	-1.60438	-1.87728	19.236	20.714	-0.94688	-2.77592	-1.39139	15.2712	12.9659
EM	-0.7852	0.39885	9.46604	9.32511	-0.69043	-0.42641	0.09031	8.41521	5.46222
Variables	At first difference without time trend				At first difference with time trend				
dFI	-3.77428***	-4.21154***	36.3781***	72.4251***	-3.03736***	-4.65256***	-3.16474***	26.794***	60.3178***
dPI	-4.8411***	-4.0961***	35.6269***	50.1744***	-4.58186***	-5.17181***	-3.86936***	32.4165***	67.951***
dMP	-4.78745***	-4.27229***	37.1927***	54.6665***	-3.60874***	-2.55267***	-2.98133***	26.7047***	45.2436***
dGLOB	-4.47392***	-3.67602***	31.7611***	31.5782***	-2.79733***	-2.58981***	-2.04078**	19.1301**	31.4411***
dFP	-4.20042***	-4.80435***	41.7319***	76.296***	-3.57845***	-5.03487***	-3.6106***	31.0549***	87.4308***
dEM	-2.91719***	-3.47162***	30.9073***	61.2354***	-1.97297**	-2.8243***	-2.41399***	23.6825***	74.982***
Note: ***, **, *, 1%, 5%, 10% level of significance.									

Panel data is multidimensional data in which the different subjects and units are measured over different periods. As panel data is a collection of various quantities obtained across multiple individuals that are combined over even intervals of time and ordered chronologically. Whereas the group of individuals shows the countries, people, and companies. In panel data to represent both time observations and individuals the subscripts, i and T are used. However, a panel observation Y_{it} is observed for all countries i=1…, N across all times period t=1,....T. Panel data of selected South Asian countries have been used for empirical results after reviewing the nature of the data set, a fixed effect or random effects model has been recommended for final analysis. For this purpose, the Hausman test has been applied. For the estimation of regression analysis, the endogenous explanatory variables are used by the Hausman test. There is a unique system of the equation that has been operationalized by the Hausman test. If the explanatory variables are endogenous in the model, then the ordinary least squares method is unable to estimate the model due to violations of OLS assumptions of no correlation between the error terms and the explanatory variable. So, as an alternative, the instrumental variables method can be used for an estimation process. The Hausman test provides help in choosing between the random effect and fixed-effect models. The acceptance of the null hypothesis means we use random effect; while in another case we use fixed effects. The estimated outcomes of the Hausman test have been given in table 4. The results show that the Hausman test is significant at the 5 percent level, this explains that the fixed-effect model is appropriate for our empirical analysis.

Table-4: Hausman Fixed Effect Model

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test period random effects			
Test Summary	Chi-Sq.Statistic	Chi-Sq. d.f.	Prob.
Period random	67.833283	5	0.0000
** WARNING: estimated period random effects variance is zero.			

The estimated results of panel least squares have been presented in table 5. The end of World War enables developed countries to establish such policies which can stable development and growth with the help of social, economic, and political strategies. It is the political environment that can impact the macroeconomic environment outcomes of the country. These are political stakeholders which have discretionary power to determine the expenditures and revenues policies (Rodrik, 2005; Alesina and Perotti, 1996). Thus, political stability is very important to decide the future of national institutions and their relationship with international institutions (Alesina and Perotti, 1999). But in the case of developing countries, this relationship is still unexplored and may have different outcomes as compared to developed countries. Conrad and Golder (2010) find political institutions play an insignificant role in deciding the financial performance of the country. Our results of the panel least square model and fixed effect model explain that political instability has an insignificant impact on financial integration. It is the domestic political environment that plays an important role in deciding the relationship between different countries. Political stability is one of the main factors that affect economic growth but also disturbed the financial transactions among the nations (Ozler and Rodrick, 1992; Easterly and Rebelo, 1993; Benhabib and Spiegel, 1994; Barro, 1996; Rodrik, 2005; Alesina and Perotti, 1996; De Haan and Siermann, 1996; Ali and Rehman, 2015; Sallahuddin and Awan, 2017). The elected governments have discretionary power to decide the international relations of the country, but in the case of developing countries, this is not true always (Weede, 1996; Goldsmith, 2004).

Mostly, the financial systems of developed countries are integrated over the past three decades. This financial integration is accomplished with the help of many evolutionary business and policy practices (Levine, 1997). The rising financial links among the counties have numerous economic advantages (Levine, 2005), and raise the importance of monetary policy. Now there is well-established evidence that monetary policy is very vital for the financial process and national and international monetary

transmission mechanism at the same time. The effectiveness of monetary policy hinges crucially on a set of parameters that can impact the level of financial integration among the economies. Our results show that monetary performance has a positive and significant impact on financial integration. Empirical studies show that any change in the policy rate, treasury bills, notes, and bonds have an instantaneous impact on the inflow and outflow of foreign funds (Kuttner, 2001; Piazzesi and Swanson, 2004; Kearns and Rigobon, 2005; Brunnermeier et al., 2008; Debelle, 2009; Mishkin, 2009). This explains that any rise and fall in monetary performance can bring the same type of effect on financial integration among South Asian countries. The relationship between monetary performance and international financial transmission mechanism has been tested by Taylor (1987), Hendry and Ericsson (1991), Bernanke and Gertler (1995), Kashyap and Stein (2000), Gomez et al., (2005), Loutskina and Strahan (2009), Hayat and Mishra, (2010), Aysun et al., (2013), and Ciccarelli et al., (2015).

Globalization is comprised of political, economic, and technological innovations that have changed the cultural, political, economic, and financial structure of the world. It is the process of globalization that raises the level of internationalization, integration, and interdependence among the countries (Maringe, 2010). In the last couple of years, globalization boosts the financial integration among countries and financial interdependence among the nations rise from 45% to 300% from 1970 to 2004 (Lane and Milesi-Ferretti, 2007). Financial globalization leads to the best allocations of resources among developing and developed countries (Prasad, 2005). Our outcome shows that globalization has a positive and significant impact on financial integration in the case of South Asian economies. Due to the rise in globalization, financial intermediations respond to the demand for mechanisms to intermediate cross-border flows and partly a response to declining barriers to trade in financial services and liberalized rules governing the entry of foreign financial institutions into domestic capital markets (Aggarwal and Goodell, 2009; Askari et al., 2010; Potrafke, 2015; Lee and Hsieh, 2013; Wójcik, 2011). This explains that any change in the level of globalization directly impacts the level of financial integration. These findings are consistent with Hoberg (2001), Gourinchas and Jeanne (2006), Lane and Milesi-Ferretti (2007), Chand and White (2007), Kose et al., (2009), Asongu (2013), and Rysin et al., (2021).

Fiscal performance can improve the level of financial integration through various channels i.e. investment decisions are highly affected by the quality of macroeconomic policies, free capital movements may reward good policies and penalize bad ones and thus force national authorities to adopt a greater fiscal discipline. In addition, greater financial integration can also be interpreted as a signal that a country's authorities wish to introduce and follow sound policies (Bartolini and Drazen, 1997). Second, international risk-sharing by decreasing growth volatility may also lower government spending volatility. Third, financial integration can affect the composition of public debt by increasing the share of foreign debt (Lane and Shambaugh, 2010). Our results show that fiscal performance has a negative and significant impact on financial integration in the case of South Asian countries. Different studies have linked fiscal policy and financial integration and found a positive relationship (Kose et al., 2007; Borensztein et al. 1998; Kose et al. 2010; Osada and Saito, 2010; Chinn and Ito, 2006; Fischer, 1998; Obstfeld, 1998, 2009; Agénor, 2003). Due to the highly volatile socio-economic structure of the South Asian economies, there is a negative relationship between the fiscal performance and financial integration. Studies like Stulz (2005), Rodrik and Subramanian (2009), and Kose et al., (2010) mention that the fiscal performance of developing countries is more central to political motives, hence, fiscal performance hurts the internationalization of finances.

The estimated outcomes show that economic misery has a positive and significant impact on financial integration. Financial institutions and financial markets play an important role in the process of allocation of funds and savings of individuals to production by reducing information asymmetry, and transaction costs and also reducing financial constraints (Ozturk and Karagoz, 2012). Financial institutions also can affect welfare through the minimizing of macroeconomic shocks (Kim et al., 2018; Davis and Kim, 2015; Hanif and Batool, 2006). Being the more volatile economies, our selected

countries have a positive relationship between economic misery and financial integration. The overall regression results explain that monetary performance, globalization, and economic misery are encouraging financial integration, whereas political instability and fiscal performance are discouraging financial integration in the case of selected South Asian countries over the selected period.

Table-5: Estimated Outcomes

Dependent Variable: FI		
	Panel least square model	Fixed effect model
Explanatory Variables	Coefficient	Coefficient
PI	-0.083083	0.940775
MP	0.350254***	0.176945**
GLOB	0.720752***	1.333687***
FP	-0.435754***	-0.137241*
EM	0.63481**	0.642882*
C	6.669374	-32.63986
R-squared	0.628623	0.93536
Adjusted R-squared	0.612335	0.911217
F-statistic	38.59319 (0.000000)	38.74282 (0.000000)
Note: ***, **, *, 1%, 5%, 10% level of significance.		

6. CONCLUSIONS

The part of the thesis is comprised of conclusions and policy suggestions. This study has examined the impact of globalization on financial integration in the case of selected South Asian countries from the period 1996 to 2020. Financial integration is selected as explained variable, whereas political instability, globalization, fiscal performance, monetary performance, and economic misery are selected as explanatory variables. Based on estimated results and discussion, this study can be concluded with major findings. The results show that political instability has a negative and insignificant impact on financial integration. Although political instability has an insignificant impact on financial integration, developing countries like South Asian countries should promote political stability for higher financial integration. The outcome shows that monetary performance and economic misery have a positive and significant impact on financial integration. A stable monetary system is not only necessary for domestic financial links but is also vital for international financial links. For better financial integration developing countries like South Asian countries should promote stable monetary performance. Globalization is positively and significantly impacting financial integration. This shows that globalization is promoting strong socioeconomic and political relationships among the countries, the more globalized countries are more integrated. Thus, developing countries like South Asian countries should promote globalization to attain higher financial integration. Fiscal performance has a negative and significant impact on financial integration. The role of government cannot be ignored, if the government is involved in economic and financial activities, this will discourage domestic and international financial activities. The estimated results show that fiscal performance has a negative and significant impact on financial integration among South Asian countries. This suggests that developing countries should minimize government involvement in economic and financial activities to achieve a higher level of financial integration. Economic misery has a positive and significant impact on financial integration among selected South Asian countries, this urges the selected countries to depend on foreign resources to gain financial integration. Thus, to gain financial integration at an equal level, developing countries to reduce the level of economic misery.

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