MINISTRY OF FINANCE

UNIVERSITY OF FINANCE - MARKETING

DOAN THI THU TRANG

THE IMPACT OF FINANCIAL GLOBALIZATION ON ECONOMIC GROWTH: A CASE STUDY OF MIDDLE-INCOME COUNTRIES IN ASIA

Major: Finance – Banking

Major code: 9340201

SUMMARY OF ECONOMICS PH.D'S THESIS

HO CHI MINH CITY – 2025

The thesis is completed at:

University of Finance - Marketing

Supervisor:

Reviewer 1: ....
Reviewer 2: ....
Reviewer 3: ....
The thesis will be defended at the committee at the school level at ....
....
.... time........... day............ month.............
year..
The thesis can be found at the library: ....

ABSTRACT

This thesis analyses the impact of financial globalization on economic growth in middle-income countries in Asia. Furthermore, it examines this impact under the moderating effect of financial development. The research sample comprises 24 middle-income countries in Asia from the 2002-2021 period. For estimation methods, the author employs threshold effects for panel data to estimate the threshold values of financial development. Additionally, the Generalized Method of Moments (GMM) and Bayesian methods are utilized to estimate and test the model's robustness.

The estimation results indicate that financial globalization has a positive impact on economic growth in middle-income countries in Asia. This impact is more pronounced in upper-middle-income countries compared to lower-middle-income ones. Moreover, financial development plays a crucial role in moderating the effect of financial globalization on economic growth. Specifically, the estimation results show the threshold values for financial development in upper-middle-income and lower-middle-income countries are $\lambda_a = 0.61$ and $\lambda_b = 0.19$, respectively. Accordingly, financial globalization positively affects economic growth above and below the threshold values of financial development. However, the amplifying effect of financial development on this positive impact is significantly stronger in lower-middle-income countries compared to their upper-middle-income counterparts - this represents a novel contribution of the thesis. Furthermore, the thesis identifies the significant influence of control variables, including government expenditure, control of corruption, and population growth, on economic growth in middle-income countries in Asia.

These findings provide significant empirical evidence for middle-income countries in Asia.

Keywords: Financial development, economic growth, financial globalization.

CHAPTER 1: INTRODUCTION

1.1. Rationale for the study

Financial globalization is one of the key objectives for countries aiming to achieve sustainable economic growth (Ze et al., 2023). Through financial globalization, financial flows can move easily across borders, between countries and regions (Nguyen et al., 2018; Nguyen, 2020). This enables countries to access international capital, as well as advanced technologies and management practices (Bhanumurthy & Kumawat, 2020; Obstfeld & Taylor, 2002). This issue is particularly crucial for middle- and low-income countries, as these nations often face shortages of capital and technology (Makun, 2021).

The impact of financial globalization on economic growth can be explained through several theoretical frameworks, primarily focusing on economic growth theories which include the classical growth theory (Ricardo, 1817; Smith, 1776), the neoclassical growth theory (Solow, 1956), the endogenous growth theory (Romer, 1990), and Keynesian growth theory (Keynes, 1936). Besides, this impact may depend on the level of financial development in individual countries, which has been highlighted in the endogenous growth theory (Hall & Jones, 1999) and the financial intermediation theory (Allen & Santomero, 1998). Studies on this topic often examine the impact of globalization on economic growth (e.g., Dreher, 2006; Konyeaso, 2016; Gygli et al., 2019; Rao & Vadlamannati, 2009; Suci, 2015; Tran & Nguyen, 2018; Ying, 2014). However, relatively few studies focus specifically on financial globalization. It is evident that empirical research on this issue still has certain limitations, as outlined below:

- First, those studies often examine the effect of financial globalization on economic growth in developed countries, while overlooking developing nations (Kose et al., 2006, 2010). Only few of them analyze mixed datasets comprising both developed and developing countries (Bogdan et al., 2014;

Lee, 2016; Saidi & Aloui, 2010). Furthermore, developing countries can be divided into smaller groups, and this impact may vary across these groups. However, as far as the author is aware, there is a lack of empirical studies that clarify the differences in the effects of financial globalization on economic growth among these groups. Specifically, the differential effects of financial globalization on economic growth in upper-middle-income countries compared to lower-middle-income countries remains understudied.

- Second, this impact may significantly depend on the level of financial development in individual countries. Furthermore, Prasad et al. (2007) argue that financial globalization boosts economic growth in developed nations while having a negligible effect on developing nations. One of the main reasons for this disparity is the underdeveloped financial markets in many developing countries, which limit their capacity to absorb foreign capital effectively. However, to the author's knowledge, there are very few empirical researchers (e.g., Alzaidy et al., 2017; Joo et al., 2022) investigating the influence of interaction terms between indicators representing financial globalization and financial development on economic growth. Similarly, limited research has attempted to identify the threshold values of financial development in the impact of indicators representing financial globalization on economic growth (e.g., Baharumshah et al., 2017; Yeboua, 2019). Obviously, most empirical studies frequently measure financial globalization and financial development using individual indicators, which face certain limitations in capturing the multidimensional nature of financial globalization and financial development. More importantly, there remains a lack of empirical research that investigates the moderating role of financial development in the impact of financial globalization on economic growth, where both financial globalization and financial development are comprehensively assessed through composite indices.

- Third, there remains a big gap in empirical evidence on the moderating role of financial development in the impact of financial globalization on economic growth in the Asian region, particularly in middle-income countries.

It is evident that the impact of financial globalization on economic growth is an intriguing topic that has attracted significant interest from both policymakers and researchers. Nevertheless, this research area still contains substantial gaps that require further exploration, particularly in clarifying the influence of financial globalization on economic growth in middle-income countries.

Acknowledging the gaps in the current literature as well as the importance of this issue for Asian countries, the author has chosen the topic ***"The impact of financial globalization on economic growth: a case study of middle-income countries in Asia"*** for further investigation. In this thesis, the author focuses on analyzing the impact of financial globalization on economic growth in middle-income countries in Asia, while also investigating the moderating role of financial development in this relationship.

1.2. Research objectives and questions

1.2.1. Research objectives

The overarching goal of this thesis is to analyze the impact of financial globalization on economic growth in middle-income countries in Asia. Moreover, it examines this impact under the moderating influence of financial development within the sample countries. Based on these findings, the thesis proposes policy implications to promote financial globalization in alignment with economic growth in these countries.

To achieve the goal mentioned above, the thesis focuses on three specific objectives as follows:

- First, it analyzes the impact of financial globalization on economic growth in middle-income countries in Asia.

- Second, it examines the moderating role of financial development in the impact of financial globalization on economic growth in middle-income countries in Asia.

- Finally, based on the findings, it suggests implications related to financial globalization and financial development, thereby boosting economic growth in middle-income countries in Asia.

1.2.2. Research questions

To achieve the research objectives, the thesis aims to address the following questions:

- Questions related to the first research objective: How does financial globalization affect economic growth in middle-income countries in Asia? Does this impact differ between upper-middle-income and lower-middle-income countries?

- Questions related to the second research objective: What is the moderating role of financial development in the impact of financial globalization on economic growth in middle-income countries in Asia? Does this moderating role differ between upper-middle-income and lower-middle-income countries?

- Questions related to the third research objective: How can financial globalization be promoted to boost economic growth in middle-income countries in Asia? How should financial development be promoted to amplify the impact of financial globalization on economic growth in middle-income countries in Asia?

1.3. Subject and scope of the study

1.3.1. Subject of the study

This thesis investigates the impact of financial globalization on economic growth and examines the moderating role of financial development in the relationship between financial globalization and economic growth.

1.3.2. Scope of the study

- Spatial scope: The dataset used consists of 24 middle-income countries in Asia.

- Temporal scope: The dataset covers the period from 2002 to 2021.

- Content scope: The thesis focuses on analyzing the impact of financial globalization on economic growth, specifically clarifying the moderating role of financial development in the relationship between financial globalization and economic growth.

1.4. Research methodology

1.4.1. Analysis methods

To achieve the research objectives, the author primarily employs quantitative analysis. Specifically, the author uses threshold effects for panel data and the Generalized Method of Moments (GMM) approach to estimate the research models. In addition, the author tests the robustness of the estimation results in two ways: (i) The author uses the Bayesian method to test the robustness of the estimation results obtained using the GMM approach previously; (ii) The author replaces the financial globalization index (FG) sequentially with essential component indices, which are specifically foreign direct investment (FDI) and portfolio equity investment (PI).

1.4.2. Dataset

The dataset consists of 24 middle-income countries in Asia in the period from 2002 to 2021.

Data on the financial globalization index are collected from the Swiss Economic Institute's database. Those on the financial development index are obtained from the IMF database while those on corruption control are gathered from the World Bank's Worldwide Governance Indicators (WGI) database. The remaining variables in the research models are obtained from the World Bank's World Development Indicators (WDI) database.

1.5. Novel contributions of the study

1.5.1. Theoretical contributions

The findings are expected to hold scientific significance, particularly in refining the theoretical framework on the impact of financial globalization on economic growth, with an emphasis on the moderating role of financial development in this relationship. Furthermore, the thesis systematically reviews prior studies in a comprehensive and detailed manner. As a result, the findings may serve as a valuable reference for future research.

1.5.2. Practical contributions

In addition to ensuring scientific rigor, the thesis also makes significant practical contributions. Some specific practical contributions are presented as follows:

- First, this thesis analyzes the effect of financial globalization on economic growth in middle-income countries in Asia, highlighting the differences in this impact between two subsamples representing upper-middle-income and lower-middle-income countries. As a result, the influence of financial globalization on economic growth is thoroughly and deeply examined.

- Second, together with investigating the impact of financial globalization on economic growth in middle-income countries in Asia, the thesis further clarifies the moderating role of financial development in this relationship. This role is examined by testing the existence of financial development thresholds, where the impact of financial globalization on economic growth may vary above and below these threshold values.

- Third, the thesis examines data from Asian middle-income countries, a region with little extensive empirical research on how financial globalization affects economic growth. Based on the findings, the author proposes several implications to encourage financial globalization coupled with economic growth in these countries.

1.6. Structure of the thesis

The thesis is organized into five chapters as follows: (i) Chapter 1. Introduction; (ii) Chapter 2. Theoretical framework and literature review; (iii) Chapter 3. Research methodology; (iv) Chapter 4. Results and discussion; (v) Chapter 5. Conclusions and implications.

CHAPTER 2: THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1. Economic growth

2.1.1. Definition

Economic growth can be defined as the change in the output of goods and services of an economy within a specific period, through scale or rate.

2.1.2. Measurement

Economic growth is typically measured through gross domestic product (GDP) or gross national product (GNP).

2.2. Financial globalization

2.2.1. Definition

Financial globalization can be understood as the interconnection and exchange of cross-border capital flows between countries and territories (Dreher et al., 2008; Clark, 2000; Gygli et al., 2019; Norris, 2000).

2.2.2. Measurement

Financial globalization can be assessed through individual or composite indices. For composite indices, the Swiss Economic Institute at the Swiss Federal Institute of Technology Zurich has measured and published the globalization index (also known as the KOF globalization index) for countries around the world, including three dimensions: economic globalization, social globalization, and political globalization. Specifically, economic globalization consists of financial globalization and trade globalization.

2.3. Financial development

2.3.1. Definition

Financial development is also defined as the enhancement of the financial system with an emphasis on financial markets and financial institutions and is quantified through three criteria: depth, accessibility, and efficiency (Svirydzenka, 2016; Zaman et al., 2012).

2.3.2. Measurement

The IMF has developed and published data on the financial development index for countries around the world, which is also commonly used in empirical studies (Nasreen et al., 2020). Accordingly, it is measured through the development of financial markets and financial institutions, based on three criteria: depth, accessibility, and efficiency.

2.4. Theories on the impact of financial globalization on economic growth

The impact of financial globalization on economic growth can be explained through several theories, especially those on economic growth theories. Among these, some key economic growth theories include the classical growth theory (Ricardo, 1817; Smith, 1776), the neoclassical growth theory (Solow, 1956), the endogenous growth theory (Romer, 1990), and the Keynesian growth theory (Keynes, 1936). In addition, other theories emphasize the influence of external capital on the economic growth of the host country, such as the Big Push theory (Rosenstein-Rodan, 1943), the two-gap model (Chenery & Strout, 1966), and the three-gap model (Bacha, 1990; Solimano, 1990; Taylor, 1994).

2.5. Theories on the moderating role of financial development in the impact of financial globalization on economic growth

The role of financial development in moderating the impact of financial globalization on economic growth can be explained by several theories, including the financial intermediation theory (Gurley & Shaw, 1960), the AK model (Pagano, 1993), and the theory of financial instability and development (Minsky, 1986). Some empirical studies have also aimed to explain this issue in real-world scenarios. Furthermore, Patrick's (1966) hypothesis on stages of development emphasizes that the role of financial development in the economy is more pronounced when economies are at lower stages. Nevertheless, as economies reach higher levels, the influence of economic growth on financial development becomes more significant than the reverse one (Dilek, 2019).

2.6. Review of related studies

2.6.1. Studies on the impact of financial globalization on economic growth

The influence of financial globalization on economic growth has received significant attention from researchers and policymakers. However, there still exist conflicting perspectives regarding this impact among empirical researchers.

Research on this issue often examines the impact of globalization on economic growth in general, while relatively few studies (such as those of Dreher, 2006; Gygli et al., 2019; Konyeaso, 2016; Rao & Vadlamannati, 2009; Suci, 2015; Tran & Nguyen, 2018; Ying, 2014) specifically analyze financial globalization. In fact, this impact may differ between developed and developing countries. For instance, in developed countries, financial globalization creates new diversified investment channels (Obstfeld &

Taylor, 2002). Meanwhile, it is essential to drive economic growth in developing countries by providing access to international capital, distributing technology, promoting managerial innovation, and stimulating investment (Bhanumurthy & Kumawat, 2020; Obstfeld & Taylor, 2002). Nonetheless, except for a few studies that analyze data samples including both developed and developing countries (Bogdan et al., 2014; Lee, 2016; Saidi & Aloui, 2010), empirical studies typically investigate the benefits of financial globalization for economic growth in developed countries, neglecting developing ones (Kose et al., 2006, 2010).

Particularly, to the author's understanding, there is a lack of studies that elucidate the differences in the impact of financial globalization on economic growth between groups of developing countries, such as between upper-middle-income and lower-middle-income countries.

2.6.2. Studies on the moderating role of financial development in the impact of financial globalization on economic growth

The impact of financial globalization on economic growth may significantly depend on the level of financial development in countries. This is due to the fact that financial development can enhance the efficiency of capital allocation and the ability to absorb international capital, and even complement international capital in driving economic growth (Desbordes & Wei, 2017; Mishkin, 2006; Pradhan et al., 2014). Moreover, improvements in financial development allow foreign-invested enterprises to increase investment efficiency as well as enhance risk management effectiveness (Bertocco, 2008).

Although the role of financial development in this impact has been addressed in some empirical studies, most of these studies frequently examine financial globalization through individual indicators, including FDI (Agbloyor et al., 2014; Alzaidy et al., 2017; Baharumshah et al., 2017; Duarte et al., 2017; Gupta et al., 2022; Joo et al., 2022; Vu & Pham, 2021;

Yeboua, 2019), portfolio equity investment (Agbloyor et al., 2014; Anetor, 2020; Baharumshah et al., 2017), foreign debt (Agbloyor et al., 2014; Baharumshah et al., 2017), and financial integration (Ho & Tran, 2019). Few studies utilize a composite index, such as that employed by Bhanumurthy and Kumawat (2020), to measure financial globalization. This study, however, has not clarified the role of financial development in moderating the impact of financial globalization on economic growth. Most empirical studies commonly assess financial development using individual indicators such as private sector credit to GDP (Agbloyor et al., 2014; Baharumshah et al., 2017; Duarte et al., 2017; Vu & Pham, 2021; Yeboua, 2019), stock market capitalization to GDP (Agbloyor et al., 2014), stock market turnover ratio (Agbloyor et al., 2014), and M2 to GDP (Agbloyor et al., 2014; Anetor, 2020; Vu & Pham, 2021). A limited number of studies employ composite indices to examine financial development, such as the study by Ho & Tran (2019). It is evident that most empirical studies usually measure financial globalization and financial development by separate indicators. However, these individual indicators face certain limitations in capturing their multidimensional essence. More importantly, there is a lack of empirical research analyzing the moderating role of financial development in the impact of financial globalization on economic growth, in which both are comprehensively examined through composite indices.

2.6.3. Research gap

The impact of financial globalization on economic growth is an intriguing topic that has been extensively investigated in numerous empirical studies. However, several critical gaps remain in the existing literature as follows:

- Regarding the impact of financial globalization on economic growth, empirical studies examining this impact have primarily focused on developed countries, neglecting developing economies, apart from a few studies that analyzed mixed data samples of both developed and developing nations. Notably, there remains a lack of research that explicitly examines the differences in the influence of financial globalization on economic growth between upper-middle-income and lower-middle-income countries.

- Regarding the moderating role of financial development in the impact of financial globalization on economic growth, the effect of financial globalization on economic growth may considerably depend on the level of financial development in individual countries. Nevertheless, there exists a lack of empirical studies that examine the importance of financial development in moderating this relationship, particularly those evaluating financial globalization and financial development using composite indices.

- In Asia, there is a lack of empirical evidence proving the impact of financial globalization on economic growth in countries within this area, particularly in middle-income countries.

CHAPTER 3: RESEARCH METHODOLOGY

3.1. Research process

The thesis analyzes the impact of financial globalization on economic growth in Asian middle-income countries. To achieve the general research objective outlined, the framework is structured into five main steps as follows: (i) Step 1. Define the research objectives; (ii) Step 2. Present the theoretical framework and identify research gaps; (iii) Step 3. Develop research hypotheses and the research model; (iv) Step 4. Estimate the model and discuss the results; (v) Step 5. Suggest policy implications.

3.2. Research hypotheses and research model

3.2.1. Research hypotheses

- Hypothesis H_1: Financial globalization has a positive effect on economic growth in middle-income countries in Asia.

- Hypothesis H_2: There exists a threshold value for financial development, before and after which the impact of financial globalization on economic growth in middle-income countries in Asia may vary.

+ *Hypothesis H_{2a}:* Before the threshold value of financial development, financial globalization has a positive impact on economic growth in middle-income countries in Asia.

+ *Hypothesis H_{2b}:* After the threshold value of financial development, financial globalization has a positive impact on economic growth in middle-income countries in Asia, but at a higher level compared to before the threshold.

3.2.2. Research models

Model 1: The impact of financial globalization on economic growth in middle-income countries in Asia.

$$Y_{it} = \alpha_1 + \beta_1 FG_{it} + \delta_1 FG_{it}\times FD_{it} + \mu_1 X_{it} + \varepsilon_{it} \qquad (3.1)$$

Table 3.1: Variable definitions

Variable	Code	Definition	Source
Dependent variables			
Economic growth	Y	The logarithm of GDP per capita	WDI
Independent and moderating variables			
Financial globalization	FG	Financial globalization index	Swiss Economic Institute
The interaction variable between financial globalization and financial development	FG×FD	Financial globalization index × Financial development index	Swiss Economic Institute and IMF
Control variables			
Government expenditure	GE	Government expenditure to GDP	WDI

Variable	Code	Definition	Source
Control of corruption	CC	Control of corruption index represents the effectiveness of the government's efforts in controlling corruption. CC is valid from -2.5 (weak) to 2.5 (strong)	WGI
Population growth	PG	Annual growth of total population	WDI

Source: Author's proposal.

Model 2: The moderating role of financial development in the impact of financial globalization on economic growth in middle-income countries in Asia.

$$Y_{it} = \alpha_2 + \beta_{21} FG_{it} \times I (FD_{it} \leq \lambda) + \beta_{22} FG_{it} \times I (FD_{it} > \lambda) + \mu_2 X_{it} + \varepsilon_{it} \quad (3.2)$$

In Equation (3.2), λ represents the threshold value of financial development. I(.) is an indicator function of the financial development threshold variable, which serves to divide the data into regions before ($FD_{it} \leq \lambda$) and after the threshold value ($FD_{it} > \lambda$). The other variables are similar to those in Model 1.

Generally, if there exists the threshold j, Equation (3.2) will take the form as follows:

$$Y_{it} = \alpha_3 + \beta_{31} FG_{it} \times I\,(FD_{it} \leq \lambda_1) + \sum_{j=2}^{j-1} \beta_{3j} FG_{it} \times I\left(\lambda_{j-1} < FD_{it} \leq \lambda_j\right) + \beta_{3(j+1)} FG_{it} \times I\left(FD_{it} > \lambda_j\right) + \mu_3 X_{it} + \varepsilon_{it} \quad (3.3)$$

In Equation (3.3), λ_j represents the threshold values of financial development. The other variables are similar to those in Equation (3.2).

Model 2 is extended into Models 2a and 2b, respectively, when analyzing two datasets which are that of upper-middle-income countries (Model 2a) and that of lower-middle-income countries (Model 2b).

In this model, the author replaces the financial globalization index (FG) with key component indices, specifically: foreign direct investment

(FDI) and portfolio equity investment (PI). Thus, the results will be thoroughly examined, enhancing their robustness.

3.3. Research data

The dataset includes 24 middle-income countries in Asia, covering the period from 2002 to 2021.

The financial globalization index (FG) data are collected from the database of the Swiss Economic Institute. The financial development index (FD) data are obtained from the IMF database. The control of corruption (CC) data are sourced from the Worldwide Governance Indicators (WGI) of the World Bank. The remaining variables (Y, FDI, PI, GE, PG) are gathered from the World Development Indicators (WDI) database of the World Bank.

3.4. Analytical methods

To achieve the research objectives, the author primarily employs quantitative analysis methods which are specifically as follows:

- For the first research objective, the author employs fundamental regression methods appropriate for this dataset to estimate the research models, including the Pooled Ordinary Least Squares (Pooled OLS) model, the Fixed Effects Model (FEM), and the Random Effects Model (REM). Subsequently, the author estimates the research models using the Generalized Method of Moments (GMM). In addition, the Bayesian approach is applied to test the robustness of the estimation results, specifically to verify the results previously obtained through the GMM method.

- For the second objective, the author applies the panel threshold effect proposed by Hansen (1999) and Wang (2015) to test for the existence of a financial development threshold, where the impact of financial globalization on economic growth may vary before and after this threshold value. Then, the author employs the Generalized Method of Moments (GMM) to estimate the effects of financial globalization on economic growth within the regions above and below the financial development threshold. Also, the author tests the robustness of the estimation results using the Bayesian approach. This is to confirm the robustness of the earlier findings produced by the GMM approach. This is also further strengthened by replacing the financial globalization index (FG) with key component indicators, including foreign direct investment (FDI) and portfolio equity investment (PI), to re-estimate the research models.

- For the third objective, based on the estimation results of the research models and the actual context, the author employs analytical and evaluative methods to formulate policy recommendations related to financial globalization in connection with financial development, thereby promoting economic growth in Asian middle-income countries.

CHAPTER 4: RESULTS AND DISCUSSION

4.1. The current situation of financial globalization, financial development, and economic growth in middle-income countries in Asia

The data sample is collected from 24 middle-income countries in Asia during the period 2002-2021. The descriptive statistics of the variables are presented in Table 4.1.

Table 4.1: Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
Section A: 24 middle-income countries				
Y	7.77	0.96	5.23	9.54
FG	50.98	14.99	19	78.44
GE	14.46	14.84	2.36	147.74
CC	-0.60	0.57	-1.60	1.62
PG	1.21	0.99	-2.88	9.97

Variable	Mean	Std. Dev.	Min	Max
Section B: 10 upper-middle-income countries				
Y	8.42	0.70	6.64	9.54
FG	57.88	10.60	32.36	78.44
GE	12.36	2.75	5.94	19.40
CC	-0.50	0.53	-1.45	0.83
PG	0.83	0.81	-0.90	2.52
Section C: 14 lower-middle-income countries				
Y	7.30	0.84	5.23	9.13
FG	46.05	15.72	19	75.16
GE	15.96	19.17	2.36	147.74
CC	-0.67	0.59	-1.60	1.62
PG	1.48	1.01	-2.88	9.97

Source: *Author's analysis.*

4.2. Estimation results

- The impact of financial globalization on economic growth in middle-income countries in Asia: The estimation results indicate that financial globalization positively affects economic growth in middle-income countries in Asia, confirming hypothesis H_1. This influence is stronger in upper-middle-income countries compared to their lower-middle-income counterparts. Moreover, the estimation results show that the interaction variable FG×FD has a positive effect on economic growth in middle-income countries in Asia. This impact is significantly stronger in lower-middle-income countries than in upper-middle-income countries, representing a new finding of this study.

- The threshold values of financial development: The results show that models 2a and 2b exhibit threshold values for financial development, which is $\lambda_a = 0.61$ (Model 2a) and $\lambda_b = 0.19$ (Model 2b), respectively. This supports the acceptance of hypothesis H_2. Therefore, the threshold value of financial development in low-middle-income countries is significantly lower than that in upper-middle-income ones.

- The impact of financial globalization on economic growth in regions before and after the threshold of financial development: The results show that financial globalization exerts a positive impact on economic growth in both regions before and after the threshold of financial development. This finding is observed in both the sample of upper-middle-income and lower-middle-income countries. However, the role of financial development in moderating the impact of financial globalization on economic growth varies between the two data samples. In specific, the amplifying effect of financial development on the impact of financial globalization on economic growth is more pronounced in lower-middle-income countries compared to upper-middle-income ones. This is a novel finding of this thesis. Therefore, hypotheses H_{2a} and H_{2b} are accepted.

- The impact of control variables on economic growth: The estimation results prove that economic growth is considerably influenced by the control variables including control of corruption, government expenditure, and population growth.

4.3. Discussion

Table 4.2: Summary of results

Hypothesis		Results
H_1	Financial globalization has a positive effect on economic growth. (FG → Y)	Accepted
H_2	There exists a threshold value for financial development, before and after which the impact	Accepted

Hypothesis		Results
	of financial globalization on economic growth may vary.	
H_{2a}	Before the threshold value of financial development, financial globalization has a positive impact on economic growth.	Accepted
H_{2b}	After the threshold value of financial development, financial globalization has a positive impact on economic growth, but at a higher level compared to before the threshold.	Accepted

Source: Author's analysis.

- The impact of financial globalization on economic growth in middle-income countries in Asia:

The estimation results reveal that financial globalization positively affects economic growth in Asian middle-income countries. These results are found when analyzing all three data samples, supporting hypothesis H_1. Accordingly, financial globalization plays a key role in enhancing economic growth in middle-income countries in Asia. The positive impact of financial globalization on economic growth confirms the relevance of several related theories, such as classical growth theory (Ricardo, 1817; Smith, 1776), neoclassical growth theory (Solow, 1956), endogenous growth theory (Romer, 1990), Keynesian growth theory (Keynes, 1936), the Big Push theory (Rosenstein-Rodan, 1943), the two-gap model (Chenery & Strout, 1966), and the three-gap model (Bacha, 1990; Solimano, 1990; Taylor, 1994). This result is also consistent with what has been reported previously by Obstfeld and Taylor (2002), Kose et al. (2006, 2010), Saidi and Aloui (2010), Bogdan et al. (2014), Lee (2016), Friedrich et al. (2010), Egbetunde and Akinlo (2015), Ze et al. (2023), and Adjei et al. (2024).

The results also suggest that the positive influence of financial globalization on economic growth is stronger in upper-middle-income countries compared to their lower-middle-income counterparts. This finding concludes that the former benefit more from fostering financial globalization than the latter. This is entirely consistent with the features of middle-income countries in Asia. Specifically, upper-middle-income countries typically have more favorable domestic conditions than lower-middle-income ones, which may improve their capacity to absorb foreign capital inflows.

- The impact of the interaction between financial globalization and financial development on economic growth in middle-income countries in Asia

The estimation results reveal that the interaction term FG×FD positively affects economic growth in Asian middle-income countries. This finding is consistent across all three data samples. It implies that the benefits of financial globalization on economic growth can be enhanced by enhancements in domestic financial systems.

A novel contribution of this thesis suggests that lower-middle-income countries can amplify the positive influence of financial globalization on economic growth by improving their domestic financial systems. Notably, the degree of amplification in lower-middle-income countries is even higher than in upper-middle-income ones. This highlights a key role of financial development, particularly for lower-middle-income countries, in enhancing financial globalization in conjunction with economic growth.

- The moderating role of financial development in the impact of financial globalization on economic growth in middle-income countries in Asia

+ *For the threshold values of financial development:* The estimation results confirm the presence of threshold values for financial development in Models 2a and 2b, which are $\lambda_a = 0.61$ (Model 2a) and $\lambda_b = 0.19$ (Model 2b) specifically. This supports the acceptance of hypothesis H_2.

+ *For the impact of financial globalization on economic growth across regions before and after the financial development threshold:*

The estimation results indicate that financial globalization is positively correlated to economic growth across regions both before and after the financial development threshold. This finding is found in the samples of both upper-middle-income and lower-middle-income countries. However, the moderating role of financial development in this impact differs between the two samples. Specifically, in lower-middle-income countries, the positive effect of financial globalization on economic growth is significantly stronger in the region beyond the financial development threshold compared to that below the threshold. In fact, these countries tend to enhance financial development. Significantly, several countries, including Bhutan, Cambodia, and Nepal, have experienced a recent surge in financial development, despite having below-average levels during the study period. Meanwhile, in upper-middle-income countries, the impact of financial globalization on economic growth shows no significant difference between the regions before and after the financial development threshold. Thus, hypotheses H_{2a} and H_{2b} are accepted. Accordingly, an increase in financial development can encourage this impact. These results affirm the correctness of the financial intermediation theory (Gurley & Shaw, 1960), the AK model (Pagano, 1993), and the stage-of-development hypothesis (Patrick, 1966). Moreover, they are in line with prior conclusions drawn by Wei (2006), Alzaidy et al. (2017), Anetor (2020), Gupta et al. (2022), and Joo et al. (2022). Additionally, this study confirms the findings of Baharumshah et al. (2017) and Yeboua (2019) by proving that the positive impact of financial globalization on economic growth is different between the regions before and after the financial development threshold.

This research contributes to the literature by demonstrating that the positive influence of financial globalization on economic growth in middle-income countries is significantly amplified by improving their domestic financial systems. Notably, the degree of this amplification is higher in lower-middle-income countries compared to upper-middle-income countries. Moreover, the financial development threshold in lower-middle-income countries is considerably lower than that in upper-middle-income countries.

When replacing the financial globalization (FG) index with two alternative indicators, which are foreign direct investment (FDI) and portfolio equity investment (PI), the results reveal that FDI has a negative impact on economic growth in the region below the financial development threshold in both samples of 10 upper-middle-income and 14 lower-middle-income countries. This is also seen when investigating the impact of portfolio equity investment (PI) on economic growth across regions before and after the financial development threshold in the 14 lower-middle-income countries. Nevertheless, in the 10 upper-middle-income countries, this influence is negative in both regions before and after the threshold. However, the degree of the negative impact in the region beyond the threshold (-0.080) is significantly lower than that below the threshold (-0.136). The probability of these effects occurring is relatively high. These results also highlight that considering financial globalization solely from the perspective of capital inflows or outflows cannot capture its multidimensional nature. This further emphasizes the necessity of using a composite index in analyzing financial globalization.

- The impact of the control variables on economic growth in middle-income countries in Asia:

The estimation results highlight that economic growth is significantly influenced by the control variables, including control of corruption, government expenditure, and population growth. Thus, in addition to promoting financial globalization, middle-income countries should also pay more attention to government expenditure, control of corruption, and population growth.

CHAPTER 5: CONCLUSIONS AND POLICY IMPLICATIONS

5.1. Conclusions

With this thesis, the author has refined the theoretical framework regarding the impact of financial globalization on economic growth, as well as the moderating role of financial development in this relationship. Furthermore, the results support all the hypotheses. Overall, the thesis has successfully achieved its research objectives.

5.2. Policy implications related to financial globalization and financial development, aimed at promoting economic growth in middle-income countries in Asia

5.2.1. Policy implications for financial globalization to promote economic growth in middle-income countries in Asia

The results indicate that financial globalization plays a crucial role in fostering economic growth in middle-income countries in Asia. Given this finding, the author proposes some policy implications for financial globalization aimed at boosting economic growth.

5.2.2. Policy implications for financial development to boost the impact of financial globalization on economic growth in middle-income countries in Asia

The findings prove that improvements in the domestic financial system are essential in amplifying the positive impact of financial globalization on economic growth in middle-income countries in Asia. This role is particularly important for lower-middle-income countries. Consequently, these countries need to make further efforts to improve their domestic financial systems, thereby creating favorable conditions to improve the efficiency of resource allocation and the ability to absorb international capital. This can even complement international capital in the process of driving economic growth.

5.2.3. Other policy implications for promoting economic growth in middle-income countries in Asia

The findings conclude that economic growth is considerably influenced by the control variables. Hence, middle-income countries in Asia need to focus on policies related to these factors to advance their domestic conditions, thereby creating a favorable environment to promote financial globalization linked with economic growth.

5.3. Limitations and further research suggestions

Despite the valuable findings, this study has certain limitations, namely sample size constraints and a relatively limited set of control variables included in the model.