

## Chapter 4

# Globalization and Economy: Growth, Development, and Financial System

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### **ABSTRACT**

*Society in general has had a constant concern throughout its history and especially in recent years, where inequality has increased, and many more people live in poverty or in worse situations. Different economists have studied this situation and proposed solutions to it; governments have embarked on a constant fight to improve the economic and development conditions of the population, since this affects other indicators; but it looks like this battle is being lost globally. This chapter sought to analyze the dynamics of development in a series of countries through the analysis of different macroeconomic indicators, which were related to the financial crises of the last 15 years to determine the effect of the globalization of financial markets on nations in developing. The results of this analysis showed that although there is greater financial globalization, the crises have negatively affected the growth and economic development process of developing nations and have increased the social and economic gaps between countries.*

### **INTRODUCTION**

Globalization is understood as a process by which countries strengthen and produce their ties and relationships, creating environments of deep cooperation and dependency (Woods, 1998). At first globalization was understood as an eminently economic phenomenon, but over the years it has been understood that it is a phenomenon that transcends this sphere and affects social, political, cultural relations and anyone where there is the slightest interaction between human beings (Al-Rodhan, 2006).

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There is still no consensus regarding the true start of the globalization process, in addition to being very difficult to find in time, since relations between civilizations date back a long time and throughout history there have been clashes between different civilizations and cultures that have led to processes of destruction and cultural construction, this being a first example of the globalization process. The above can be seen throughout history, Alexander the Great in its expansion destroyed different villages in his wake but established strong commercial relations with other peoples.

The same situation was presented with the Roman Empire, who in its expansion process razed entire cities but subsequently established commercial ties. You can even see that same proceeding with the European conquest in America, at first there was a process of destruction of the local civilization to be replaced by the European kingdoms. But just as the different civilizations assimilated cultures, they also had the ability to maintain commercial and economic relations with other nations.

Thanks to the interdependence process, many economies have had positive transits on the way to achieve greater economic development. It must be understood at this point that economies seek to have significant economic growth that translates into economic development, but in both cases nations are subjected to different factors, both internal and external; although globalization is currently an external effect, it has the capacity to greatly affect nations internally.

As mentioned, there is a clear relationship between growth and economic development, both concepts have changed over the years and show both progress and extensive discussions regarding their impacts worldwide (Adelman, 1965), but clearly there have been different impacts and variables that have affected a better development of the countries' needs. By focusing mainly on the impact that financial crises have had, studies have shown how in the case of developing countries the effects have differed depending on the proximity or not of the larger economies (Goldberg & Pavcnik, 2007).

It can be seen that there is a negative effect as some nations have become impoverished and the income distribution gap has deepened, leading to a possible delay in their process of economic and social development, some authors propose a wear and tear on this phenomenon given the dissimilar effects created around the world and leading to the rethink of the existing model, one that reduces imbalances created and generates greater progress in developing nations (Wallerstein, 2005).

This leads to establish the following research problem: *What has been the effect of financial globalization on the economic development of developing countries?* As mentioned and will be explained in greater detail, globalization as a process has constantly evolved supported by other sciences and activities, and the effect that the development of financial products has had as well as the interrelation between economies has been especially important and strong, leading to the generation of different effects throughout the planet. For the development of this chapter, it was hypothesized that deepening financial globalization in a nation must lead to an increase in economic growth and a decrease in inequality or disparity in income distribution.

For the development of this chapter, it has been established as a general objective to establish the relationship between financial globalization, growth and economic development that allows an understanding its economic effects in developing countries, in Annex 1 will be displayed the list of developing countries for a better comprehension.

The following specific objectives have been outlined: (a) to analyze the economic growth of developing nations from the collection of statistical data from international organizations on the main economic aggregates, (b) analyze the economic development of developing countries based on economic concepts and models, (c) determine how the globalization of financial markets has affected the growth and economic development of developing countries, (d) generate proposals that allow developing countries to

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