Benefits and Risks of Financial Globalization

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Abstract

Financial globalization is defined as an amalgamation of domestic financial system of a particular country with the international organizations as well as financial markets. During the mid-1970s, the emerging market economies did not experience much of cross-country financial flows. The rate improved during 1980s and 1990s, while in the year 1997 it reached its best. The potential benefits of financial globalization will likely lead to a more financially interconnected world and a deeper degree of financial integration of developing countries with international financial markets. Probably, the main benefit of financial globalization for developing countries is the development of their financial system and another important fact is that globalization of finance has improved living standards of the people. Simply speaking, Financial Globalization is the safeguard to defend against national shocks, and an excellent system for more efficient global allocation of resources. As well as Financial Globalization can also cause severe disorder and cost high for stock market turbulence, bank failures, corporate bankruptcies, currency depreciation, etc. Hence there are Benefits and Risks of Financial Globalization. The main objective of this paper is to focus on Benefits and Risks of Financial Globalization.

KEYWORDS -Financial Globalization, Financial Markets, Benefits and Risks.

Introduction- Financial globalization is an aggregate concept that refers to increasing global linkages created through cross- border financial flows. Financial integration refers to an individual country's linkages to international capital markets. Financial globalization, defined as global linkages through cross-border financial flows, has become increasingly relevant for emerging markets as they integrate financially with the rest of the world. According to Eswar S. Prasad and Kenneth Rogoff,The recent wave of financial globalization that has occurred since the mid-1980s has been marked by a surge in capital flows among industrial countries and, more notably, between industrial and developing countries. Although capital inflows have been associated with high growth rates in some developing countries, a number of them have also experienced periodic collapses in growth rates and significant financial crises that have had substantial macroeconomic and social costs. During the mid-1970s, the emerging market economies did not experience much of cross-country financial flows. The rate improved during 1980s and 1990s, while in the year 1997 it reached its best. The potential benefits of financial globalization will likely lead to a more financially interconnected world and a deeper degree of financial integration of developing countries with international financial markets. Probably, the main benefit of financial globalization for developing countries is the development of their financial system and another important fact is that globalization of finance has improved living standards of the people. Simply speaking, Financial Globalization is the safeguard to defend against national shocks, and an excellent system for more efficient global allocation of resources. As well as Financial Globalization can also cause severe disorder and cost high for stock market turbulence, bank failures, corporate bankruptcies, currency depreciation, etc. Hence there are Benefits and Risks of Financial Globalization. The main objective of this paper is to focus on Benefits and Risks of Financial Globalization.

Benefitsof Financial Globalization–Globalization enables goods to be produced in different parts of the world. This greater specialization enables lower average costs and lower prices for consumers. Domestic monopolies used to be protected by a lack of competition. However, globalization means that firms face greater competition from foreign firms. There are following benefits of financial globalization

- Financial Globalization has enhanced capital flow in each and every country with which a country may always remain prepared to counter any financial crisis.
- Due to Financial Globalization the capital flows between nations increase which causes well-organized world allocation of money.
- Financial Globalization has improved living standards of the people. Simply speaking, Financial Globalization is the safeguard to defend against national shocks, and an excellent system for more efficient global allocation of resources.
- The main benefit offinancial globalization for developing countries is the development of their financialsystem.
- Commerce as a percentage of gross world products has increased in 1986 from 15% to nearly 27% in recent years.
- The stock of foreign direct investment resources has increased rapidly as a percentage of gross world products in the past twenty years.
- For the purpose of commerce and pleasure, more and more people are crossing national borders. Globally, on average nations in 1950 witnessed just one overseas visitor for every 100 citizens. By the mid-1980s it increased to six and ever since the number has doubled to 12.
- Worldwide telephone traffic has tripled since 1991. The number of mobile subscribers has elevated from almost zero to 1.8 billion indicating around 30% of the world population. Internet users will quickly touch 1 billion.

Risks of Financial Globalization – The number of downsides of financial globalization is also not less. The risks of financial globalization are as follows.

- The economy of the country is not strong; it could be affected by the financial shocks of a different country.
- Financial Globalization can also cause severe disorder and cost high for stock market turbulence, bank failures, corporate bankruptcies, currency and depreciation.
- Reversal of capital can also create a great economic turbulence on a large scale due to Financial Globalization.
- Credit inflow from around the globe can be used as an insurance against adverse financial crisis that may hamper an economy.

- Every market is different and generally the risk sharing welfare programs are not suitable for these varied economies.

Conclusion- From the above analysis it is concluded that the main benefit of financial globalization for developing countries is the development of their financial system and another important fact is that globalization of finance has improved living standards of the people. Simply speaking, Financial Globalization is the safeguard to defend against national shocks, and an excellent system for more efficient global allocation of resources.Hence Financial Globalization is extremely advantageous for the developed countries.

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