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# ADVANTAGES AND DISADVANTAGES OF FINANCIAL GLOBALIZATION IN INTERNATIONAL BUSINESS

**The relevance of research.** The formation of the global financial architecture is accompanied by a rapid growth in world financial flows, a sharp increase in the volume of international capital flows, and a giant expansion of the scale of international credit and stock markets. This determines the relevance of the study.

**Research results.** The main segments of global financial flows that mediate the movement of goods, services, as well as interstate capital overflow, in our opinion, include:

- settlement and credit servicing of the movement of goods and services;
- currency transactions;
- operations with securities and other financial instruments;
- foreign investment;
- International official financial assistance.

Financial globalization causes ambiguous economic and social phenomena. Potentially, the process of financial globalization itself provides significant advantages to both investors and borrowers, since, presenting market entities with the most heterogeneous choice, it allows you to conclude more effective agreements, taking into account their needs, and also, thanks to the depth and high liquidity of the markets, quickly switch from one operation to another, reacting in time to changes in the financial sphere in real time. The positive effects of financial globalization are that it:

• simplifies the access of participants to the global financial market;

• Accelerates the integration of countries by establishing a supranational system for regulating cross-border financial flows;

• Expanding the scope of financial transactions;

• activates mergers and acquisitions, concentration of capital, creation of global TNCs;

• simplifies access to foreign financial resources;

• Promoting the introduction of comprehensive information standards into the global marketplace to ensure transparency in the activities of governments and financial institutions.

But there is a point of view that in the context of globalization, only the developed countries of the world can fully realize their interests, and it is they who are quite actively using the consequences of this process. As a result, billions of dollars of "hot money" accumulated in several global speculative funds, succumbing to rumors and panic about the likely loss of assets, can be instantly transferred from one currency to another by pressing the computer keyboard, which can upset the

currency system of any selected country. The dual role of financial globalization is manifested in the fact that, in addition to positive ones, it has negative consequences. These include:

• The uneven distribution of the benefits of financial globalization between developed and developing countries, leading to a widening gap between poor and rich countries, as well as within countries between poor and wealthy groups;

• the rapid movement of huge masses of speculative capital between countries can dramatically worsen the state of national economies;

• increase in the degree of financial risks in the global financial market;

• Recurrent global financial crises, leading to the instability of the global market. However, there is no real alternative to financial globalization in the near future. Financial globalization can change the forms, mechanisms of implementation and manifestation, but at the same time it will remain a constant component of world economic processes. The future of financial globalization is associated with the expansion of forms, methods and instruments of regulation of the global financial market.

A study by IMF economists showed that episodes of capital-account liberalization on average across all countries in the sample had a limited impact on output, but led to a significant increase in inequality. On average, across the sample, the increase in output growth ranged from less than 0.5 per cent in the first year of liberalization to 1 per cent in the fifth year (ranging from about minus 1.5 per cent to plus 3.5 per cent), while inequality (the Gini coefficient) increased by more than 3 per cent after five years (growth occurred in all countries). Liberalization of capital flows also led to a reduction in the share of labor – this was observed in all countries (by an average of 3% by the end of the five-year period): a decline in the cost of capital leads to more active automation. The effect of reducing the share of labor has a strong sectoral differentiation – it is greater in industries where capital can relatively easily replace labor (for example, in mechanical engineering), and weaker or absent where it is more difficult to replace workers with automatic machines (for example, in the field of hotel services). In addition, capital inflows can reduce the "bargaining power" of workers due to the possibility of moving production abroad, the researchers note.

The effects are very different from country to country: the bonuses from capital liberalization are greater, and the negative effects are less in countries with developed financial institutions and the market, for countries with high internal restrictions on financial markets, the opposite is true. Thus, in countries where the financial sector is well developed, the liberalization of capital flows leads to an additional increase in output (by about 3.5% over five years), while in countries with an underdeveloped domestic financial market, output growth is declining. The liberalization of financial flows has a negative impact on inequality in any case, but this effect is significantly more noticeable in states with a low level of financial inclusion, since due to unequal access to financial services, capital inflows increase the availability of financial resources for those who already actively used them. Opening up the domestic market to external capital flows can prove to be an additional source of volatility and lead to

crises that negatively affect income distribution and output. Since 1980, more than 50 emerging economies have experienced 150 cases of sharp capital inflows, and in about 20% of cases this phenomenon was followed by a crisis, the authors point out.

As a consequence of the process of globalization of finance, the rapid introduction of innovative technologies, as well as to maintain competitiveness in all countries, banks, exchanges, brokerage and other institutions are being consolidated to one degree or another, access is being liberalized, brokerage activities are being deregulated, and Internet technologies are being introduced. In such conditions, the consolidation of the financial sector is most effectively carried out in countries with developed (mature) markets, where the main goal is to reduce costs when carrying out financial transactions.

**Conclusions.** The results do not mean that countries should not promote the free movement of capital, the authors emphasize: these results mean that the liberalization of capital flows should take into account possible negative effects. For example, in countries where reducing inequality is an important policy goal, trade-offs may be needed – for example, limiting the carry trade (speculative capital), which often leads to higher prices for unhealthy assets or credit bubbles, and encouraging other types of capital flows – such as investment in new projects. The negative effects of financial globalization can help to level fiscal policy, as well as the development of domestic financial institutions and the increase in financial inclusion.

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