

THE IMPLICATIONS OF GLOBALIZATION ON THE EFFICIENCY AND STABILITY OF FINANCIAL SYSTEMS

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Abstract: International economy is marked by a multitude of substantive changes reshaping the fabric of interdependence on which it operates. The development of the information society and the continuous adaptation to rapid changes in economic structures that occur in the world puts virtually all nations in a continuous process of restructuring and transition. Two main forces, dynamic and interdependent lead this process, namely: deepening of globalization and the emergence of the global economy and the development of economic arrangements in financial systems.

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Introduction

Globalization can be defined as the highest form of internationalization of the economic activity.¹ Globalization trends in the economy global manifested on several levels: integration of the international production system, integration of markets in goods and services, the convergence of the economic policies of national economies. Globalization intensifies and more the decisive role of information as a resource for economic development in this stage.

Globalization is the increasing the overlap between national economies. We are heading for a new world global economic system where interdependences between countries are essential.

Analyses

Two components will be analyzed: the main factors of influence over the transformation of the financial system and the consequences of globalization on financial systems.

It is clear that both the form and operation of financial systems have undergone profound changes in the impact of globalization of national economies. The financial system has mutated considerably under the direct influence of four main factors: increased competition among financial institutions increasing competition between markets, new requirements on transparency and profitability in the financial industry, increased restructuring to cope with pressures due to increased competition.²

The increased competition among financial institutions. Whilst not too long ago, financial institutions were operating on separate segments of closed economies, they now have to compete with other financial institutions, whether foreign or domestic, as in the case of pension funds or hedge funds.

Financial innovation has manifested as a continuous pressure factor on financial service providers. The offer of financial products for credit institutions, investment funds, insurance companies' have experienced a strong growth and the similarities between the new financial products, in terms of two fundamental characteristics, risk and profit, made sometimes the mentioned financial institutions to compete in the same market segment.

¹ Cristian Valeriu Stanciu, Portfolio management over the international capital market, Craiova, 2004,p 91

² Cristian Valeriu Stanciu, Portfolio management over the international capital market, Craiova, 2004, p 96

Likewise, the competition between financial sectors grew under the direct influence of the technological progress, which made possible the rise of new players on the financial markets, e-brokers and e-traders, threatening seriously the dominated position of some indigenous broker banks or companies. The same phenomena can be observed in the case of companies which supply related services of back-office or custody, the technological progress making possible the rise of some new competitors, as e.g. internet service suppliers or telecommunication companies.

The increase of competition between markets. The achieved progress in the field of information technology and telecommunications have allowed the financial market actuators, whether natural or legal persons, companies or institutional investors to transfer the available capitals in any part of the world in just a few seconds. Due to the investment statement or of granting a loan the available opportunities on every world market are implemented in that statement.

The national stocks have become simple compartments of the global financial market and are found in a continuous competition. They need to stand their ground against the expansion phenomena of OTC markets. The biggest financial institutions are the outstanding actuators of the OTC markets, which operates according to a private and decentralised mechanism

Due to investors desire to improve the efficiency that gave rise also to new developments in the structure of financial markets. Planning the constructions of some informatics links between stock markets (especially the ones from Europe) and consolidation the systems “delivering financial titles vs. payment” testify to concerns about efficiency investment activity. Traditional national scholarships rings are replaced gradually by international electronic markets and trading systems in many financial centres and are increasingly competed for private trading systems such as Electronic Communication Networks³.

New requirements for transparency and profitability in the financial industry, fuelled by the new framework of international competition in general and financial fund managers, in particular, new principles have taken root on corporation authority. These new principles have forced financial institutions participating in the international financial market conditions to comply with new transparency and profitability. These requirements, on the one hand, encouraged the global financial market participants to adopt new risk management investment behaviour; on the other hand, it has demonstrated the importance ratings in specialized agencies, which characterize the structure and performance of the actuators portfolio of world financial market.

Intensified restructuring to cope with pressure due to increasing competition, if they want to survive the new conditions imposed by the globalization of financial markets, financial intermediaries must expand traditionally and innovative. Regarding the extension, we can say that the unprecedented global financial sector's main purpose is to push by major corporations, namely that of increasing their own market share and economies of scale interaction. At a company level, innovation or that related to a product, whether it relates to a production process is undoubtedly an alternative - or addition - to the search for market share growth. This mix can be translated into a variety of possible strategies: developing new products to exploit market outlets, association or collaboration with other service providers to strengthen the market position and expand the range of products in order to gain new market segments.

So the first consequence of globalization is reflected in improving macroeconomic efficiency of financial systems. Free movement of capital, interconnected markets and hedging opportunities provided by new financial instruments allow an optimal balance between the total capacity of finance and corporate loan applications or governments. The market interest rate based on supplies and demand report and incorporating specific risks, leads to a more efficient allocation of capital.⁴

Raising barriers to entry in the financial markets, the free flow of information and the fierce competition in these markets led to near financial market with perfect competition market.

³ Gheorghe Dolgu, The Crisis Finance Theories Selected Studies, Bucharest, 2009, p. 26

⁴ www.scribd.com/efectele.globalizarii

Finally, the expanding financial markets allowed rapid drainage and conversion of savings into investments. Reducing financing through bank loans, leading to certain limiting the currency of account creation, financial markets allowed financing for the economy in a less inflationary way.

A second consequence of globalization is reflected in the creation of a new legislative framework for conducting monetary policy. Financial deregulation contributed substantially to changes in macroeconomic policy approach. The existence of open economies and the interdependence of financial systems have led to an overhaul of the context in which monetary policy can be implemented. Financial markets can penalize a monetary policy that inflation results in capital outflows with immediate effect to increase long-term interest rate and / or exchange rate depreciation. At the same time, the transmission mechanism of monetary policy has become more diverse and complex.

Today, the monetary policy is conducted in compliance with a legal framework characterized by two features: first, reducing inflation expectations depend on respect towards the rules that have been fully clarified and defined in advance, of course, this policy can only succeed if authority in the design and implementation is credible, and secondly, the emergence of global financial markets has led to new developments in monetary policy instruments, interest rate related instruments have gained importance at the expense of quantitative and regulatory instruments.

A third consequence of the globalization process consists in defining new risks that may affect the stability of financial markets. It is clear that this liberalization manifested in the global financial markets does not eliminate the possibility of occurrence of financial crises in the system. The emergence and development of new financial instruments, the mobility and speed increased capital flows and the rapid response to global financial markets players were the factors that have been responsible for the trend of increasing market volatility. Moreover, changes in financial stock prices and interest rates in different markets became closely linked.

In fact, the last two decades of the 20th century witnessed a series of crises: the U.S. banking crisis of the late 80s and in Europe and Japan in the early '90s, the 1987 stock market crash, the 1994 bond market crisis, financial crisis Mexico (1994), Southeast Asia (1997), Russia and Argentina.

The new tendency of financial markets led to the emergence of new financial market distortions that arise mainly due to the interdependence of investors' expectations, their selfishness and the emergence of crises within a market. However, standardization of risk management techniques manifested by a liquidity crisis in some sections of the market, resulting in price volatility increased direct financial securities and streamlining loan.

In this general context of internationalization and globalization of financial markets, public authorities must satisfy new requirements: solving the aforementioned crisis has demonstrated the ability of monetary authorities to engage in international monetary policy coordination so that the effects are mitigated in crisis shortest possible time, expanding markets for bonds and derivatives and shorten interbank financing operations lead to requirements for active involvement of the private sector in resolving certain crises, the continued expansion and increasing complexity of financial institutions determine devoting more attention to this phenomenon by supervisory authorities responsible.

Conclusions

In conclusion, recurrence of financial crises distortion in certain markets and new requirements that have to deal with the authorities responsible for the supervision are the factors that have led some analysts to question whether instability is the price paid for the expansion of globalization and internationalization process. The answer is given by national and international authorities with responsibilities in this area, by promoting effective monetary policy and prudential managed to ensure efficiency and stability of financial structures components of the global financial market.

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- 4 * * * www.wall-street.ro