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Advantages And Disadvantages of Financial Globalization

By

Gulyamova Gulshakhnoz Sabirovna
Associate Professor of
University of World Economy and Diplomacy
Email: shahramaslanov@gmail.com

Abstract

This article examines the advantages and disadvantages of financial globalization in the world and in Uzbekistan. It studies the problems and shortcomings that arise in this process. The process of financial globalization at the present stage of society development is analyzed. The positive and negative consequences of financial globalization are considered. The problem of risks of financial globalization is investigated.

Keywords: globalization; financial globalization; risks of financial globalization; positive and negative effects of globalization.

Introduction

Over the past twenty years, the concept "globalization" is increasingly found in economic articles and studies. Financial globalization arose as a consequence and an integral part of economic integration, which developed intensively during the second half of the 20th century. However, many elements of financial globalization appeared as a result of the development of the financial sector itself: the growth of free money capital and its movement between countries, the emergence of new financial instruments, the formation of collective currencies, etc.

Methods

In a general sense, globalization can be defined as a chain of political, economic, social and technological changes that lower barriers between states, give rise to new laws and features of interstate influence [2]. Financial globalization is a complex and controversial process that includes both clear positive aspects and rather serious negative aspects. On the one hand, in the conditions of active integration of the modern world economy, wide opportunities for individual countries to access global financial resources, however, some concerns arise in connection with the uncontrolled cross-country movement of capital. Financial globalization actively affects both the lending process and the process of borrowing by residents of various countries. From here comes the growth of the international network of financial institutions and corporations, the share of business increases [1]. Financial flows become more mobile, which leads to lower transaction costs. The investment climate is improving, the country is becoming more economically and politically stable. Thanks to foreign direct investment, growth rates are accelerating, employment is increasing (according to the World Bank, in Singapore, for example, they provide about 60% of employment in industry), the economic structure of countries specializing in the production of raw materials and the development of environmentally friendly technologies is diversifying [7].

However, many economists argue that financial globalization leads not only to positive consequences, but also to negative ones. For example, for less developed countries with a less attractive investment climate, financial globalization is dangerous by the “flow” of capital to more attractive countries, which leads to an even faster “impoverishment” of the country. [5]. She (the country) begins to compete with the economies of other countries for credit resources. The negative consequences of financial globalization are conflicts that can be avoided by developing global cooperation based on political agreements or creating new international institutions [4].

Discussions

Uzbekistan and globalization: what is dangerous about the policy of protectionism?

Despite the serious economic reforms being carried out in Uzbekistan, many local enterprises are still unable to compete in international markets. Sociologist and journalist Philip Gajilipo on why Uzbekistan should not stick to the protectionist policy, what is the essence of globalization, three factors that can affect the competitiveness of Uzbek business abroad, professor of the IE University of Spain, the field of economic integration interviewed expert Fernando Cortiñas. Below is an excerpt from this conversation:

- "Let's start easy." Let's say that I am ignorant of modern sociology, economics and political science, and I have a vague understanding of what globalization is, which people around me repeat over and over again. How would you explain what it is as succinctly as possible to someone like me?
- Globalization is a process that turns the world into a single market. But it will not be an open market. We exchange goods, services, etc., but that doesn't mean it's always done freely.
- "What is preventing him from being free?" After all, as we are taught, the market also lives on a spherical basis, almost like the laws of physics, and these laws create conditions for it to be open and free.
- Thousands and hundreds of years ago, there were several major civilizations and countries, and each of them had their own interests. As a rule, these interests do not intersect. Now the situation has changed - the zones of influence are colliding. This leads to the formation of alliances and blocs by individual countries. For example, NAFTA. There are other economic blocks. They don't want to be confined to a certain zone, but they begin to see the whole world as their goal. This is how the competition for global influence appears, creating obstacles for each other so that none of the blocs can become the world leader. Therefore, it is difficult to say that open processes of capital exchange will occur with the help of globalization. Flights, cell phones, pop culture. We can fly anywhere, talk to anyone at any time, so it looks like we're united, but we're not. Our world is global, but not a whole.
- Let's go back to the local level: now we have a lot of debates about how our market should be. Should we close the borders to protect the local producer, or should we radically open up the market, integrate into the global system for development, and experience a shock? Based on the general laws and experience of other countries, what would you recommend us?
- First of all, the market of Uzbekistan is quite small, like the country itself. Therefore, compared to giants like China, India and Russia, Uzbekistan has an important nuance - it is very difficult to scale the production of anything. Secondly, in terms of technological development, the country is lagging behind, so being closed is very dangerous. Because there are no competitive advantages in the country. Let's look at a couple of examples: Canada and the USA, Austria and Germany. 30 million people live in Canada, and more than 300 million in the USA, the difference between Austria

and Germany is 8 times. In both cases, the countries understood the need to open up to their big neighbor. Such an opening does not mean that the country will lose any of its identity or political independence. Thirdly, it is necessary to take into account whether the country has a landlocked road or not. If not, that automatically puts it in the position of having to be open to at least its surrounding neighbors, because without them it is landlocked—export and import operations are difficult without it.

I repeat, only big players with a strong domestic market can use the protectionist policy to develop independently. If this is not the case in the country, protectionism is a road that leads nowhere. The most optimal strategy for countries like Uzbekistan is to establish trade cooperation with large neighbors. At first they can be supplied with natural resources. This is the simplest version of the development of events. Then you can export not only resources, but also the products that your producers are making, that they are making by hand. This can be a very successful strategy because manual labor is cheaper in your country than in many countries. This makes the cost of the product low. But there is an important nuance - the quality of labor. This applies not only to workers in factories, etc.

Probably not. Our problem is not only the underdevelopment of technology - we are behind not only America and Europe, but also our neighbors - it is the complete lack of educated personnel and people who can educate them. Therefore, there are not unfounded concerns that our weak and monopolized market and its players will not be able to resist the arrival of powerful companies.

There are two cases when joining the global economic system: the first is that everything is done gradually, the period of integration takes 5-10 years, during which somehow local giants get used to the constant appearance of new players. must go The second case is that if the country is going to open up, it is very important to differentiate the industries, and understand which of them will benefit from the arrival of strong and foreign companies. Then you will have a stronger position when concluding international agreements, and your partners will have less opportunity to use you for their own benefit. Your cooperation will not be limited to the delivery of labor and raw materials on your part, but to work together. And we will "lose" the sectors that are far behind world trends. As sad as it may seem, in order for one area to benefit, another area has to be sacrificed. If these two rules are followed, the country will be able to go through the adaptation process without difficulty. But the political element should not be forgotten here: some sectors can be very competitive, it is possible to establish a relatively equal alliance with Western partners that will bring many benefits to the economy, but if this does not happen - everyone is satisfied with the current situation.

Results

Due to the penetration of world capital into the economies of advanced countries, with the opening of subsidiaries, transnational corporations, the difference between domestic and foreign production and trade began to disappear. This resulted in faster growth in world trade relative to world GDP. It follows from the above that big business grew faster than nominal GDP. It is necessary that the “flow” of world capital in any form be controlled and more transparent. This requires state support and a reliable, strong financial system. In this case, the movement of world capital can regulate the instability of economies. Of course, there is no uniform approach to opening capital transactions that would be equally effective for all countries, but nevertheless, globalization brings significant potential benefits to countries.

Simultaneously with the reduction of transaction costs and the equalization of conditions for access to financial resources for economic agents belonging to different national jurisdictions, globalization has created a number of new problems: local crises that arise in certain regions have become more often transformed into structural world crises. An example is the global crisis of 2007–2009, which began as a mortgage crisis in the United States in 2007. If before this crisis it was possible to clearly distinguish financial crises into structural, cyclical, local and special ones, then financial globalization, having formed the phenomenon of "infectiousness", erased the differences between the listed types of crises [3]. Due to the fact that financial globalization with the phenomenon of "infectiousness" has led to the transformation of local financial crises into global crises, there has been a decrease in the stability of the financial system, that is, the systemic risks of the financial sector have increased. For example, against the backdrop of increased risks of coronavirus globalization and the escalation of the conflict in Syria, in the last weeks of February 2020, there was an increase in volatility in the Russian financial market. However, the Central Bank of the Uzbekistan, taking into account the current situation, implemented a set of preventive measures on March 10, 2020 and currently continues to closely monitor the development of the situation in terms of possible risks.

Also, considering such a phenomenon as globalization, one cannot fail to note a large number of risks associated with this phenomenon, despite the measures to increase stability after the 2007 crisis. Some of them were characteristic of this phenomenon for a long period of time, and some began to be especially active. develop only with the acquisition of digital character by globalization:

1) The risk of uncertainty and asymmetry of information. This risk arises due to the difficulty of collecting information on the movement of funds of various agents and firms. Uncertainty complicates the analysis of the economic situation of various states and the world as a whole, as well as forecasting, which can reduce the effectiveness of economic planning and, as a result, economic development [7]. Moreover, there is a risk of information asymmetry due to the fact that foreign investors and counterparties in many ways do not have the same broad vision of the economic situation as domestic investors.
2) The risk of increasing the number of criminal actions of agents. With large volumes of financial flows, the possibility of their control becomes more complicated and, accordingly, economic agents have the possibility of fraud in the field of finance. Also, many agents for the purpose tax evaders prefer to transfer their funds to "offshores", which significantly reduces the tax revenues of states.
3) Risks of developing inequality. In 2017, the share of 10 countries with the largest GDP, according to the International Monetary Fund, is 61% of the total global GDP. These countries are China, USA, India, Japan, Germany, Russia, Brazil, Indonesia, UK and France. These are mainly developed countries or rapidly developing ones.

One of the most important risks is due to the weakening of the ability of national regulators to influence financial institutions due to the increase in financial flows at the global economic level, with the strengthening of the role of international organizations that establish their own regulatory rules, acting in their own interests and in the interests of the strongest players - the largest transnational corporations [6]. Thus, in the processes of globalization, there are obvious tendencies towards a decrease in the role of the regulatory functions of nation states, and the importance of international financial institutions that protect their interests and promote their own rules for regulating the economy is growing.

Conclusions

In an attempt to resist supranational institutions, national authorities are trying to restore their influence and ensure the stability of their position within the country. One of the means of protecting national interests in the international arena is trade and economic sanctions, the result of which are sanctions wars. In particular, the United States, trying to maintain the position of world financial leadership, set the trend for trade bans and economic confrontation, which confirms the fact that the transformation of the world order based on globalization has begun, and the signs of a transition to a polycentric world are emerging.

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