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# THE IMPACT OF GLOBALIZATION ON INTERNATIONAL FINANCIAL MARKETS

*Nowadays globalization is defined as the irreversible growth of interdependence of countries in various aspects, including the economic sphere. In this context, it is important to consider globalization as a key factor in the development of the international financial system. Various aspects of this phenomenon and its impact on global financial processes were examined in this article. The fact that globalization contributes to the increase in the volume of international financial transactions, and it was reflected in the growth of international investments was well-founded. This increase in financial flows contributes to the development of countries that attract investment and helps to expand opportunities for doing business. With the help of global financial markets, companies gain access to additional capital and can manage their finances more effectively. The relationship between the growth of world trade in goods and the growth of GDP has been revealed. It was determined that globalization creates new challenges for the international financial system. In particular, the expansion of international financial operations creates new risks, such as financial instability and volatility of exchange rates: the negative consequences of financial crises, which necessitates the development and improvement of the system of international financial regulation and focuses attention on the need to strengthen international cooperation in this area. A number of direct and indirect channels of international financial integration that contribute to the sustainable economic growth of countries were outlined. It has been established that globalization also affects the distribution of world financial resources, on the one hand, it can bring financial stability and development to the developed countries, on the other hand, developing countries can suffer from the negative consequences of increasing economic inequality due to large financial flows. It has been proven that globalization also affects the development of new technologies and innovations in the financial sector, in particular, the rapid development of technologies has contributed to the creation of new financial instruments that can change the face of the international financial system. It was analyzed that globalization has both positive and negative consequences for the international financial system. It creates new opportunities for the development and innovation, but also makes challenges and require attention and effective management of international organizations and governments.*

***Keywords****: globalization; financial system; developing countries; financial crisis; financial markets.*

JEL classification: G11; L60; M21
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## 1. STATEMENT OF THE PROBLEM IN A GENERAL APPEARANCE AND ITS CONNECTION WITH IMPORTANT SCIENTIFIC OR PRACTICAL TASKS

Globalization, as a complex process of convergence of economies, trade, investments and technologies between countries, defines the modern international financial arena. Undoubtedly, this phenomenon creates many problems and opportunities for financial market participants. An important scientific and practical task is to study its impact and define strategies that will allow countries, companies and investors to fully take advantage of the benefits of global economic integration.

One of the key tasks is to find effective ways of regulating and controlling international financial markets in the context of globalization. Excessive liberalization can lead to financial instability and crises, and inadequate regulation can have unintended consequences for national economic security and the global financial system as a whole.

Another key task is to find a balance between the opportunities and risks arising from global financial interconnection. The development of technology and the speed of information exchange open up new opportunities for investors and companies, but at the same time they introduce an element of uncertainty and risk, especially in conditions of geopolitical tensions.

## 2. ANALYSIS OF LATEST RESEARCH AND PUBLICATIONS

Among the latest scientific works devoted to the nature, role, advantages and disadvantages of globalization in the economy, the works of both domestic and foreign authors. And we should note the publications of such scientists as: R. Amjad [1], O. Boytsun [2], B. Brown [3], D. Held [4], P. Hirst [5], M. Devereux [6], V. Kulishov [7], D. Kenett [8], A. Lynenko [9], L. Petkova. [10], V. Petrushevska [11], L. Prymostka [12], M. Tesega[13], M. Rasheed [14]. However, despite the significant scientific achievements of scientists in the study of this topic, the problem of researching the role of globalization processes in the world economy and the manifestation of the main problems they cause remains relevant.

## 3. SELECTION OF PREVIOUSLY UNSOLVED PARTS OF THE GENERAL PROBLEM TO WHICH THIS ARTICLE IS DEDICATED

The question of studying the impact of globalization processes was considered a lot of times, it was studied by many scientists. However, despite its popularity and relevance, many aspects remain little researched, since the process of globalization and development is constant and fast and changing. The impact of globalization on international financial markets requires constant monitoring. The main aspects of the influence and its negative and positive trends were examined in this article.

## 4. FORMULATION OF THE PURPOSES OF THE ARTICLE

The purpose of the study is thorough analysis of key aspects of globalization, including economic, financial, socio-cultural and political dimensions. Study of transformations in the functioning and structure of international financial markets in connection with globalization processes, consideration of risks caused by globalization.

## 5. PRESENTATION OF THE MAIN MATERIAL OF THE RESEARCH WITH FULL JUSTIFICATION OF THE OBTAINED SCIENTIFIC RESULTS

Globalization can be defined as the increasing integration of economies around the world. It is the result of human innovation and technological progress. The integration of economies can be achieved through international trade and financial flows. There is a close relationship between the growth of world trade in goods and the growth of GDP (Fig. 1). Globalization can also be a result of the mobility of people, or in other words, labor, knowledge and technology across international borders.

The definition "globalization" has been widely used since the 1980s. Due to the technological progress that began at that time, international trade and financial flows became easier and faster. Globalization is nothing but the spread to the international arena of similar market dynamics that have been operating for years as a result of human economic activity.

The structural changes that have taken place in national and international finance since the mid-to-late 1970s, when financial liberalization began, are part of a complex process that is best described as the globalization (and modernization) of finance. Financial globalization was a necessary response to the expansion of international trade and payments, the growth of financial needs of countries and market participants, the globalization of national economies and the expansion of opportunities for international investment. Although each of these processes has been the driving force behind economic and financial development for most of recent history, the processes themselves, as well as their consequences, have accelerated with recent advances in information and computer technology [3]. In many ways, the 1990s were the first full decade in which the critical mass of these structural changes manifested itself in international financial markets.

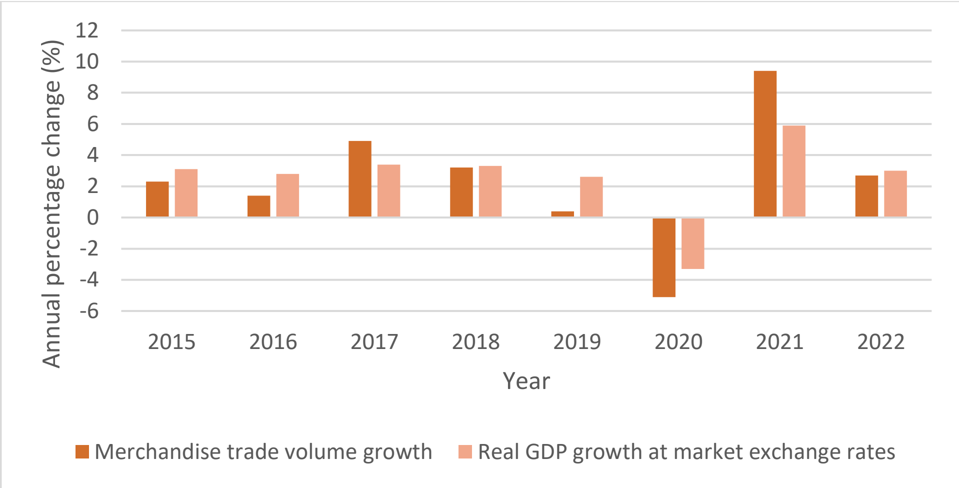


**Figure 1. World trade in goods and GDP growth in the period 2015-2022 (developed on the basis of [15])**

The key elements of this long-term transformation are:

1. Integration of national financial markets, investor and borrower bases into a global financial market characterized by greater diversity in terms of quality, complexity and geographic origin of borrowers and lenders;
2. Increasing technical capabilities (and the use of information and computer technologies) for the separation, pricing, trading, distribution and management of financial (credit, counterparty, market, liquidity risks, operational) risks;
3. Greater dependence on market-oriented forms of financing and less on traditional financing through banks;
4. The rapid growth and dominance of derivatives markets, as well as the growing dependence of financial and non-financial institutions on them, most recently in the form of new instruments for transferring credit risks - through markets, specialized companies and instruments - from primary owners to other owners;
5. Diversification of banking activities from lending to paid services and transformation of balance sheet transactions into more liquid and off-balance sheet positions;
6. The rapid growth and increasing importance of non-bank financial institutions ─ institutional investors such as pension funds, insurance companies, and hedge funds ─ with different governance structures and motivations (resulting in significant consolidation in the banking sector as a competitive response);
7. Consolidation of financial activities into large, complex international financial institutions ─ some as conglomerates combining traditional commercial and investment banking, insurance and asset management services that provide a wide range of financial products and services in different wholesale and retail markets and in different countries;
8. The emergence of hybrid institutions that engage in both non-financial and financial activities, operating with the same financial instruments and markets as commercial and investment banks, mostly as their counterparties [9].

This transformation of the international financial system has increased the awareness of investors and borrowers about financial risks and benefits around the world. It also made it difficult to maintain financial stability.

Global financial markets directly or indirectly serve a large number of diverse end-users, including countries, multinational corporations, financial and non-financial businesses, and ultimately depositors and investors. However, the bulk of this activity in the international financial market takes place within the framework of a complex and extensive network of international financial relations between the largest and most active financial institutions in the world, although smaller international financial institutions, as well as non-financial organizations, continue to compete in the provision of financial services. Many of these global institutions derive a significant proportion of their net earnings and capital gains from cross-border activities. However, many of them operate in all major international markets around the clock, and transfer their trading activities and risk management systems from subsidiaries operating in one international financial center when it closes to subsidiaries in another center when it opens. [4].

The expansion of international corporations brings not only positive advantages with regard to global financial transactions. Some may point out that multinational corporations can raise the level of education and improve the financial condition of developing countries, but this only applies to the long-term effects of economic globalization. In the short term, poor countries will become even poorer, and unemployment may rise sharply. Automation in the manufacturing and agricultural sectors always follows the emergence of multinational corporations. This reduces the need for unskilled and uneducated workers, which leads to the increase of unemployment.

There is no reason to doubt that over the years and as a result of the globalization of finance, the efficiency of international capital allocation and asset pricing within developed markets and in international financial markets has improved significantly. In addition, with access to international capital and cheaper alternative sources of financing, and ultimately through higher growth rates and improved living standards, developing countries as a group also benefited from these structural changes.

While the benefits are clear, the extent to which individual countries, both developed and developing, have been able to balance these benefits with the costs associated with these dramatic transformations has been uneven, as evidenced by the increasing instability, turbulence and financial crises in 1990s. Furthermore, even where the net benefits were clearly positive, negative spillovers persisted, such as rising financial asset prices, increased liquidity pressures, and sharp asset price movements.

Financial globalization can promote growth rates in developing countries through a number of direct and indirect channels of international financial integration. Some of them directly affect the determinants of economic growth (increase in domestic savings, decrease in the cost of capital, transfer of technology from developed countries to countries undergoing industrial development, and development of the domestic financial sector). Indirect channels, which in some cases may be even more important than direct ones (Figure 2), include the deepening of production specialization due to better risk management, as well as the improvement of macroeconomic policies and institutions caused by competitive pressures or the "discipline effect" of globalization. Financial liberalization tends to develop the financial system, expanding financial opportunities, reducing the cost of capital, increasing investment and liquidity [7].

Financial globalization combined with effective macroeconomic policies and good domestic governance appears to be conducive to growth. For example, countries with high intellectual capital and effective governance tend to be better at attracting foreign direct investment, which is particularly conducive to growth.

Financial globalization can also carry certain financial risks. These risks are likely to emerge in the short term as countries become more open. One of the known risks is that globalization may be associated with financial crises.

The development of communication, information, transportation, and trade technologies have helped unite nations into interconnected and interdependent communities. But this interdependence makes the world economy more vulnerable to economic shocks and crises. Because of the interconnection of the world, a problem that was considered a local in the past can quickly become a global one. The subprime mortgage crisis, the banking crisis in the USA and the debt crisis in Greece are often used by experts as the quintessence of economic contagion [1].

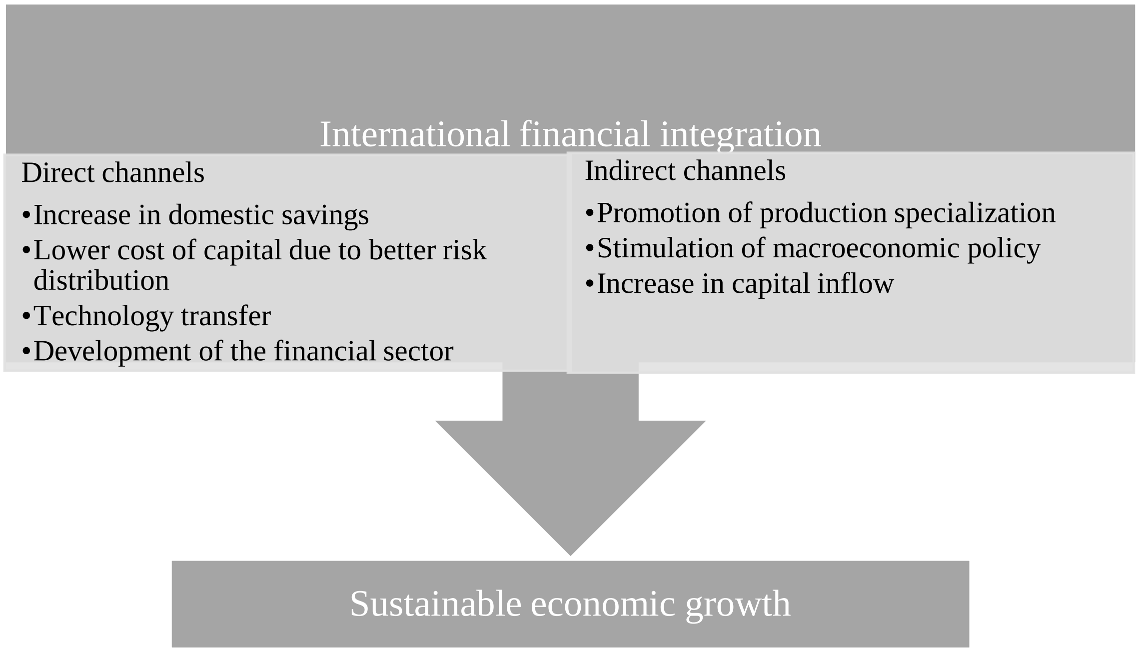


**Figure 2. Main channels through which financial integration can contribute to economic growth (developed on the basis of [7])**

The recent spate of financial crises and their proliferation after countries liberalized their financial systems and integrated into global financial markets may lead to thought that globalization breeds financial instability and crises. The health of one country's financial system is now highly dependent on the health of other countries' banking systems, and conversely.

There are various connections between globalization and crises. If the proper financial infrastructure is missing or not created during integration, the liberalization accompanied by capital inflows can worsen the condition of the local financial system. If market indexes are getting worse, speculative attacks occur with capital outflows from both domestic and foreign investors. If a country becomes dependent on foreign capital, sudden changes in foreign capital flows can cause financial difficulties and economic downturns [11].

Any potential increase in volatility tends to occur in the short term, immediately after liberalization. When countries first liberalize their financial sector, crises can occur, especially in countries with vulnerable indexes. If the domestic financial sector is not prepared to handle foreign flows and is not properly regulated and monitored, financial liberalization can lead to domestic crises.

Financial globalization can also lead to financial crises through contagion, namely shocks that are transmitted between countries. For example, when two countries trade with each other or compete in the same foreign markets, a devaluation of the exchange rate in one country impairs the competitive advantages of the other country [1].

Many countries with transition economies need new industries and new jobs they bring to improve their economies through globalization, but they don't want to lose their own culture and identity in the process. Many developing countries expect that increased globalization may lead to a loss of control over economic and political decisions, and may threaten their traditions, language and culture.

Globalization, covering economic, financial and trade aspects of international relations, creates new opportunities and challenges for the world economic community. In this context, the role of international financial institutions becomes decisive in overcoming the challenges generated by globalization.

One of the key functions of international financial institutions is to create a stable financial environment. Globalization can increase financial instability and crises, creating risks for countries and companies. International financial institutions, in particular, the International Monetary Fund and the World Bank, are responsible for the development and implementation of international standards and policies aimed at preventing financial crises and ensuring stability in international financial markets [2].

Another important function of international financial institutions is to provide financial assistance to countries experiencing a crisis. The state of world markets can have a significant impact on the financial situation of countries, especially those that are developing. The IMF, for example, provides loans and technical assistance to countries to help them to overcome economic difficulties associated with global economic shifts.

In addition, international financial institutions actively contribute to the development of international standards and rules aimed at increasing the transparency and accountability of the global financial environment. International financial institutions contribute to the development of effective mechanisms for managing global financial instruments and preventing abuses and risks to the stability of the global financial system [8].

In general, the role of international financial institutions in overcoming the challenges of globalization is important for ensuring the stability and sustainable development of the world economy, their efforts are aimed at strengthening regulatory mechanisms and providing financial support and advice to countries facing problems in the context of globalization.

## 6. CONCLUSIONS FROM THIS RESEARCH AND PROSPECTS FOR FURTHER EXPLORATION IN THIS DIRECTION

Economic globalization is the growing economic interdependence of national economies around the world due to the rapid increase in cross-border movement of goods, services, technology and capital flows. Over the past decades, the countries of the world have become more financially integrated, which is due to the potential benefits of financial globalization.

Although developed countries are the most active participants in the process of financial globalization, developing countries have also begun to participate in it.

The article examines arguments and evidence that can be used both for and against globalization. There are many arguments for and against globalization. Financial globalization has significant advantages: the development of the financial sector, the distribution of risks at the international level, and the reduction of restrictions on liquidity. On the other hand, if financial liberalization occurs when the country is not fully ready for it, or the processes in the financial markets are uncontrolled, negative consequences arise: excessive risk-taking by banks, debt accumulation by governments, financial and currency crises. Contagion effects also occur due to the high degree of financial cross-linking.

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***Анотація***

***РУДА Лілія, КРАУС Олександра***

***Вплив глобалізації на міжнародні фінансові ринки***

*У наш час глобалізацію визначають як незворотне зростання взаємозалежності країн у різних аспектах, у тому числі в економічній сфері. У цьому контексті важливо розглядати глобалізацію як ключовий фактор розвитку міжнародної фінансової системи. У статті розглянуто різні аспекти цього явища та його вплив на світові фінансові процеси. Той факт, що глобалізація сприяє збільшенню обсягів міжнародних фінансових операцій, і це відбилося на зростанні міжнародних інвестицій, був цілком обґрунтованим. Таке збільшення фінансових потоків сприяє розвитку країн, що залучають інвестиції, і сприяє розширенню можливостей для ведення бізнесу. За допомогою глобальних фінансових ринків компанії отримують доступ до додаткового капіталу та можуть ефективніше управляти своїми фінансами. Виявлено залежність між зростанням світової торгівлі товарами та зростанням ВВП. Визначено, що глобалізація створює нові виклики для міжнародної фінансової системи. Зокрема, розширення міжнародних фінансових операцій створює нові ризики, такі як фінансова нестабільність та волатильність валютних курсів: негативні наслідки фінансових криз, що зумовлює необхідність розвитку та вдосконалення системи міжнародного фінансового регулювання та акцентує увагу на необхідності посилити міжнародне співробітництво в цій сфері. Окреслено ряд прямих і непрямих каналів міжнародної фінансової інтеграції, які сприяють сталому економічному зростанню країн. Встановлено, що глобалізація також впливає на розподіл світових фінансових ресурсів, з одного боку, вона може забезпечити фінансову стабільність і розвиток розвинутим країнам, з іншого боку, країни, що розвиваються, можуть страждати від негативних наслідків зростання економічної нерівності через до великих фінансових потоків. Доведено, що глобалізація також впливає на розвиток нових технологій та інновацій у фінансовому секторі, зокрема, стрімкий розвиток технологій сприяв створенню нових фінансових інструментів, які можуть змінити обличчя міжнародної фінансової системи. Проаналізовано, що глобалізація має як позитивні, так і негативні наслідки для міжнародної фінансової системи. Це створює нові можливості для розвитку та інновацій, але також створює виклики та вимагає уваги та ефективного управління міжнародними організаціями та урядами.*

***Ключові слова****: глобалізація; фінансова система; країни що розвиваються; фінансова криза; фінансові ринки.*

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