Is financial globalization good for developing nations? assignment

Sociology

Of course it seems that financial globalization has provided a great business platform for the developing actions like India and China and has played a vital role in the development of these nations but in fact financial globalization has made these countries more dependent on the developed nations. At some point financial globalization has benefited the higher Income developing nations like India and China but here I would like to raise a question that what about the lower Income developing nations. Financial globalization is not beneficial for the lower income developing nations.

It is also proved that financial globalization brings more dependency for the developing nations. During the recent economic downturn we have observed that how financial globalization can harm different economies. As we all know that in financial globalization different economies are correlated with each other to achieve their financial objectives and also to be developed In terms of the financial conditions. So in this condition any speculation can harm the other countries' economy. Although financial globalization has some benefits, it also carries several risks for the developing countries.

These risks are observed during global financial crises. The wave of financial globalization that has occurred in the mid-sass. T can be defined as capital flows among industrial between developed and developing economies. The effects of financial globalization have been experienced by the developing countries. Of financial globalization on developing nations. Here, I would like to discuss several risks for developing economies associated with financial globalization. When any country is involved in financial globalization, it liberalizes its financial system.

It means that it allows the investors of the other nations to invest in the financial activity of that particular nation. The foreign investors are welcomed by the nation to invest in the market. So in the market we can see both kind of investors, domestic investors and foreign investors. At first sight, it seems very positive for both the nations to achieve their financial goals. But this requires disciplined exercise by both foreign and domestic investors. If both the investors do not show disciplined exercise, the economy has to suffer.

In this case both the investors are involved so if any adverse condition is occurred in the market it is very difficult to achieve fundamentals because in such condition the foreign investors tend to escape from the situations they only see their benefits. So sometimes this condition may invite economic crisis. If the condition is not so it takes longer period of time to achieve fundamentals in the economy. In the other case when an economy is closed, only domestic investors monitor the economy and reacts during adverse condition to achieve fundamentals.

So it takes shorter period of time to achieve fundamentals in compare to open economy. As we all know that in financial globalization the external factors become more important than internal factors in the county financial condition. So this kind of situation is very dangerous for the any country’s economy. In this condition even if the country’s financial condition is very sound financial globalization can lead crisis even in the absence of imperfection in the international capital market. In financial globalization the developing nations become dependent on the foreign capital.

In other words the foreign capitalist become the decision makers. The nation becomes power less in such condition. And the nation is exploited by the external forces. If anything affects the flow of the foreign capital, it can lead to financial crisis and economic downturns in the financial conditions. Calve, Alderman, and Reinhardt 1996) argue that external factors are important determinants of capital flows to developing countries. In particular, they find that world interest rates were a significant determinant of capital inflows into Asia and Latin America during the sass.

Economic cyclical movements in developed countries, a global drive towards diversification of investments in major financial centers, and regional effects tend to be other important global factors. Franken and Rose (1996) highlight the role that foreign interest rates play in determining the likelihood of financial crises in developing countries. Globalization can lead to crises if in the international market because the imperfections are there. The imperfections in the international market can create bubble, speculative attacks, and crashes irrational behavior in the market.

It can also lead to crises in the countries which has sound fundamentals. For instance, if the investor thinks that the exchange rate is unsustainable he may speculate against currency and this situation can lead to a self-fulfilling balance of payments crisis. For liberalized and implicit government guarantees exist, increasing the likelihood of rises, as argued in McKinney and Pill (1997). Financial globalization can lead to crisis in the countries, which are involved in the trade, through contagion or shocks that are transmitted from one country to another country.

In financial globalization trade takes place among two or more than two countries, a devaluation of the exchange rate in one country can lead to the other country's competitive advantage. To rebalanced their external sectors, the countries would like stop devaluation their currencies. Financial globalization has created a different form of vulnerability. In sat few years foreign purchases of equities and domestic currency debt have grown very fast. In some developing economies like Brazil, India, Israel, Turkey, Uruguay, Korea, Indonesia, and the Philippines foreign portfolio investment exceed direct investments.

It means that the foreign investment is higher than the domestic investment. In this case any loss of confidence by holders of those claims can worsen the global and domestic financial conditions. The United States has exploited financial globalization to finance their currency accounts and, indirectly its budget deficit. Now during the economic down turn the ate of US dollar has reduced in the global currency market. There are many holders which has stocked the US dollar. In this situation if the foreign it is possible that the foreign holders lose faith in US dollar.

And so there is a possibility that the foreign holders of the dollars will start to sell dollars because they believe that it would fall in future. For example, one country declares that it would not reduce their holding over USED and it continue his holding over US dollar and if in certain case it diversifies its holdings over USED and swapping for any other currencies it would be a great robber in the global financial system. This can lead to some major global financial changes. If it happens suddenly, it would create imbalance the global economy.

In this situation the medium-income developing economy can survive but the low- income economy would be in great trouble. In the financial globalization the International Monetary Fund plays a vital role in the lower income developing economies. So the International Monetary Fund is indirectly reducing the role of government in the particular nations and it seems that it dictates the poor developing economies. As it is proved that to make the economy stable, a developing country needs a strong government.

But here the scenario is deferent the power of the government are reduced by the International Monetary Fund by making the countries financially dependent on the institution. Even in this case the budget is monitored by the International Monetary Fund and the budget is also created according to the wish of the International Monetary Fund which weakens the society. In such kind of situation the financial decisions are made by International Monetary Fund which makes the country's financial condition worse. If the people do not have money, how would they spend them even if the commodities are much cheaper?

So here we can see that in such situations the financial globalization becomes the financial interference for the lower income developing countries. Financial globalization creates obstacles in the development of the lower income developing nations. It makes the government powerless. This is not a healthy sign for any commodities like water, power and transportation in the developing countries. It means that the commodities like water, power, and transportation, which are very important to survive, would be in the hand of the private sectors.

So we can say that the private sectors would take advantage of the appropriation and would exploit the people. Here, it seems that this would increase the availability of the commodities like water, power, and transportation. And also they would be available at the low prices but this would bring easy access for the rich people not for the poor. This would bring inequality among the people which would be dangerous in any poor developing economy. There is also a risk of inequality due to the appropriation which is the risk of inequality.

In this situation the poor becomes poorer and the rich becomes richer. The poor people would be exploited by the private sectors and they become poorer this inequality would create imbalance in the life style of the people and it also invites the problems like increase in the crime rate, corruption, inflammation, starvation and many more. These would be very harmful for the any nation. There is another risk involved with the financial globalization is centralization of thoughts. As we know that the developed countries play a vital role in the ‘ development’ of the developing economies.

And as they are greatly involved in the economic activities of the developing nations, the developed nation influence the thoughts of the developing nations. They can make the people think according to their wish or they can force the mass to think according to their wish. And the developed nation can utilities their power to exploit the people of the developing nations. For example United States of America, it is greatly involved in the economic activities of the developing nations and by that way it has made the developing nations to think according the way the United States of America thinks.

Before 9/1 1 attack there was a problem of terrorism in other countries but at that time it was not a big issue as it is today because the United States of America was not affected till then. But nowadays it has become a big issue for the United States of America and so that it forces the people and the government in that direction or in that way. So here I would like to say that if the developed country has a certain problem it becomes a global problem or the problem of the world. This is quite ridiculous but fact.

This means that the developed country can exploit the mind of the people of the evolving country which is totally harmful for the developing nations. In India, it has a great problem of population but for America this is a great potential market. So the United States of America is not interested in solution of such issues. To solve the problem of terrorism it attacked on Iraq and Afghanistan and did numerous casualties in these countries. Now it forces other countries like India and Pakistan to involve in its project against terrorism. In such ways the problem of the United States of America becomes the problem of the world.

Here, the question arises Who cares or the developing nations? The developed economies most of the times tries to exploit the mind of the people of other nation and tries to centralize the thought. This is not a good sign not only for the developing nations but also for the entire world. Here, I would like to conclude that although the financial globalization appears a source of strength for the developing nations, it also brings several risks. The developing countries especially the poor developing economies face exacerbate Financial globalization is also a risk factor for the dignity and independence of the evolving nations.

The financial globalization has provided a better way for the developed nations to exploit the developing countries economy and the thought of the people of the developing nations and through that the developed nations try to fulfill their own objectives. Yes, the financial globalization has provided a great platform for the higher income developing nations like India and China but it is dangerous for them also in terms of the centralization of thoughts of the people of the world. And if it is harmful to the higher income developing nations, it would be finitely more harmful for the low income developing economies.