Opportunities and Challenges of Financial Globalization

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ABSTRACT

With the continuous development of globalization, the global circulation of finance has gradually become the main feature of globalization. This paper first makes a preliminary discussion on the meaning, characteristics and performance of financial globalization; then reviews the history of the development of financial globalization, and on this basis analyzes the market impact of the U.S. subprime mortgage crisis; then discusses the dividends and opportunities brought by financial globalization, and analyzes the reasons and prospects with the case of overseas expansion of Japanese financial institutions; and then analyzes the challenges of financial globalization, financial crisis, financial security, and financial challenges under the epidemic, and propose the construction of a financial safety net, scientific use of financial derivatives, and increased regulation of international lending to cope with the process of financial globalization, maintain financial stability, and thus achieve further economic and social development. Through a combination of theoretical analysis and empirical analysis, this paper aims to reveal the nature of financial globalization, explain the dividends and challenges brought about by financial globalization, and how to deal with risks. Finally, provide a theoretical basis for policymakers to take measures to prevent related financial crises. This paper concludes that in the context of financial globalization and the post-subprime mortgage crisis, people should conduct a more systematic and comprehensive review of financial stability, so as to be able to better achieve sustainable economic and social development.

Keywords: *Financial globalization, Financial crisis, Countermeasures, Epidemic*

1. INTRODUCTION

Over the past 30 years, the global financial system has undergone a remarkable integration process, and one more serious crisis than another has made everyone realize that financial stability must become a pre-considered issue if people want to sustain healthy development. Especially, the study of financial stability in those emerging market countries, which are important pillars of world economic development, is of great practical and theoretical importance. To guarantee the stability of the financial system and to better achieve sustainable economic and social development, a more systematic and comprehensive examination of financial stability in the context of financial globalization and the post-subprime crisis is needed. This paper focuses on the evolution and characteristics of financial globalization and how to prevent and control financial instability factors by combining theoretical and empirical analyses to provide a theoretical basis for policymakers to make institutional arrangements. Based on the above understanding, this paper aims to: reveal the nature of financial globalization; demonstrate the relationship between financial globalization and financial instability; conduct a comprehensive review and discussion of the 2007-2008 U.S. subprime mortgage crisis; and study China's financial and economic development strategies in the context of financial globalization. This study takes financial globalization as the mainline to explore the formation and evolution perspective of the crisis, and makes a useful addition to the study of financial stability in the context of financial globalization; the strategy of exploring financial stability in the context of financial globalization is of comparative importance both in theory and reality.

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2. INTRODUCTION OF FINANCIAL GLOBALIZATION

2.1 The Meaning and Characteristics of Financial Globalization

Financial globalization is an important and core component of economic globalization. The so-called financial globalization refers to the mutual interaction and coordination, mutual penetration and expansion, mutual competition and constraints in the financial business, and financial policies of all countries and regions in the world have developed to a considerable level, thus making globalized finance form a closely linked and inseparable whole. [1] The main factors driving the development of financial globalization: First, the globalization of trade. The second is the promotion of international capital. The third is the development of multinational corporations.

2.2 The Performance of Financial Globalization

The first is the globalization of capital. With the opening of financial markets and the relaxation of restrictions on the flow of capital between countries accelerated. Developed countries can quickly seek global markets for capital to maximize profits, while developing countries can raise the funds needed for economic development from the international financial market, thus promoting the economic development of developing countries.

The second is the globalization of financial markets. The widespread use of Internet technology has blurred the threshold between countries in the financial sector, allowing financial integration between countries. The financial markets of various countries are getting closer and closer to promoting each other and gradually integrating into the international financial market.

Third, is the globalization of financial institutions and their business. With the globalization of capital and the globalization of markets, multinational companies in various countries have also established to adapt to the trend of the times to establish the corresponding transnational financial institutions using the global Internet to use the world as a market and deploy funds globally to carry out various financial operations. [2]

Fourth, is the globalization of the monetary system. On the one hand, the development of financial globalization has led to constant changes in the supply and demand of foreign exchange in financial markets leading to frequent changes in exchange rates between countries. On the other hand, the integration of more and more countries into the international financial system has made the globalization of the monetary system more and more obvious.

3. HISTORY OF FINANCIAL GLOBALIZATION

In the 1990s, the U.S. had a current account deficit of 100 to 200 billion dollars per year, close to the level of Korea and Indonesia (1.8%-4.9%) two years before the outbreak of the Asian financial crisis. Against this backdrop, the US proposed "financial globalization", which encouraged the flow of foreign capital into the US. However, one year after the outbreak of the U.S. subprime mortgage crisis, the U.S. financial crisis broke out again in September 2008. The financial crisis in the United States was directly caused by the over-expansion of the U.S. virtual economy and the failure of the U.S. government to regulate the financial sector, and the rise in property prices in the United States after 2002, when U.S. financial institutions did not only issued a large number of subprime mortgages in two senses, i.e., loans to people with credit scores below 580 and loans with a ratio of loan to home value above 90%, but also created Many new financial instruments such as interest-only mortgages, optional repayment mortgages, no down payment mortgages, etc. were created, and mortgages were also converted into securities for sale, so-called securitization.

As a result, a bubble emerged in the US housing market. By 2007, due to the rise in interest rates and the massive increase in defaults on subprime mortgages, coupled with the bursting of the bubble in the U.S. housing market, speculators could not repay their loans and financial institutions repossessed their properties to make up for the rapid increase in non-performing assets of financial institutions. As some of the mortgages had been securitized losses spread rapidly among the financial sector resulting in a financial crisis.

4. ANALYSIS OF THE OPPORTUNITIES BROUGHT BY FINANCIAL GLOBALIZATION

4.1 The Dividends Brought by Financial Globalization

Financial globalization is beneficial to the operation and development of the world economy.

First, financial globalization has greatly increased the speed of global capital turnover and promoted the development of world trade. The globalization of financial markets, the globalization of financial institutions, and the electronification of financial globalization have provided adequate, safe, fast, and timely financial services such as financing, guarantee, witness, and settlement. [3] Secondly, financial globalization has removed the barriers to international capital flows and brought about the great development of international direct investment. Third, the global flow of capital guided by financial globalization has led to the global flow of other factors of production and promoted the optimal allocation of resources on a global scale.

Financial globalization has also brought dividends to different countries. First, financial globalization has provided opportunities and space for financial reform and development in each country. By participating in financial globalization, the financial systems and financial mechanisms of different countries collide, intersect and integrate, and their reasonable and excellent components are absorbed, borrowed, and even applied by each other. [4] Second, financial globalization has promoted the convergence of financial operations of each country with international practices and improved the standardization of financial activities of each country. [5] Third, financial globalization has promoted the economic development and structural adjustment of each country. The deepening of country-specific finance caused by financial globalization has promoted the development of country-specific finance and provided strong support for their economic development. It enables countries' advantageous industries to develop and grow rapidly, while the inferior industries are transferred or eliminated, promoting economic restructuring. [6] Fourth, the international capital flow in financial globalization "punishes the evil and promotes the good". The effect and corrective function of international capital flow in financial globalization promote the improvement of national governments' ability to manage and develop the economy.

4.2 Case Study of Opportunities Brought by Financial Globalization

In the 1980s, the globalization of Japanese financial institutions was dominated by cross-border mergers, mostly of American and European financial institutions. According to statistics, the overseas assets of Japanese banks reached 341.1 billion U.S. dollars in 1984 and 218.1 billion U.S. dollars in 1993, and there was only one Japanese bank among the top 10 banks in the world in 1980 according to The Banker magazine, while all the top 10 banks in the world were Japanese banks in 1988. a new round of overseas mergers and acquisitions of financial institutions began in Japan around 2004. After the mergers and restructuring in the mid-1990s, Japan's financial infrastructure has improved and it has accumulated some experience from the overseas acquisitions in the 1980s.

The current round of internationalization has the following characteristics. First, the focus shifted from the establishment of institutions to a focus on substantial growth in business capacity and profitability. International credit share expansion. Large Japanese banks have increased their share of the global syndicated loan market since 2007 compared to the same period last year, while their U.S. competitors have seen their share decline.

Once again, the expansion of traditional business strengths and the enhancement of new business capabilities, such as investment banking, have gone hand in hand. [7] At the beginning of 2008, large Japanese financial institutions were generally afraid to take the bottom lightly, believing that they had not yet seen the bottom of the subprime crisis. It was not until the second half of the year, when the problems of the U.S. banks were exposed, that Japanese banks thought they had seen the "bottom" and took the plunge. In the long run, the common characteristics of Japanese financial institutions in choosing acquisition targets are that they are conducive to diversifying the business risks of financial groups, improving profitability and serving Japanese overseas enterprises, and are conducive to their future global diversification and long-term development.

5. ANALYSIS OF THE CHALLENGES BROUGHT BY FINANCIAL GLOBALIZATION

5.1 Financial Risks

First, financial globalization also hurts the development of the world economy. Financial globalization has intensified the degree of deviation of the financial economy from the real economy, making the world economy face increasing risks. The flow of funds greatly exceeds the speed of logistics, more than the speed of production. A significant portion of global capital flows are idle based on speculation or anti-risk, and a financial economy that deviates from the real economy breeds an increasing number of bubble components. Finally, financial globalization reduces the "immunity" of the world economy, and the financial risk of one country or region or even one bank can increase the frequency of international financial crises by contagion.

Second, financial globalization also has disadvantages for the operation and development of country-specific economies. [8] First, the instability of country-specific financial systems is increased. Second, it weakens the financial and economic sovereignty and security of relatively weak or backward countries, whose direction and process of economic and financial development often have to be subordinated to the strategic interests of developed countries. Third, it increases the difficulty of macro-control of countries, especially developing countries. Fourth, financial regulation faces a severe test. [9] Fifth, as developing countries, they also have to bear the pressure and bitter consequences of the compression of domestic market share, the merger, and acquisition or demise of some national financial institutions, and even the control of domestic finance by foreign powers, which is especially true for some weak and small countries. [10]

5.2 Financial Security

Exchange rates, interest rates, etc. are important links that jeopardize national financial security The financial sector contains many aspects and numerous links any aspect or link that goes wrong can jeopardize the national economy as a whole. For an open economy, some more aspects and links can jeopardize the national financial security The exchange rate of the local currency on the foreign exchange market, changes in stock prices on the capital market, changes in interest rates on the bank lending market and changes in the credit rating of the country in the international financial market can all have an impact on the national finance and thus jeopardize the national financial security. Financial globalization has opened up all the links for the deepening and development of crisis transmission. Under the condition of financial globalization, once a country opens up its finance to the outside world, the financial crisis is more likely to appear, deepen, develop and transmit. In countries where financial liberalization and internationalization have been achieved, the links between the main links have been opened and crises are thus more likely to emerge and deepen and the transnational transmission channels of crises are also more open. Financial globalization leads to the transnational transmission of national financial security problems Financial globalization leads to both long-term and sudden national financial security problems. The latter problem can easily catch countries unprepared, and the damage caused to national financial security is especially obvious, so countries should be sufficiently alert to it. This is also the main national financial security problem caused by financial globalization. This problem is particularly acute in developing countries. The process of financial globalization first increases the vulnerability of a country's financial security and then jeopardizes national economic security.

5.3 Financial Challenges under the Epidemic

With the spread of the new global epidemic, there is a clear rise in concern in developed economies about the over-reliance on China and other countries for the supply of medical protection materials and medicines. The importance of public health security in the national security system will rise significantly, leading to a certain degree of global supply chain restructuring. The formation of global supply chains is an important manifestation of the economic globalization that has taken place over the past 30 years, and China's role in the global pharmaceutical supply chain is critical. Almost all of the raw materials for some U.S. drugs come from China, including antibiotics such as azithromycin, penicillin, and cephalosporins. A restructuring of the global supply chain is inevitable in the face of heightened public health and safety awareness. In addition, some of the other trends affecting economic globalization with greater certainty include: First the relationship between state and market, and state and society will undergo a major restructuring. Value preferences will change considerably. The importance of security and order will increase and state intervention in the economy will rise. Second international competition in science and technology innovation will become more intense new technologies, new models and new business models will emerge will determine the international competitive position of countries. The epidemic makes the role of big data and artificial intelligence more prominent; international technology and business model competition will intensify. Europe is worried about becoming the so-called "digital colony" of China and the United States will take more countermeasures and self-improvement measures such as wider cultural dissemination and monopoly of more platforms. The third power strategic competition, ideological competition, development model competition, and geopolitical competition will intensify in the new global situation.

6. HOW TO DEAL WITH THE CHALLENGES BROUGHT BY FINANCIAL GLOBALIZATION

6.1 Strengthening Financial Risk Prevention Capacity to Build a Financial Safety Net

To better promote the sustainable, rapid and healthy financial development of developing countries and to effectively enhance the effectiveness of international financial risk prevention, people should optimize the financial risk prevention capacity in all aspects and actively build a financial safety net [11]. To effectively guarantee the financial security of developing countries and promoting the sustainable and rapid development of the financial business of developing countries, it is necessary to effectively improve the preventive capacity of financial risks. It is necessary to effectively optimize the preventive level of financial risks in developing countries to fully and comprehensively strengthen the analysis and prediction of risks and actively adopt scientific and effective risk prevention and control measures to better avoid the impact of international financial risks and effectively eliminate the impact of international financial risks, for example, financial capital is controlled and outflow is restricted, so as not to cause huge fluctuations in the domestic financial market. The possible hazards and effects of international financial risks.

6.2 Scientific Use of Financial Derivatives to Promote Sustainable Economic Development

To better enhance the development effectiveness of the financial business scientific optimization of the development level of the financial business should be fully comprehensive use of scientific financial derivatives to promote the healthy and sustainable development of the economy in all aspects. In the process of using financial derivatives, we should increase the supervision and management efforts to scientifically and comprehensively study the role and effectiveness of different financial derivatives to scientifically and efficiently enhance the effectiveness of the use of financial derivatives to better promote the healthy and sustainable development of financial markets in developing countries.

6.3 Strengthening the Regulation of International Lending and Increasing International Cooperation

In the process of promoting the continuous and rapid development of the financial system of developing countries in all aspects, to better cope with the possible effects and hazards of international lending, we should fully and comprehensively increase the regulation of international lending, and fully and comprehensively increase the overall efforts of international cooperation. International lending is not an investment but speculation. For this reason, it is necessary to fully and comprehensively strengthen the regulation of international lending. At the same time, it is necessary to rely on long-term international cooperation to jointly address financial risks. In practice, we should strengthen the collaboration with the International Monetary Fund and national central banks to establish a perfect information exchange mechanism for mutual funds.

7. CONCLUSION

This paper mainly analyzes the dividends and challenges brought by financial globalization and concludes that in the context of financial globalization and the post-subprime mortgage crisis, people should conduct a more systematic and comprehensive review of financial stability, so as to be able to better achieve sustainable economic and social development. The advantages and disadvantages of financial globalization are that it provides opportunities and space for financial reform and development of countries, improves the regulation of financial activities of countries, promotes economic development and structural adjustment of countries, and facilitates the improvement of country governments' ability to manage and develop their economies. The downside is that the instability of country-specific financial systems has increased, weakening the financial and economic sovereignty and security of relatively weak or backward countries, making it more difficult for countries, especially developing countries, to carry out macro-control and financial supervision. Therefore, it is necessary to strengthen the financial risk prevention capacity to build a financial safety net, and scientific use of financial derivatives to promote sustainable economic development and increase the regulation of international lobbying capital to increase international cooperation. This article only analyzes its challenges from three parts: financial risk, financial security, and financial globalization in the context of the epidemic, while the number of selected cases and proofs is not enough, and the scope is limited. In the future, this article will conduct more in-depth research on other aspects of the challenge, such as arbitrage opportunities, the development of multinational companies, etc.

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