ECONOMY AND FINANCE IN THE CONTEXT OF GLOBALIZATION

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Abstract

The paper is focused on the emphasizing of the general evolutions of economical and financial matters in the globalization context, the confrontation with risks, including the danger of deficiencies transmission and supporting the crises in the world.

It is noticed the dynamics without precedent of the capitals, services and goods market, in particular the financial, monetary and bank sector, by the influences of continuous changes and external encroachments, by the informational assault, by the harsher competition on a space that includes the whole world. The identified solutions refer primarily to the prophylactic measures regarding the maintenance of a general climate of stability, preventing the excessive evolution and violence of the financial markets, the awareness of each state’s responsibility and group of states in promoting a stable and effective monetary system. In order to obtain real positive effects, the necessity of an international cooperation as bond as possible is remarked, the strategies need to rise above the national sphere and the decisions to be based on common interests and an efficient co-operation in the area of the of the macro-economic politics, orientated towards a durable increase and non-inflationist, stable under economic and financial aspect.

Key words: globalization, risks, global systematic crisis, international co-operation, prophylactic measures

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1. Introduction

International financial integration and the strong competitive environment have an important role in the reorientation of resources, in terms of risk amplification and diversification.

Among the main effects of financial globalization, it is highlighted the risk amplifica-

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Economy and finance in the context of globalization

Substantial increase of goods and services flow, doubled by the capital flows, has emphasized the economic and financial integration globally, in parallel with unprecedented diversification of monetary financial structures. Economic environment, particularly the monetary and financial-banking one, is submitted to continuous changes of internal and external influences, information invasion, and the increasing competition in an area that includes practically the entire world.

Thus, at macroeconomic level, the chances of success depend, to a great extent, on the capacity to increase international cooperation to the level of the responsible authorities, in order to solve gradually, in a realistic and credible manner, the problem of the great imbalances, in the context of a communion of interests at a world-wide level. Clarity of objectives of macroeconomic policy and their continuity are essential to ensuring stability, a fundamental condition for overall development and normal functioning of markets.

Clarifying the current problems remains a necessity and the most succinct one represents, currently, the international financial integration, which radically changes the action responsibilities and procedures imposed by the necessity of repressing the destructive effects “chain reaction” that affects the entire world.

The phenomenon of financial globalization is a force that spreads throughout the world as a true “seismic wave”, based on the unprecedented development of financial field and certain trends, such as innovation, deregulation, and competition.

In this framework, specialized literature addresses increasingly insistent the terms of “globalization”, which designates an evolution in favor of progressive unification and integration of worldwide commercial and financial markets. On the other hand, the term “internationalization” is accepted, in particular, for the situation in which the national systems and the separation between the markets are maintained, but the transactions between the financial institutions in various countries enhance and assist to interpenetration between different markets, regardless their geographical position. However, in general, these terms are found with similar meaning in the actual economic acceptances and financial; for example, the creation of a single financial market in Europe is considered by some authors as a banking internationalization. [Dini, 1990].

The banking activity unrolls heavily across national borders, through transactions in two or more States or on a global market, in any currency accepted, so the share of the national currency is declining.

These developments are recognized and analyzed as an attribute of a reality that can not be eluded: “We are all part of the global capitalist system, which is characterized not only by free trade, but, in particular, through a free movement of capital. This led to the rapid development of global financial markets. This mechanism can be seen as a huge system of movement, which absorbs capital through financial central institutions and markets; this capital is then pumped towards the periphery, either directly, in the form of loans and portfolio investment, or indirectly, through multinational corporations”. [Soros, 1999].

The current context, threatened by the global and regional crisis by a growing virulence, it explains, largely, the concerns of leaders of prime importance states, for the recognition and review of the economic and financial globalization, with new meanings and action methods: [Schroeder, 1999].
Globalization generates the economic basis of a change of unprecedented rates, having as consequences a global competition, which requires great efforts in the economy, education and research;

- Increases the importance of private initiative and responsibility;
- It is necessary to achieve a balance between productive efficiency and social protection;
- Ideological differences should cede to the demands of economic efficiency;
- It requires the adoption of national policies in the conditions of globalization.

2. Dynamic and irreversible factors

In the current conditions, regarding the globalization of markets and including the world’s economies into a huge network of forces, it is emphasised the phenomenon of fusion seen as solutions for survival and for development by concentrating the efforts in terms of maximizing profits and dispersal risk.

It widens immensely the area of competition, at least in three areas: commercial, which develops the idea of new North-South and East-West relations; financial - by the ample moving of deregulation from the ’80s that destabilizes the banking system and it has oriented towards new business concepts and, monetary, the most robust mechanisms of exchange that have resisted with great difficulty to “the storm” unleashed by the capital flows of any restriction. [Adda, 1997].

Globalization at a global scale of markets for goods, services and capitals knows a continuous dynamics, supported by trade liberalization and development of unprecedented capital market.

- In addition to economic and financial flows, private or state, it is spoken more and more about international bodies, the dependence of some countries to the bodies that create the legal framework of the ongoing economic and financial relations, such as the International Monetary Fund, Bank World, regional banks.

- In addition, it is always developing new “colossus” that extend all over the world and takes over the market of a product or type of services, themselves being exposed to risks that may involve the whole system.

The strategies that are increasingly frequent for functional or geographical expansion have been motivated by the supporters through:

- The possibility of diversifying risks;
- Rational use of competence and resources;
- Exploiting commercial opportunities using resources with the lowest costs in order to improve the productivity of assets with risks considered to be as reasonable risks;
- Prompt reactions and services adjusted to the changing and more complex needs customers.

Within the framework of globalization, the national and foreign funds can flow freely, depending on the opportunities. On world markets, the participants are able to overcome the constraints of time and space, and so the world becomes one and the same market.

Through evolution, there can be identified four categories of factors that have favored financial globalization:

- The existence of investment opportunities still reduced in real national economy, linked with slower economic growth; this has led to a greater sensitivity of investors and debtors towards interest rate fluctuations and stimulated capital flows, thus causing major
imbances in the current accounts of various countries. This development determined the emergence of financial services that could transcend the frontiers between nations.

- The second factor was the deregulation of financial transactions; the obstacles to the capital flows and to exchange controls were removed gradually in each country, borders were opened and territories were violated. Progressive removal of barriers and increasing facilities in the field of international financial transactions prepared the way for the integration of different national systems.

- Progress in technologies, the rapid development of telecommunications and informatics has made possible the establishment of sophisticated systems that combined the information communication functions, funds transfer and settlement transactions. These systems were able to handle enormous amounts of information, with a substantial reduction in transaction cost and exceptional quality performance. The spectacular development of the speed movement of information and communication systems, so as the stock modern display, has generated new planet simultaneity that attenuated the cost of distance transmission.

- The developments became increasingly generalized in favor of a financing system based on titles, named by specialists “mobilization”, being considered as a propelling force for the globalization of the financial activities. The portfolio flows have outrun the direct investments, the volume of obligations issued by governments of industrialized countries has increased in a very fast pace, so as the emissions of titles on the euro-obligations market, as the same trend is evident in the case of banking assets, in order to increase liquidity. So it results an increase in titles volume in circulation and expanding market transactions. Increasing competitive market transactions led to the multiplication of participants and it has emphasized the necessity for some common rules.

All these factors have, in many ways, irreversible trends; they interact and support each other, gradually creating a financial “globalization”. This movement is associated to trends of a uniform financial and legal system, in different countries and the solutions to the crisis becoming more catastrophic depend on the ability to increase and to coordinate the international cooperation at the level of the authorities.

3. Confronting risks at a global level

Globalization has a dual effect: business development and enhancing banking risks. The current world’s financial framework offers new chances and opportunities, but also challenges associated with certain risks, difficult to quantify the possible consequences, threatened by their amplitude, but also by their lack of institutions and instruments for effective action.

The vaster is the phenomenon, the devastating the effects are, that is a danger manifested at every level, from the lowest link of the system to the economy as a whole, with direct threat to the world’s market. Each new event brings, in time, measures that are still outrun by the new developments.

The general developments of the world system in the last decades, correlated with the latest developments related to the years 2006-2007, regarding the role that U.S.A plays in the current global system, have led some analysts to announce an imminent eruption of a systemic global crisis. It said that the acceleration and the accumulation of the negative phenomena will lead decisively, after an estimated period of minimum a year, to the so-called “impact phase”, characterized by triggering a series of harsh crisis, which will contaminate
the world system and it will affect the strategic relations between the U.S.A, Europe and Asia – that is the situation that we face fully in the autumn of 2008.

Consider that finances are one of the four sectors - along with international trade, exchange rates and energy - that are severely affected by the imminent systemic crisis and the global financial sector will inevitably go into a deep crisis.

To the picture of the world economy, threatened by the risks and the dangers of triggering the dramatic processes with fatal effects, rallied the IMF, which deals and analyzes intensively the issues of trends in the U.S.A property market, the American economy recession, central bank policy pertinence, devaluation of the American currency, an increase sustainable oil price.

After many meetings, finance ministers of the G7 group warned them about the problems that the international finance were facing, and sustained that there were no statutory or fiscal measures that would lead to a greater stability without important economic costs.

The Banks submitted to a double competition of their base activities – collecting the resources and granting loans - bear the exacerbation shock of the international competition due to the globalization of financial circuits. Latest developments have led to a change in the culture of banks being engaged actively in the financial assets markets and in new activities, exposed to great risks. In this context, even banks with tradition and reputation foresee their profitability threatened until their disappearance, as it happens now: Bankruptcy Lehman Brothers, an old institution for over 150 years, Merrill Lynch sale to Bank of America in order to avoid an emphasis on the crisis, lowering the AIG rating.

The establishment of uniform international standards for supervising the activity of the financial institutions, as a result of the increased risks from global operations, and the introduction of prudential norms in terms of coefficient of their own banking funds or bank liquidity into the configuration of a general framework, involve all stakeholders.

The internationalization of banking lays problems not only for the banks, engaged on new markets, but also for supervising and control authorities must identify, assess and prevent risks arising from the current context. Consequently, the stability responsibility of banks, of information on markets and customers, correspond to a large extent to the national authorities. In this respect, the authorities should cooperate more closely in order to create the appropriate institutional forms.

It may be noticed a ninth attitude of financial institutions and state, a conduct that should be founded on the principle of “self-responsibility”. Thus, managers must grant absolute priority to efforts on ensuring efficient functioning of an internal integrated system of risk control present or possible in the near future. Also, past experiences lead to the need to strengthen, not to reduce, the regulation of financial markets.

The need to keep the risks under control, the attempt to draw new invisible borders to the increasingly complex threats from the outside, require repeated constraints, which restrict free competition and allow the managers of funds to perceive prohibitive fees. At the same time, the European construction and overall trends are based on the free movement of capital and the single market, financial innovation without frontiers, remote services, trade and finance on-line, with the intention of obtaining maximum profits on these directions during their full development.
4. Conclusions

Global crisis at the beginning of XXI century, which, in the fall of 2008, rocked the most powerful banks and the insurance giants, has shown no viable strategy by which the monetary authorities to act quickly and effectively on the disturbing economic, financial or psychological factors. The immediate solution was the infusion of billions of dollars, daily, with forced cash supply in order to save appearances at the moment.

In this context, analysts around the world have benefitted from various occasions to launch new warnings of global systemic crisis for the summer of 2009, when it is estimated that the U.S.A will join the inability to pay.

The prophylactic measures that the dramatic realities prove to be imperiously necessary, being established and implemented through coordination at the global level, represent the lasting solutions that must to be taken into account by the authorities:

- Maintain a general stability climate, that provides conditions for sustainable and non-diminishing growth, external imbalances, stable exchange rates, interest rates reduced on long-term;
- Prevention of excessive and violent evolution of financial markets, by control and action for the purpose of ensuring the effectiveness of markets and banking activity, in the service economy;
- Awareness and responsibility of each state and group of states in promoting a stable and effective monetary system, regarding the implementation of measures in order to strengthen the ability to manage risks and to prevent crises and to improve the reactions, where the crisis is manifesting.

Analysis-oriented on only one country is no longer convincing, as to configure a different geography, other economic and financial areas, new structures of the world market. Previous financial markets have “pools” relatively specific. Currently, all major and smaller states the financial market has become the global mainly because the deregulation has removed national and institutional obstacles.

The chances of success depend largely on the capacity to increase and to coordinate the international cooperation at the level of the responsible authorities for macroeconomic policy objectives of clarity and continuity in order to solve progressively, in a realistic and credible manner, the problem of great imbalances, in the context of a communion of interests at a global level.

The main solutions are derived from considerable increasing of the financial integration and they require:

- The need for closer international cooperation for the regulation and supervision of financial institutions and markets, vital for saving the financial system and to comply with prudential norms;
- Maintenance of the macroeconomic policies, which provide conditions for sustainable and non-inflationist growth, to insure stability and to prevent the occurrence of major internal or external imbalances;
- A real cooperation in the field of economic policies, which aimed the common fight against inflation, reducing public deficits and diminishing external imbalances, stable exchange rates, interest rates reduced on long-term;
- Awareness and responsibility of each group of states in promoting a stable and effective monetary system, regarding the implementation of measures to strengthen the ability to manage risks and prevent crises and to improve the reactions, when there are crisis.
The experience of globalization requires a clear and decisive solutions which, in order to be effective, are based on the need for designed actions at least regionally. To get real positive effects, strategies should go beyond the national level, and the decisions should be based on common interests and an effective collaboration in the domain of macro-economic policy, focused on promoting a sustainable and non-inflations growth, stable economically and financially.

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