**Commentary**
Volume 10:04, 2022

Journal of Global Economics

ISSN: 2375-4389

Open Access

# Overview of Financial Integration

**Liliana Chemello***

*Department of Management Studies, JK Institute of Business, UK*

## Description

Financial integration is a phenomenon in which financial markets in neighboring, regional, or global economies are inextricably linked - for example, through cross-border capital flows, foreign participation in domestic financial markets, and information sharing between financial institutions. Financial integration might be hampered by legal restrictions. Financial integration of neighboring, regional, or global economies can be achieved by a formal treaty in which the governing bodies of those economies commit to work together in the event of financial disruptions. However, since the recent financial crises, researchers have been debating the costs and benefits of financial integration. Better governance, effective capital allocation, and increased development and investment are all advantages of financial integration. Higher levels of financial integration, on the other hand, have the potential to cause catastrophic financial contagion in linked economies during times of crisis. Since the mid-1980s, there has been a spike in capital flows among industrial countries and, more importantly, between industrial and emerging countries. Although capital inflows have been linked to strong growth rates in several emerging nations, a few of them have also faced periodic development slowdowns and major financial crises with serious macroeconomic and social consequences. As a result, there has been a lot of discussion about the impact of financial integration on developing economies in both academic and policy circles. However, most of the argument has been based on flimsy and inconclusive empirical evidence

The analyses' main conclusions are grim, but they are also instructive from a policy standpoint in many ways. True, many developing nations with a high degree of financial integration have seen faster growth rates. It's also true that, in theory, there are numerous ways for financial openness to boost GDP. However, a thorough review of the facts reveals that establishing a reliable causal relationship between the degree of financial integration and output growth performance is challenging. Consumption is thought to be a better gauge of well-being than output in terms of economic stability, hence changes in consumption are thought to have a detrimental impact on economic welfare. Despite the theoretically huge benefits that could accrue to developing nations if such stability were accomplished, there is little evidence that financial integration has helped developing countries better moderate swings in consumption growth. Indeed, fresh evidence presented in this research implies that low to moderate levels of financial integration may have caused some countries' spending to be more volatile than their output. While there is little evidence that financial globalization has aided growth, there is evidence that some nations have seen increased consumption volatility because of it [1-3].

However, a study of the existing facts does not give a clear road map for nations that have begun or wish to begin the process of financial integration. For example, there is an unsolved tension between the idea that having solid institutions in place before capital market liberalization can enable a country import best practices and offer an impetus to develop domestic institutions. Furthermore, neither theory nor empirical data has provided clear-cut general solutions to related questions like the acceptability and effectiveness of selective capital regulations. Finally, these issues can only be handled in the context of specific country circumstances and institutional traits. In theory, financial globalization and financial integration are two distinct notions. Financial globalization is a broad term that refers to the growing global interconnections produced by cross-border financial movements. The term "financial integration" refers to a country's connections to international capital markets. These ideas are obviously intertwined. Increased financial globalization, for example, is inextricably linked to increased financial integration. A few key characteristics of global capital flows are related to the financial crisis' fundamental themes. Not only has the volume of flows between industrial countries increased, but so has the volume of flows from industrial to underdeveloped countries. Changes in legislation and other features of developing countries' opening create pull factors. Liberalization of capital accounts and domestic stock markets, as well as large-scale privatization plans, are among them. Business cycle conditions and macroeconomic policy changes in industrial countries are both push forces [4,5].

## Conflict of Interest

None.

## References

1. Andersen, Palle, and Ramon Moreno. "Financial integration: an overview." BIS Papers 23 (2005): 1-8.
2. Lehmann, Alexander, Micol Levi, and Peter Tabak. "Basel III and regional financial integration in emerging Europe An overview of key issues." *EBRD* 132 (2011).
3. Kose, M. Ayhan, Eswar S. Prasad, and Marco E. Terrones. "Financial integration and macroeconomic volatility." IMF Staff Papers 50 (2003): 119-142.
4. Edison, Hali J., Ross Levine, Luca Ricci, and Torsten Sløk. "International financial integration and economic growth." *J Int Money Fin* 21 (2002): 749-776.
5. Schindler, Martin. "Measuring financial integration: A new data set." IMF Staff Papers 56 (2009): 222-238.

**How to cite this article:** Chemello, Liliana. "Overview of Financial Integration." J Glob Eco 10 (2022): 348.

***Address for Correspondence:*** *Liliana Chemello, Department of Management Studies, JK Institute of Business, UK; E-mail: lilliana.chemello@unipd.it*



**Received:** 05-April-2022, Manuscript No: economics-22-66188; **Editor assigned:** 07-April-2022, PreQC No. P-66188; **Reviewed:** 12-April-2022, QC No. Q-66188; **Revised:** 18-April-2022, Manuscript No. R-66188; **Published:** 23-April-2022, DOI: 10.37421/2375-4389.22.10.348