



Current Issues in Emerging Market Economies

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Globalization and Emerging Markets: Risks and Opportunities

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GLOBALIZATION AND EMERGING MARKETS **: RISKS AND OPPORTUNITIES**

1. Globalization has significantly changed the economic and financial environment in which emerging markets operate.

- a) globalization and trade : the opening up of trade markets over the last 20 years has entailed higher growth rates for emerging countries and increased their participation in world trade.
- b) deregulation of financial markets and freedom of capital flows have completely changed the forms and methods of financing of emerging markets.

2. This new environment has created new risks and contributed to significant disruptions :

- a) a system where capital flow are huge and free makes it difficult :
 - to take advantage of stable exchange rates and, at the same time,
 - follow autonomous monetary policies.

But, as experience has shown, floating exchange rates are not a panacea. Exchange rate volatility can be extremely disruptive for small open (and often well run) economies.

- b) therefore our globalized and integrated financial system requires :
 - strong banking and financial sectors ;
 - adequate supervisory systems ;
 - sound macro-economic policies ;
 - stable and well defined institutional and legal frameworks.

3. But in spite of those risks, emerging market have significant opportunities to seize as long as a number of precautions are in place :

- a) in the trade area : regional and worldwide trade negotiations can be beneficial to emerging markets if they are well balanced (services) ;
- b) in the financial area : the volatility of the exchange rate calls for more active international cooperation and possibly the development of regional monetary zones.