



INFLUENCE OF INTERNATIONAL DERIVATIVES ON ECONOMIC GROWTH: OPPORTUNITIES AND RISKS

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Abstract: International derivatives are considered as an integral part of current financial systems, as they help manage risks and promote economic growth. This thesis explores how derivatives can enhance market efficiency, and stability, coupled with attract investment in both developing and developed countries. Both the benefits of derivatives such as risk management, increased liquidity, and economic innovation and the risks of misuse, including speculation and market disruptions are discussed in the thesis. The evidence of examples argues that tailored policies and infrastructure development can maximize the benefits while minimizing the risks stemming from derivatives, positioning them as a key driver of sustainable global economic growth.

Keywords: International derivatives, financial risk management, market efficiency, economic growth, speculation, regulations, liquidity, emerging markets, global financial systems, sustainable development.

International derivatives deeply impact economies in different ways and have already become an important part of financial systems. These financial tools are widely used to make markets more efficient and stable and attract investments, as they enable businesses to hedge against financial risks, such as currency fluctuations and interest rate changes. Helping to deal with uncertainties can support economic growth in many regions. However, derivatives should be used carefully with proper rules to ensure economic growth. If it were not for these regulations, they could create problems, including but not limited to significant market disruptions and economic challenges.

There are numerous benefits of derivatives, one of which is they help manage financial risks. They hinder unpredictable changes in things like exchange rates, commodity prices, or interest rates in both businesses and governments, making decision-making and planning easier. For example, companies like Coca-Cola use currency derivatives to manage exchange rate risks. Coca-Cola, which generates significant revenue from international markets, employs hedging strategies to protect against fluctuations in foreign





currencies, particularly in markets like Europe and Japan, where the value of the dollar can dramatically impact profits.

This can also be used by farmers—such as those in India or the U.S. who use commodity futures and options to hedge against price volatility in crops like wheat or corn. By locking in prices in advance, they protect themselves from unexpected market fluctuations that could otherwise threaten their income. International derivatives not only reduce financial losses but also make businesses and investors more confident to grow and invest. Eventually, this confidence can lead to increased innovation, as businesses feel more secure in exploring new markets and opportunities.

Additionally, derivatives can play a crucial role in keeping markets liquid. In other words, buying and selling assets easily in the markets does not require big changes in price. In the United States, for example, the economy is stabilized with the help of derivatives that support trade and investments across borders. This dynamic has a positive effect on other areas of the economy, particularly manufacturing, coupled with technology, by promoting growth and creating jobs. Small businesses and individual investors can benefit from increased liquidity, democratizing access to financial tools that were once reserved for large corporations and institutions.

As for emerging economies, derivatives can also be used to address specific challenges and encourage economic development. In countries where natural resources like oil, gas, and agriculture are considered as a main income source, derivatives are used as an income stabilizer. For example, Saudi Arabia, an oil-exporting nation, uses derivatives to hedge against fluctuations in global oil prices, ensuring more stable revenue for its economy despite market volatility.

However, derivatives come with not only benefits but also risks. One of which is speculation, where people use derivatives to bet on price movements rather than managing risks. This can result in unstable markets and even financial crises in extreme cases. The global crisis of 2008 is a clear example, where the misuse of complex financial products like mortgage-backed securities and credit default swaps led to the collapse of major financial institutions such as Lehman Brothers. The resulting global financial meltdown caused widespread economic problems, including a sharp decline in stock markets, massive unemployment, and a severe credit crunch, impacting economies worldwide.

There are additional challenges for emerging markets to handle derivatives effectively, such as a lack of proper infrastructure and trained professionals. Without proper systems and knowledge, these markets are often vulnerable to





mistakes, leading to big financial losses for those who do not fully understand the derivative risks. Poorly regulated derivatives not only impact individual investors but also can create broader mistrust in financial markets, which decelerates economic growth. Developing markets can benefit from derivatives by only addressing these issues. Given that governments and financial institutions should prioritize education and skill development of workers to ensure they work responsibly.

When comparing developing and developed markets, it is clear that the situations they face are totally different. As for developed ones, there are strong regulations, advanced technology, and a visibly higher level of financial conception among market participants, making it easier to use derivatives while avoiding risks effectively. In contrast, emerging markets often find it hard to fully benefit from derivatives as they lack these facilities. This comparison can be solid evidence for the importance of tailored policies that create better regulations by addressing the specific needs of each region. Additionally, developed countries can help emerging ones to catch up and participate more actively in the global financial system by sharing required expertise and resources.

There are numerous implications policymakers can consider to ensure that derivatives help rather than harm economies, such as creating effective rulers, improving education, and building better infrastructure. Transparent markets and the proper usage of derivatives can be secured by clear regulations. For example, rules requiring detailed reporting of derivative positions and setting limits on speculative activities can reduce risks. At the same time, financial educational programs can contribute to better understanding of responsible derivative usage for businesses and investors. This knowledge can be built by attending workshops, training sessions, and promoting public awareness campaigns. These programs should also address the specific needs of different industries, ensuring that everyone from farmers to tech entrepreneurs can benefit from derivatives.

Both institutional infrastructure and technological investments are crucial, especially for emerging nations whose financial institutions are still in the early stages of development. On the other hand, increasing the accessibility of derivatives through international collaboration might assist in reducing risks in cross-border transactions by establishing uniform laws, even though more robust technology systems can guarantee efficient markets with lower transaction costs. In addition to providing advice and resources to nations





seeking to develop their derivative markets, institutions such as the Bank for International Settlements (BIS) and the International Monetary Fund (IMF) also support knowledge-sharing programs that let nations benefit from each other's achievements and failures.

In conclusion, international derivatives play a pivotal role in economic enhancements. They can be a powerful tool for managing risks, improving market efficiency, and attracting investments, which makes them essential in today's global economy. However, the downsides coming from the misuse of derivatives should be taken into consideration. They can be avoided by the right policies, education, and international collaboration, making derivatives an influential driver of sustainable development. These steps can unlock the full potential of derivatives in both developed and emerging markets, accelerating growth, innovation, and resilience. As the global economy continues to evolve, derivatives will undoubtedly play an even greater role, shaping the future of financial markets and economic systems in ways we are only beginning to understand.

