MODERN FEATURES OF FINANCIAL GLOBALIZATION

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ABSTRACT: *Nowadays, financial globalization as latest stage of financial internationalization process becomes to be the most discussed subject by economic scientists. It has many forms of manifestation and directions of development. One of the main features of financial globalization is increasing the role of the financial sector, linked with the expansion of the scope and complexity of foreign economic relations. The financial system has increasingly become a means of redistribution of financial resources in accordance with the needs and possibilities of development of production not only at national but also at the global level. In this work are presented modern views on financial globalization under aspect of concepts, trends, effects and perspectives.*

KEYWORDS: *Financial globalization, global financial market, world financial centres, international financial flows.*

JEL CLASSIFICATION: *G15.*

1. VIEWS ON FINANCIAL GLOBALIZATION

1.1. Definition of financial globalization

Globalization is an objective world tendency, due to the strengthening of international political, cultural, economic, financial, informational, technical and other ties between the States at various levels. It implies a process of transformation of the world economy in the single market for goods, services, capital, labour and knowledge. In essence, globalization can be defined as a higher stage of the internationalization of economic life, its further development (Sharonov, 2008, p. 126).

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In our opinion, financial globalization is a form of general process of globalization and has many aspects, therefore economic literature contain different definitions of this notion, provided from various sources:

- ✓ The term financial globalization refers to the process by which financial markets of various countries of the globe are integrated as one. Financial globalization may also be defined as a free movement of finance across national boundaries without facing any restrictions (Arestis, Santonu, 2003, p. 1) ;
- ✓ Financial globalization is understood as the integration of a country's local financial system with international financial markets and institutions (Schmukler, 2004, p. 39);
- ✓ Financial globalization is an aggregate concept that refers to rising global linkages through cross-border financial flows (Prasad, 2003, p. 7);
- ✓ We could define financial integration as the process by which financial markets and institutions become more tightly interlinked and move closer to full integration, under which the law of one price would hold (Gudmundsson, 2008, p. 9);
- ✓ Financial globalization is higher stage of internationalization of activity of the financial markets in all its forms for the purpose of ensuring requirements of development of the currency and financial relations (Bulatov, 1999).

As result, in our understanding, *financial globalization is a process which is an integral part of the overall process of globalization, aimed at creating a single financial market and flowing through increased international movement of financial capital.*

1.2. Main aspects of financial globalization

Often the term financial globalization is used with another – financial integration, which refers to an individual country's linkages to international capital markets. (Prasad, 2003, p. 7)

In the context of globalization we may identify four types of financial integration (Kenen, 2007, p. 179):

1. Integration of the public sector by way of sovereign borrowing, which can take two forms: the issuance of foreign-currency debt, whether under foreign or domestic law, and the issuance of local-currency debt which foreigners can purchase on the issuer's home market.
2. Integration of the corporate sector by way of foreign direct investment, as well as cross-border borrowing and equity issues in other countries' markets.
3. The further integration of the corporate sector that occurs when institutional and individual investors buy and sell the stocks and bonds of other countries' firms in those countries' asset markets.
4. The integration of the banking sector by way of the worldwide interbank market in which they can borrow or lend temporarily - the option

exercised with dire consequences by some of the East Asian countries' banks a few years ago.

The modern concept of financial globalization was formed in early 2000 years and can be expressed in the following aspects (Evlahova, 2007, p. 4):

1. financial globalization is part of economic globalization, which is an increasing economic interdependence of countries around the world and by the growing volume of cross-border transactions of goods, services and capital, the rapid and widespread diffusion of technologies.
2. financial globalization has become the dominant form of economic globalization. Capital was the most mobile factors of production, which allowed him to move quickly in search of profits great facilitate this process contributed to the liberalization of capital movements. A role in enhancing the mobility of capital has the information revolution, manifested not only in the broad introduction of means of communication and information, but also in creating new channels of capital flows (Internet).
3. financial globalization has changed the composition and structure of entities that affect the world economy, putting in first place the transnational companies and banks, reducing the role of the national State and exposing the inadequacy of international financial institutions for the new challenges of development of the world economy. The consequence of these changes has been the loss of the State many of the regulatory instruments and reduced effectiveness of monetary and fiscal measures. This gave rise to talk about the transformation of national financial systems under the impact of financial globalization.

The evolution of financial globalization occurs in two ways: Qualitative; Extensive

The qualitative (internal) way is expressed by important institutional changes, which are, on the one hand, withdrawing the various barriers to the cross-border movement of capital, and, on the other hand, in establishing cooperation between the financial institutions of different countries, up to complete their merger. As a result, national financial (stock) markets are interrelated parts, in fact, a single, integrated world market.

On the other hand, should take into account the fact that financial globalization proceeds in terms of creating a new global financial system

The extensive way is spread in breadth, which finds expression in the rapid growth of quantitative parameters characterizing the momentum of world trade, foreign direct investment and international financial borrowings.

2. MAIN TENDENCIES OF FINANCIAL GLOBALIZATION

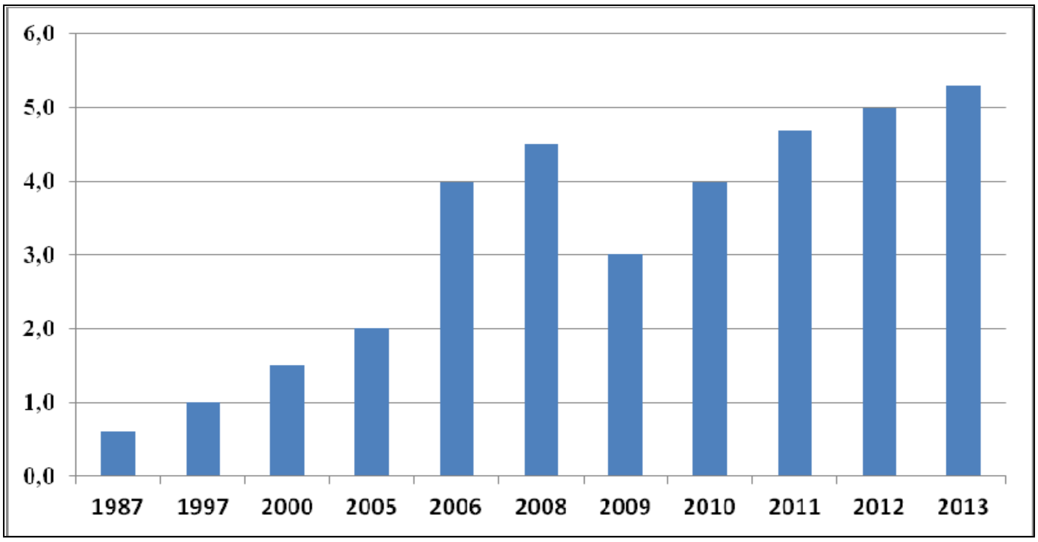
2.1. Essential growth average daily turnover in global foreign exchange markets

If in 1987 - $600 billion, at the end of the 1992 - $1 billion, in 1997 - $1,2 trillion, in 2000 - $1,5 trillion; in 2005 - 2006 annual volume of daily turnover in the foreign exchange market ranged from $2 trillion up to $ 4 trillion.

In 2008 the turnover it reached $ 4.5 trillion on the day and from April 2009 the amount was reduced to $3 trillion; in 2010 - $ 4 trillion; in 2011 grew to a record value of $ 4.7 trillion. In 2012 average daily turnover in the global foreign exchange market has reached $5.3 trillion.

Global FX turnover was 34**%** higher in April 2013 than in April 2010, with average daily turnover of $5.345 trillion/day compared to $3.971 trillion/day.

With all this there are predictions according to which the subsequent growth of daily turnover to $ 10 trillion in the year 2020.



Sources: Foreign exchange market, http://en.wikipedia.org/wiki/Foreign_exchange_market and Robert Mackenzie Smith, FX now a $5.3 trillion per day market, says BIS, http://www.risk.net/risk-magazine/news/2293080/fx-now-a-usd53-trillion-per-day-market-says-bis

Figure 1. The average daily turnover in global foreign exchange markets dynamic, 1987-2013

In April 2013 USD, EUR and JPY remained the top traded currencies (shares below based on 200 share – showing double sided nature of fx trade):

- USD (87 - up from 84.9 share)
- EUR (34.2 – down from 39.1 share)
- JPY (23 – up from 19 share)
- GBP (11.8 – down from 12.9 share)

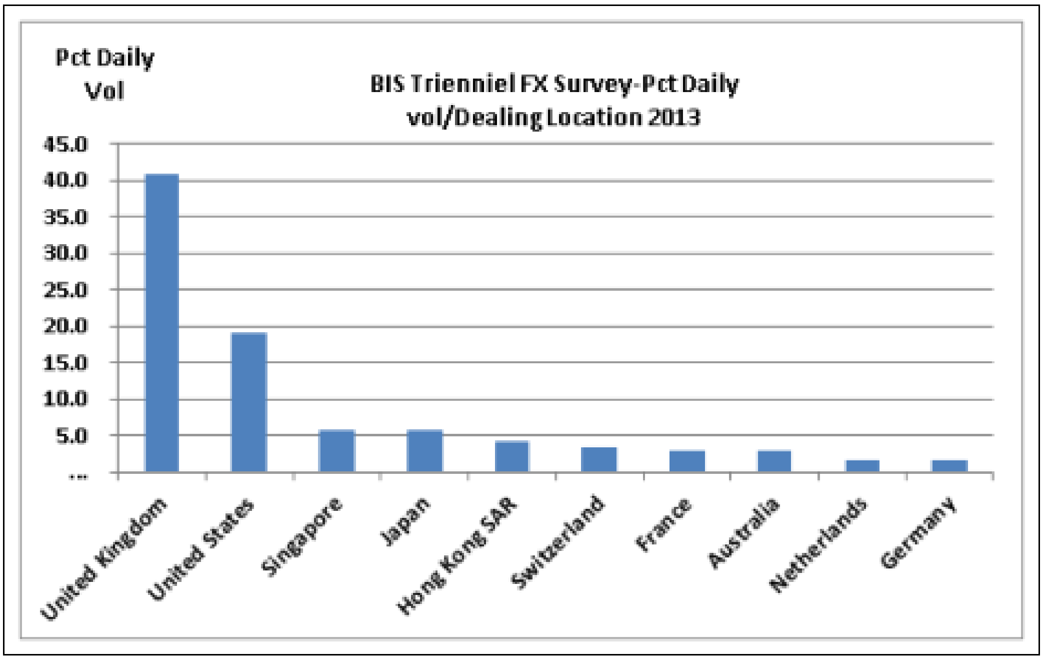
Figure 2 presents the top of global centers on FX market.

London retained position as top with 41% of global volumes up from 37% in 2010, followed by NY with 18.9% up from 17.9%.

The structure global foreign exchange market turnover by instruments in April 2013 is as the following (in US$ billion):

- Foreign exchange instruments - 5,345
- Spot transactions - 2,046

- Outright forwards - 680
- FX swaps - 2,228
- Currency swaps - 54
- Options and other products – 337.



Sources: Blank Paul, Global FX daily turnover reaches $5.345 trillion up 34% according to 2013 BIS Triennial Survey, September 8, 2013, http://singledealerplatforms.org/2013/09/08/global-fx-daily-turnover-reaches-5-345-trillion-up-34-according-to-2013-bis-triennial-survey/

Figure 2. Daily FX volume by Dealing location (Pct daily volumes)

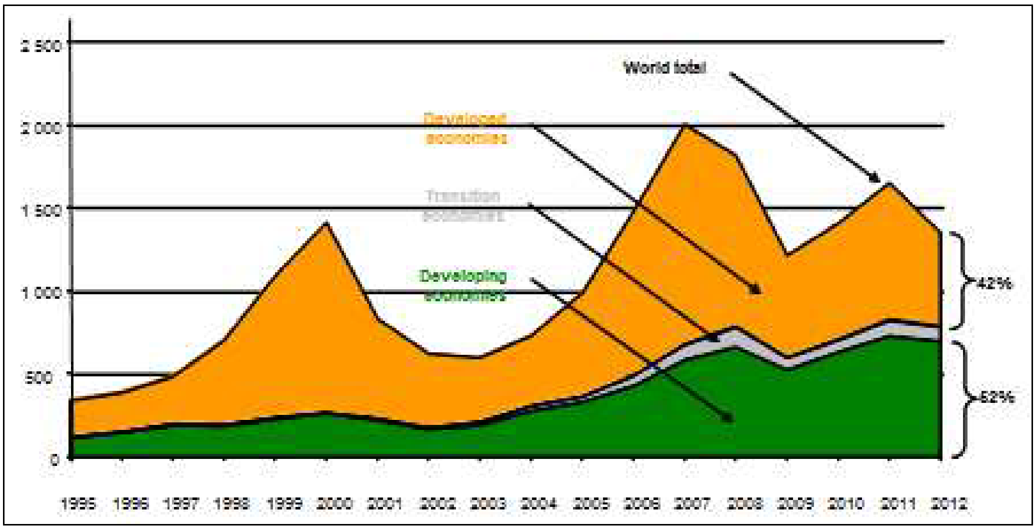
2.2. Amplification of global foreign direct investments (FDI)

Figure 3 demonstrates the dynamic of FDI inflows.

Global foreign direct investment (FDI) inflows fell by 18% from $1.65 trillion in 2011 to $1.35 trillion in 2012. (UNCTAD, 2013, p. 12)

This sharp decline was in stark contrast to other key economic indicators such as GDP, international trade and employment, which all registered positive growth at the global level. Economic fragility and policy uncertainty in a number of major economies gave rise to caution among investors. Furthermore, many transnational corporations (TNCs) re-profiled their investments overseas, including through restructuring of assets, divestment and relocation. The road to FDI recovery is thus proving bumpy and may take longer than expected (Zhan James, 2013, p. 4).

FDI flows in 2013 are expected to remain close to the 2012 level, with an upper range of $1.45 trillion – a level comparable to the pre-crisis average of 2005–2007. As macroeconomic conditions improve and investors regain confidence in the medium term, TNCs may convert their record levels of cash holdings into new investments. FDI flows may then reach the level of $1.6 trillion in 2014 and $1.8 trillion in 2015.



Source: Zhan James, World Investment Report 2013: "Global Value Chains: Investment and Trade for Development", 26 June 2013, Geneva, p.4, http://unctad.org/Sections/dite_dir/docs/ diae_stat_ 2013-06-26_en.pdf

Figure 3. FDI inflows, global and by group of economies, 1995–2012
(Billions of dollars)

FDI flows to developing economies proved to be much more resilient than flows to developed countries, recording their second highest level – even though they declined slightly (by 4 per cent) to $703 billion in 2012.

They accounted for a record 52 per cent of global FDI inflows, exceeding flows to developed economies for the first time ever, by $142 billion.

2.3. The positive dynamic of global capital market

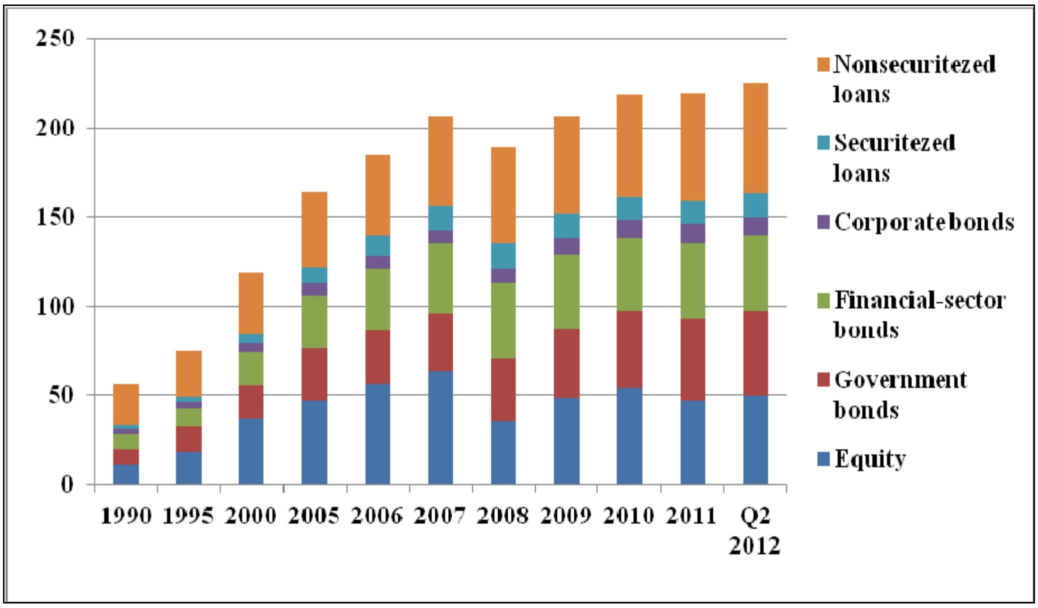
Global financial assets - or the value of equity-market capitalization, corporate and government bonds, and loans - have grown by just 1.9 percent annually since the crisis, down from average annual growth of 7.9 percent from 1990 to 2007 (Figure 4).

Global financial assets have grown to $225 trillion, but growth has slowed since 2007.

The main segment of Global Capital Market that in the amount of $62 trillion remains Nonsecuritized Loans (27.6 share), followed by Global Equity Market with $50 trillion (22.2 share), Global Government Bond Market with $47 trillion (20.9 share) and Global Corporate Bond Market - $42 trillion (18.7 share).

2.4. Extension of global derivatives market

The global derivatives market is estimated in notional value at $1,200 trillion ($1.2 quadrillion). But is one of the biggest risks to the world's financial health.



Source: Lund Susan, Daruvala Toos, Dobbs Richard, Härle Philipp, Kwek Ju-Hon, Falcón Ricardo, Financial globalization: Retreat or reset?, http://www.mckinsey.com/insights/global_capital_markets/financial_globalization

Figure 4. Structural movements of Global Capital Market

It's complex, it's unregulated, and it ought to be of concern to world leaders that its notional value is 20 times the size of the world economy. But traders rule the roost — and as much as risk managers and regulators might want to limit that risk, they lack the power or knowledge to do so.

The actual cash amount of the interest rates swaps might be 1% of the $1 million debt**,** while that $1 million is the "notional" amount. Applying that same 1% to the $1.2 quadrillion derivatives market would leave a cash amount of the derivatives market of $12 trillion — far smaller, but still 20% of the world economy.

2.5. Development of international banking system

The development of the world banking system is carried out in the following areas:

- Expanding international banking activities;
- Banking mergers - within a country and internationally;

Globally, the world banking system is developing in the following directions:

a. Unification, standardization, national legislation on banking activity given in conformity with the international standards of banking;
b. Development at the international level in accordance with the Basel Agreement (standards) of common approaches to evaluation (analysis) the financial status of the commercial banks of banking supervision bodies;
c. Creation a single management and regulation institution of banking activities in the face of a world Central Bank. A prototype of the global Central Bank is currently the European Central Bank (Frankfurt am Main), which in 1999 was due to the ongoing process of integration in Europe within the EU.

In addition, an important trend in the world today can be called the miniaturization of banks. Table 1 contains main data on major banks for 2012 year.

Table 1. Major world banks consolidated assets for the year 2012 ($ mil.).

No.	Name of the Bank	Country	Total assets ($ mil.)
1.	Deutsche Bank AG	Germany	2,799,977
2.	HSBC	United Kingdom	2,555,579
3.	BNP Paribas	France	2,542,738
4.	Industrial and Commercial Bank of China	China	2,456,287
5.	Mitsubishi UFJ Financial Group	Japan	2,447,950
6.	Credit Agricole	France	2,431,796
7.	Barclays Group	United Kingdom	2,417,327
8.	Royal Bank of Scotland	United Kingdom	2,329,726
9.	JPMorgan Chase	United States	2,265,792
10.	Bank of America	United States	2,129,046

Source: World's 50 Biggest Banks 2012, http://www.gfmag.com/tools/best-banks/11986-worlds-50-biggest-banks-2012.html#axzz2hmSyRnTa

In 2012 the total amount of banking assets from the top was $24,4 trill, increasing to 2011 with $1.7 trillion.

Global megabanks may continue to merge and will consolidate in the coming decades. This trend will remain in the lead until the visible "new realities of rationality" would sweep them.

But already today are banks, which will have the greatest impact in the near future. Compared with modern megababanks of the future will be much smaller in size, which gives us the right to call them micro banks. These banks will become a mass phenomenon and will enter his page in history of successful banking business of the 21st century. It will be the small credit institutions having significantly fewer staff than just a staff of the departments of information technology (IT-Department) of megabanks. Nevertheless, microbanks are global players in the market, with only small offices and obeying the laws of several countries. They will be able to perform a wide range of banking operations and services from virtually anywhere in the world, existing almost entirely in cyberspace are so-called virtual banks to service the virtual world.

Therefore, the main question of reliability, stability of banks – is not only a question of the size of its equity capital and more – the problem of the quality of their management.

2.6. Rising of global financial centres

A global financial centre is a city with a large number of internationally significant banks, businesses, and stock exchanges. An international financial centre is a non-specific term usually used to describe an important participant in international financial market trading. An international financial centre will usually have at least one major stock market.

The globalization of financial services markets, accompanied by a concentration of participants and operations, facilitates intensive growth and consolidation of world financial centres. Three cities — London, New York and Tokyo — accounted for over 1/3 world titles property management of institutional investors, and more than half of the volume of operations of currency exchanges in the world.

2.7. Development of international financial institution activity

For example, today is widely discussed the possibility of transforming the IMF into a World Central Bank. Also, increase the role of the World Bank Group, the Bank for International Settlements, of the International Securities Market Association, the World Federation of Exchanges, International Association of Insurance Supervisors and other.

2.8. Consolidation of some segments international financial market

Obvious examples are NASDAQ OMX, NYSE Euronext, CEE Stock Exchange Group and London Stock Exchange Group. But the most remarkable is The NASDAQ OMX Group, Inc., the world's largest exchange company. It delivers trading, exchange technology and public company services across six continents, with approximately 3,700 listed companies. NASDAQ OMX offers multiple capital raising solutions to companies around the globe, including its U.S. listings market, NASDAQ OMX Nordic, NASDAQ OMX Baltic, NASDAQ OMX First North, and the U.S. 144A sector. The company offers trading across multiple asset classes including equities, derivatives, debt, commodities, structured products and exchange-traded funds. NASDAQ OMX technology supports the operations of over 70 exchanges, clearing organizations and central securities depositories in more than 50 countries. NASDAQ OMX Nordic and NASDAQ OMX Baltic are not legal entities but describe the common offering from NASDAQ OMX exchanges in Helsinki, Copenhagen, Stockholm, Iceland, Tallinn, Riga, and Vilnius. (NASDAQ)

3. OTHER ASPECTS OF FINANCIAL GLOBALIZATION

Economic integrity the world is formed, in part, because financial information is transmitted almost instantly, world markets and financial centres are connected by the most modern means of communication and operate 24 hours a day, in close collaboration with each other.

Together with global financial flows on the world move new technologies in many countries is modernizing the structure of the economy. In the Group of economically developed countries, undoubtedly, there has been a relative stabilization of exchange rates, supported by the globalization of the world financial markets. Developments in these markets provides more efficient than before, placing financial resources in the international scale. The ratio of demand and supply of capital is now at the supranational level, that prejudice is a much better investment. Large enterprises meet their financing needs not only, and often not primarily on the domestic market of the country. Similarly, investments are made wherever it is most advantageous to the entire world economy.

The globalization of the world financial markets, enables the recycling of capital accumulated by companies, banks, Governments, such as the export of oil and other commodities higher demand. The money is allocated for the financing of the world economy.

The globalization of world markets has created many financial innovations, new complex financial tools that enable to reduce the currency, credit, stock transactions risks. Global investment program of large investors are much safer in terms of business than previous investments within individual countries. Corporate financial management quite dynamically adapts to the new realities of a globalizing world economy.

However, by the end of the last century, the euphoria over the success of the globalization of the world economy will certainly come to an end. And financial sphere has been the focus of destabilization of the world economy.

Mentioned "hot" financial flows, cruising between the countries has already led to large-scale financial crises, showed how volatile the global financial system.

Globalization has exacerbated the problem of international debt, negative influence on national monetary policies in individual countries.

Operational innovation and new financial instruments that reduce the risks of investment, oppose the globalism and absence of control of financial business, which greatly increase these risks.

The benefits of the globalization of financial markets for economically developed countries does not apply to the entire world community. The situation on currency, credit, stock markets in developing countries remains extremely volatile. The main actors in the world of finance - TNK and TNB - have brought and continue to bring in well-known economic difficulties and contradictions in the economic life of many dozens of countries.

It is in the financial sphere, globalization develops in a few countries and peoples benefit and harm is much greater. It can be stated that the growth of inadaptability of the globalizing economy.

The globalization of the world financial market has brought the liberalization of national measures for State regulation of the economy. However, economic processes often become dangerous, freed from any form of external regulation. A paradoxical situation: in all developed countries, despite the liberalization of national financial markets still are much stiffer than the production and trade, including foreign.

At the same time, international supranational financial operations, huge financial flows, international financial centre not only are not regulated, but often even just not controlled from the outside. Indeed, in the world financial institution that acted similar to functions of country central banks, but at the supranational level.

In the banking sector there is no international system of deposit insurance, uniform reserve requirements, a unified methodology for banking audit. Clearly lacking at the supra-national level, common, or at least a coordinated bank bankruptcy law, which is particularly important in the context of "overcrowding" in the world of banks. It is not about restrictions on the movement of capital in the world in general, and about the need to regulate investment structure.

But the acute problem of regulation of world financial markets, the globalization of the world economy cannot be solved by individual countries. It needs supranational measures adequate to the scale of the process.

The International Monetary Fund on its status is not engaged in the design challenge of globalizing international regulation of financial markets. The London and Paris Clubs of creditors are not busy to regulate the uncontrolled financial flows, especially the "hot money".

However, the need for supranational coordinated effects in the process of globalization in the financial sphere is becoming increasingly urgent.

To resume above related, we can affirm that financial globalization is a complex process with many aspects and developing tendencies. It deserves special attention to avoid its negative manifestations, especially to reduce the vulnerability national economy from the negative effects in the financial sector, and to use its useful properties.

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