

Asymmetry and paradox of financial globalization*

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ABSTRACT. The article analyzes peculiarities and features of financial globalization, relevant paradox observed and asymmetry of world economy development in light of financial convergence and globalization.

KEY WORDS. Financial globalization, asymmetry and paradox of financial globalization, financial convergence, international financial flows.

Determinants of financial globalization

Financial globalization became an important trend of today's world economy development, extraordinarily accelerating the rates of innovations and revealing the need for adjustments in the strategy for the development of current international economic relations, strengthening cooperation among national economies on the basis of up-to-date informational technologies and agreed regulatory principles, creating flexible markets of labor, goods and capital, overcoming a number of existing disproportions caused by economic globalization. Globalization of world financial area is one of the most effective and powerful constituents of economic globalization.

In current conditions the world economy enters the phase of global integration and internationalization, more clearly showing new interdependence not so obvious under the old operation rules. Internationalization of capital flows is nothing but growth of mutual communications and interdependence, mutual penetration of national and international flows of capital, revealed both in creation of economic objects by particular companies in other countries and in the development of international forms of cooperation and contacts among the capitals from different countries. And the changes in the financial and economic affairs provide grounds highlighting the new process in international finances — financial globalization, which at the same time is accompanied by a certain paradox.

* This article is translated from its original in Ukrainian.

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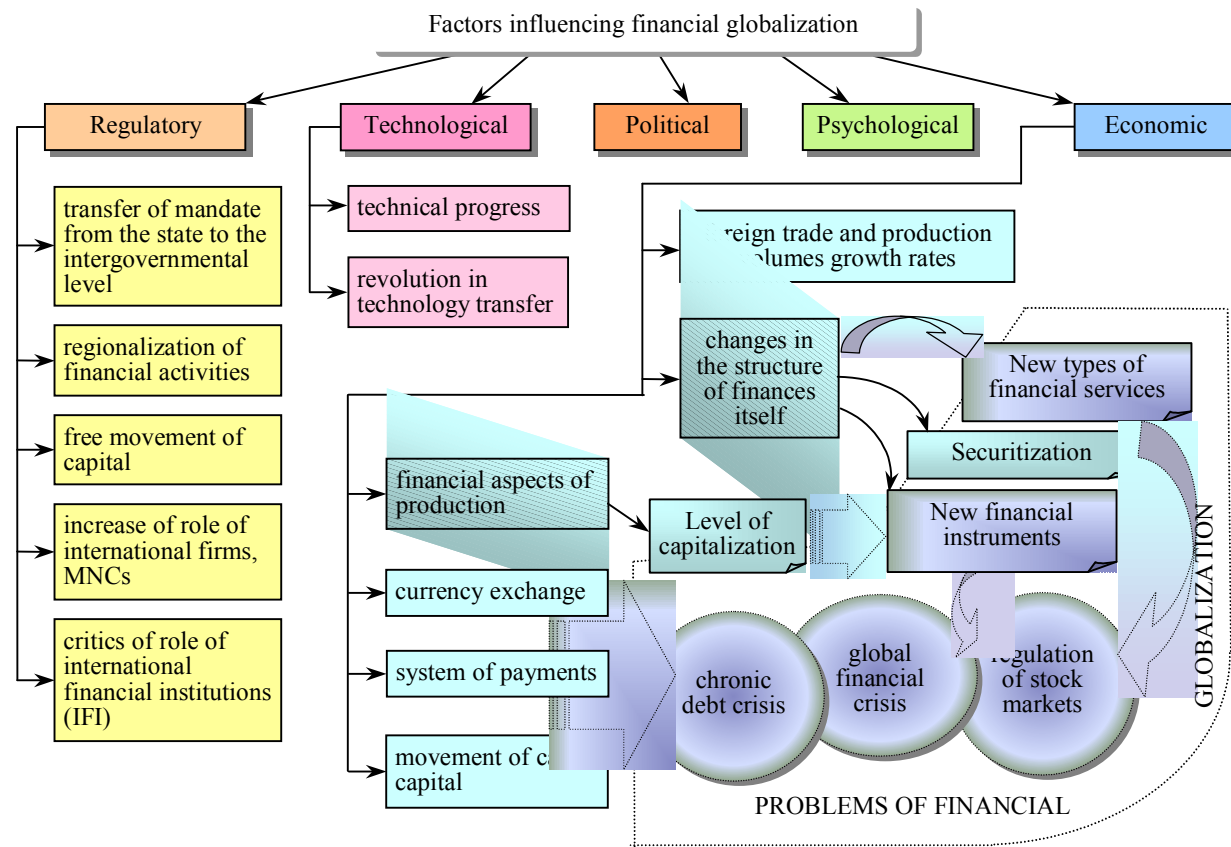
Namely, a paradox in world economic globalization lies in the fact that financial globalization (global financial sector) exists and showed itself post factum, while not being integrated towards the convergence. Financial globalization precedes the process of financial integration by essence, scope and area of action, but by type and depth of financial mechanisms these processes switch their places. The characteristic feature of economic progress in XX century is more rapid growth of foreign trading compared to volumes of production. Technical progress, growth of need, first of all, in leading countries, the new forms of organization of production, delivery of services transform the foreign trade into the necessary condition for existence and development of national economy.

The trend towards the world financing is observed, when fundamental principle lies not in the super-profits, but in possibility to gain revenues, operate in the global system having own niche and to take part in allocation and reallocation of economic resources.

By level of globalization financial sector today goes ahead of all real economy sectors. Key factors of financial globalization influence the participants of the market: banks, financial companies, stock exchanges, governments, bank institutions, central banks, scientists, mass media, borrowers, investors, as well as those producing and serving informational technologies facilities¹ (graph 1). However, powerful financial corporations represent more important and effective organizational constituent of financial globalization: banks, insurance companies, investment funds, audit firms, stock exchanges, currency stock exchanges, world financial centers and world financial capitals, large megacities.

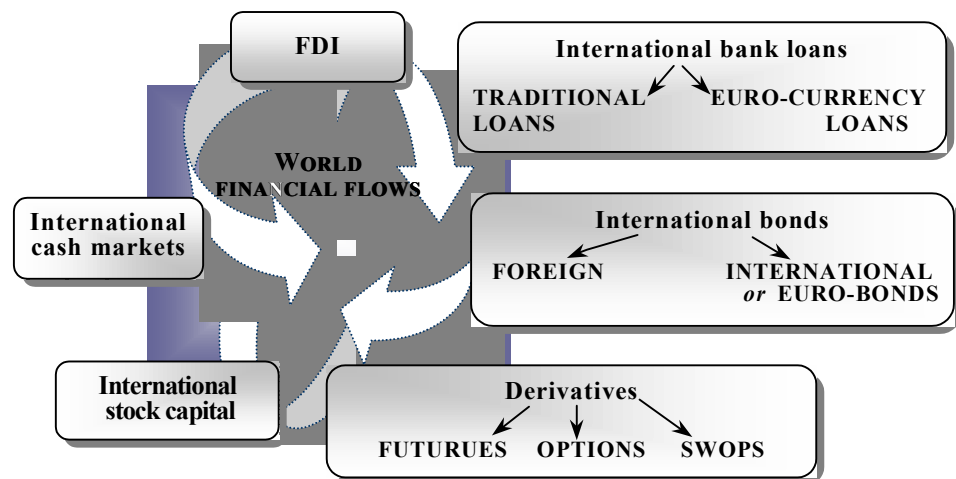
There is a substantial decline of role of commercial banks and relevant growth of role of market institutes last years, e.g. of financial mediators. It is now possible to state that global players represent driving force of non-regulated financial globalization with the world financial market which is under their actual control. Otherwise speaking, current period of world economic development on the whole, and financial globalization in particular, are characterized by global economic pragmatism from the powerful international corporations and countries (world leaders).

¹ Due to informational technologies (IT) the bank business without borders appeared. Today's IT is the main precondition and factor of development of modern financial products and global financial market.



Graph. 1. Factors influencing financial globalization

International financial relations are developing under changes in finances themselves. The share of financial services in the world foreign trade is rapidly growing. The new types of financial services and financial instruments appear. Financial relations among the states change, modify and become more sophisticated. For now world financial flows encompass FDIs; international bank loans (encompassing traditional loans and euro-currency loans, provided by banks oversea in foreign currency); international bonds (these bonds can be further differentiated into foreign bonds and international, or euro-bonds); international stocks capital and intertwining of the national funds markets (there are few ways of estimation of transformation of national markets under influence of financial globalization. Firstly, quantity and aggregate capitalization of foreign companies listed in every national stock exchange, as well as quantity of national companies wishing to enter the foreign listing. Secondly, cost of national securities retained by foreign investors, and cost of foreign securities gained by national investors (cost of securities listed in the country and funds values available on the foreign currencies markets). It is possible to compare the combined quantity of emissions of euro-stocks at the world level, and their cost and transnational networks that facilitate these international sales); derivatives (futures, options, swaps); international money-markets (graph 2).



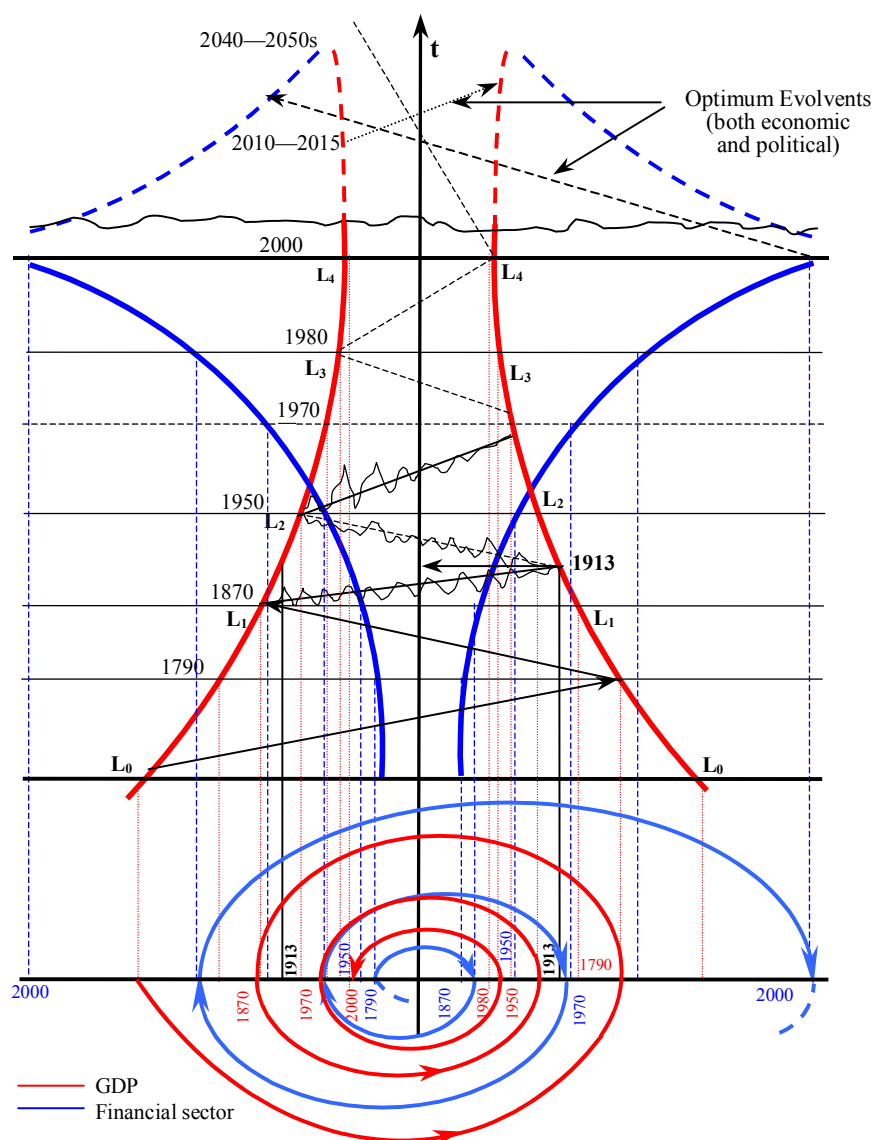
Graph 2. Elements of the world financial flows

Thereafter mobility of capital flows grows. Combinations of greater mobility and clear orientation, diversification of flows of capitals stimulate clearer structuring of world financial environment on the whole. In fact re-orientation of flows of capitals, in its turn, is critical for diversification of risks, predetermining changes in international portfolios towards more

profitable risks. Due to informational technologies and financial innovations, optimization and risk management for a short period of time made of modern portfolio management quite sophisticated activity: risks are estimated, distributed, limited and united into the new and more effective combinations. The increase of assets profitability will contribute to the acceleration of economic growth and integration of financial markets – and the substantial improvement of society's welfare. Globalization of finances sees single market as hard ground which according to the Swiss banker X.-U. Diorigh does not allow for emotions while allocating the capital which creates favorable conditions for investments in any country. However, one should not forget about the paradox of Fildstayn-Khorioki. If financial markets were fully united, then savings would be as well. According to theory, the surplus domestic savings must be transferred to countries with higher revenues and there should not be any correlation between the domestic savings and domestic investments. However, analysis reveals high correlation between the domestic savings and investments, that refuting assertion on financial integration of markets. In other words markets tend not to export surplus capital, but to absorb the surplus savings within the internal market. Such trend can be also seen in the portfolio of international investors, which is characterized by the considerable displacement towards internal assets compared to the optimal portfolio calculated with CAPM model.

Peculiarities of the world financial sector development

Another peculiarity of the world financial market of the begging of 1990s is its speculative nature. Over 9/10 operations at the world stock exchanges are not connected with trade and long-term investments. This was fostered by corporate mergers, bankruptcies, agreements on purchase of financial institutions shares holdings, sometimes very powerful and influential. Specific feature of today's world financial sector ensuring its self-sufficientness is its speculative character. However, one should not always link speculation and the negative. Besides, speculation supports redistribution of part of the value added and stimulates concentration and centralization of capital through bankruptcy of small and medium enterprises. Speculation fed by «hot money» supports the currency market and funds market in highly active state. It plays especially important role in formation of the secondary market. Without it, transfer of fictitious capital into industrial sector and vice versa would not be realistic.



Graph. 3. Schematic area/time genesis model of the world economy

However negativity in this process exists and it lies in its isolation from the real sector, as mentioned above, in possibilities to count interest rates on interest rates during arbitrary operations (with currencies and interest rates, both in time and in different geographical locations) (although sometimes we consider this some kind of risk diminishing issue), often enormous dividends and interest rates for securities with no provision (from an economic point of

view) as a result of the overpricing (shares of companies of «New» economies), capital flows, its money laundering through offshore, Internet accounts, direct avoiding of taxes and as a result enlargement of financial bubble, re-transfer into the real industrial sector of only 10 % of resources (Graph 3).

Volume of operations with speculative capital constantly grows. If in 1990 cash speculations involved US \$600 billion, in 1997, for example, - over US \$1 trillion, then in 2000 those accounted for around US \$1,5 trillion which is 29—30 times higher than the cost of goods and services sold during a day. According to the estimates, for each dollar in real sector of economy 50 dollars in financial sector circulate. Amount of speculative capital is estimated at least in US \$300 trillion and this is taking into account that the world production accounts for around US \$41 trillion [23]. International secondary market for obligations develops swiftly which became an enormous sector for financial speculators. Its total volume approaches the mark of US \$100 trillion. The global financial sector became to a great extent self-sufficient. All of this contributed to not only appearance but also functioning and enlargement (increase) of sp so-called «inflated money» (financial bubbles²) – money from nothing, gained only through a game at the financial markets³ globally or internally. Stock exchanges report of triumphal records however the shares specialist Ed Yardeni considers this to be the «speculative bubbles». Although there is a certain proportion between the industrial, trade and borrowed capital, in the last decades there is a negative trend towards increased gap between financial, borrowed capital and material grounds for goods, services and capital. Thus, of daily volume of currency agreements, that reached US \$3,5 trillion, only 10 % indeed serve movement of commodities and capitals. The annual volume of international financial operations 10—15 times exceeds the scales of the world trade. Growth of fictitious capital and speculative operations in this area substantially complicate the observance of equilibrium between the key areas of the world economy. However now (especially in 2005—2007) there is the trend towards deceleration of growth rates of financial constituents, in particular in the sector of derivative financial instruments, processes of consolidation, mergers and acquisitions; reorientation of portion of capital into industry,

² Pareto yet at the beginning of the century noticed that the amount of financial transactions grew quicker than amount of operations with commodities, which results (in his terminology) in formation of «financial bubbles», and in the end of century this process largely intensified.

³ This fictitious capital, according to the professors of O.Buzgalin and A.Kolganov, utilizes previous giant growth of labor productivity, which resulted in sharp reduction of share of material production and genesis of informational technologies in developed countries. As a result it pays off and subordinates the most modern sector of activities and communication-informational systems which created an adequate business for existence and expansion of corporate fictitious capital. This is the way how the special world of this «virtual» capital appears, with its special space, time, laws and vital values (its predecessor is well-known growth of «financial bubbles» and transformation of financial speculations into the largest, most profitable and most dynamic sector of market). This capital today forms the basis for social and economic force of global hegemony of capital.

technologies (nano-, bio- and other) sector etc., which is more the positive than the negative, taking into account lately 'bubbles' enlargement, rapid transfer of financial difficulties from one country into another (transfer of problems of mortgage market in the USA into some countries of Europe). This deceleration confirms not only self-sufficiency of the world financial market but also its capacity for self-regulation and existence in this system of not only potential for its enlargement but also evolving mechanisms which can return the system into the equilibrium, however only shaky and in a short-term prospective, and only in few cases in a medium-term prospective. This will last until the mechanism for management of financial bubble is developed and model for optimal proportion for all constituents of the financial flow is approved – so called calculation of density and homogeneity of financial flow, interrelation of all its components with calculation of legitimate and critical value of 'surface tension', level of elasticity⁴, which in its turn will provide opportunity to manage financial flows not only in this or that direction through percent, credit and deposit interest rates, returns on bonds, profitability of shares etc. mostly by monetary principles which are effective, but to learn to manage from inside, to find the internal instruments of influencing (except for interests, incentive reasons) – that is a question still requiring the answer in spite of the look of the world financial crisis as guided and forecasted. There are first attempts of such internal opposition to financial globalization and its negative consequences even after introduction of the single collective currency within the EU, which in fact decreased possibilities for conducting of the wide spectrum of operations with currencies, replaced by euro. However volatility at the currencies market caused the usage in Germany together with euro of a number of regional moneys 'regio', 'roland', 'chimgauer', 'ustas' etc. [24]. It is nothing but defense of the own economic interests (by small and middle businessmen) against influences of currency market, euro currency fluctuations. Except this, the percentage of the commodity value of these regional money is considerably higher.

Stock exchange analysts feel timidly and uncomfortably of today's High-tech-euphoria which in opinion of Dave Otto from an investment firm A.G.Edwards will become probably 'the bubble of all bubbles'. Since whenever those appear, they all finish with explosion. Large fascination by the Internet which entailed stormy growth of «e-companies» and «e-commerce operations» is the new economic type which creates a precedent for the «bubble of bubbles». Stocks of the Internet are at the end of historical chain of 'soap bubbles' which rose around channels, railways roads, autobahns, tulips, gold, silver, coffee, oil, yen, dollar, derivatives, mines, cotton, sugar, build areas, ships, Boeing-747 and so on.

⁴ Surface-tension of the combined world financial flow should be understood as the possible limits for its fictitious nature in all its displays taking into account multiplicativeness and transformation.

In today's world financial environment chronic defects which mess it up from inside become more and more obvious. The key one of those defects is the speculative character of functioning of global financial markets: the enormous flows of «world money» were formed, uncontrolled by either the national governments or other institutions. Those arise not from needs of production, trade, investments or consumption. Their main source is predominantly trade in money.

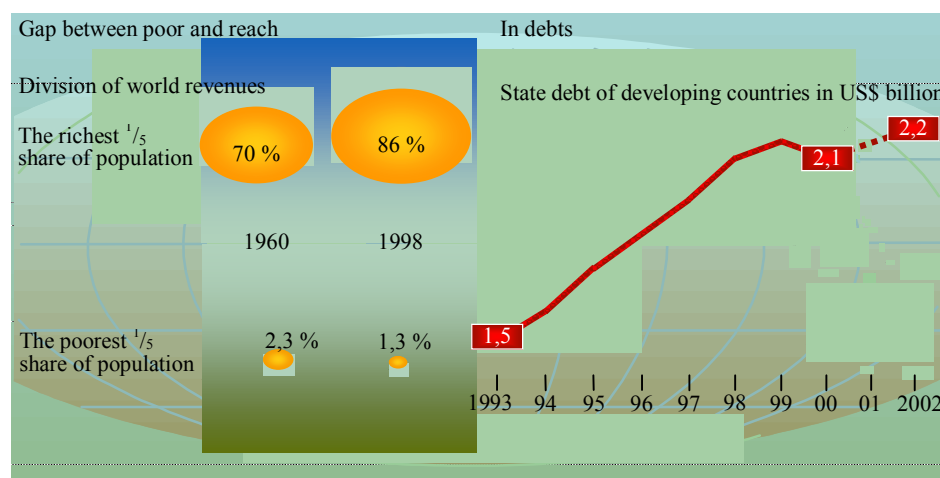
Deepening the asymmetry of financial globalization

The elemental processes of globalization do not convert a world economy into integrated one, and vice versa strengthen its disproportions. Disproportions of the world development and foremost unevenness of development of Center and Periphery found the display in the most sensible area – area of credit and finances. Such defect of this mechanism is predefined by two reasons. Firstly, high, in historical terms, avalanches-like growth rates of international financial operations are much further ahead than those of the world merchandize trade⁵. Secondly, the position is complicated by the fact that if international trade (even taking into account that larger and larger part of it goes through the internal channels of the global corporations) is still to certain extent controlled by the national states, financial flows are almost fully out of such control.

A contrast between a highly developed center with less than 1/6 population and Periphery with the bulk of population of the planet is growing. Since mid 70th of XIX century together with exports of goods, export of capital begins to play an important role. Flows of capital from a country to country became one of the main factors of the world economic development. In the last fourth of XIX century, the turnover of the international trade increased in 2,1 times, and foreign investments – in 2,3 times. In 1900—1913 the world production grew more than by 40 %, physical turnover of the world trade — by 62 %, and the volumes of foreign investments doubled. The considerably bigger part of developed Europe savings was invested abroad compared to the end of XX century. The investments gain force: outflows of capital in 1883 was equal to 4,7 % of the world merchandize export, in 1890 – 7,9 %, in 1899 – 8,3 % and in 1913p. — 9,1 % [13, P. 11—74; 17]. Foreign capital investments in 1883—1913 played far more significant role in economy than in a period of the post-war «economic miracle» to 1973. The «Large epoch» of the international borrowings was over in 1913⁶.

⁵ If doubling of goods turnover requires 15 years, cross-border financial flows double on the average each 4 years. Quite inertial system of the international regulation of economy simply does not have time to adapt to such swift changes in the world financial area.

⁶ Large outflow of capital on the eve of the World War I is the reflection of the specific processes in Western European countries in the end of steam epoch. World capital exports in 1900—1913, which accounted for US \$1,1 billion on average, decreased in inter-military period to US \$110—170 billion (at prices of 1913). The sum of oversea capital investments practically stopped growing (the export of



Graph. 4 Deepening the asymmetry of financial globalization

The trend towards globalization became especially obvious in the mid 1980th, in particular in the field of finances. Table 1 shows the evolution of some indicators which characterize development of this process.

Table 1

**Globalization of world financial markets
(industrially developed countries; US \$ billions)**

	1981	1985	1990	1991	1992	1995	2000	2005*	2010*	2015*
Portfolio investments										
Export	30,5	117,4	152,6	273,8	254,4	290,0	769,5	677,6	–	–
Import	50,9	152,8	155,4	377,3	313,4	396,2	1095,3	985,5	–	–
Direct investments										
Export	49,2	56,1	207,5	173,4	149,7	272,3	750,1	317,2	307,8	320,0
Import	41,0	35,2	160,1	110,4	89,6	57,7	92,3	142,8	212,2	300,0
Volume of international bank credit	1040,0	1530,0	3530,0	3610,0	3870,0	4200,0	10 650,0	13 000,0	15 000,0	21 000,0

capital from the Great Britain diminished to 7,3 % GDP in 1905—1914, to 2,4 % in 20th and 1,1—1,5 % in 50th. In France this index fell down from 3,7 % in 1900—1914 to 1—2 % in 20th and 50th). Reduction of capital exports as the share of GDP after the First World War some authors bind to the consequences of the second technological revolution which created possibilities for the large use of capital in national borders. The First World War put an end the epoch of the «opened borders». In majority of old industrial regions of Great Britain in 20th the signs of depression appeared. Ford conveyer began to work in 1913, but with the motor industry M. Kondratiev linked the prospects of the new cyclic development of world economy, which began considerably later, — after the Second World War. Large capital export on the eve of the First World War is the reflection of specific processes which passed in the West European countries on the final stage of steam epoch.

Volume of international currency operations (day)	60'	206''	663'''	800	967	1300,0	1150,0	–	–	–
Notes: * — forecast; ' 1983; '' 1986; ''' 1989.										
Calculated on the basis: European Parliament. Report on international monetary cooperation within the framework of the easing of restrictions on capital markets. 2 December, 1993; The USA — EPI, 1997. — № 1; World on the border of millenniums. — M.: «Publishing House NEW AGE». — 2001.; Global Financial Stability Report. Market Developments and Issues. — IMF. — World Economic and Financial Surveys. — September 2002.										

Globalization of production processes and financial area which deepens lately, radically changed a scale and structure of international merchandize and financial flows. Globalization influences not only the process of involvement of foreign financial resources. Positions of developing countries in the world trade, as well as structure of growth of world economy strongly influence their need for foreign capital, as these borrowings are one of important factors determining the volumes of currencies revenues and expenditures. That is why asymmetry and disbalances in trade relations can entail disparity between the need for foreign financial resources and their availability — the so-called effect of investments tension.

Financial globalization influences the growth in two ways:

- through the increase of global supply of capital;
- through stimulation of development of the national financial system, which promotes efficiency of division of resources, creates new financial instruments and improves quality of bank services.

By estimations, the average growth rates of international capital market will fluctuate in a range from 10 to 15%, and this volume for the period until 2015 — from 4,2 to 8 times (See Table 2).

Table 2

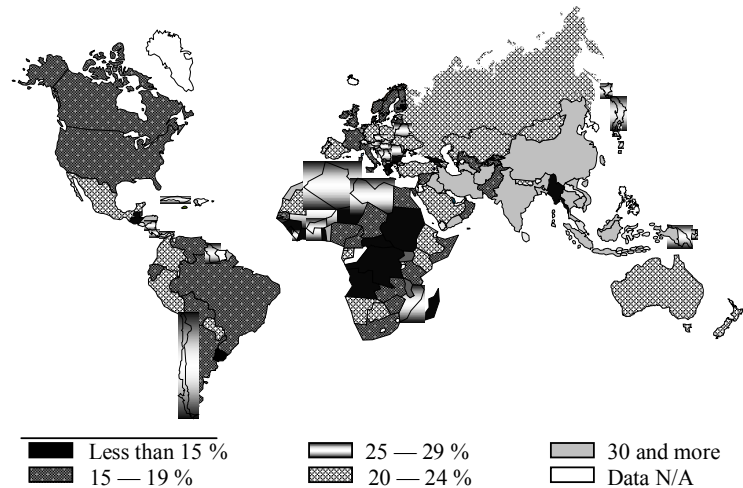
Possible increase of international capital market until 2015 (US \$ billion)

Growth rates	1980	1990	1995	2000	2005	2010	2015
10 % per year	303	435	1285	2070	3330	5370	8650
15 % per year	–	–	–	–	4180	8370	16 850

The world financial market during strengthening of economic globalization gains indeed world-wide character. Traditional composition of factors of production is changed. Now it encompass also information as mighty and, in many cases, basic condition for solving economic, social and political problems.

In the conditions of globalization, character and results of capital exports principally differ from those which existed in XX century. Direct investments go mainly not to developing countries, but into developed ones and their basic results

are not in super-exploitation, not super-profits, but increased interconnection and efficiency of national economies, capital exchange, considerably deeper liberalization of capital flows through national borders, first of all between the developed countries. The general situation on division of foreign investments in the world is shown at graph 6 which represents rating of foreign investments by their share in GDP of countries of the world and regions.



Graph. 5. Share of foreign investments in GDP
by world countries and regions

Change of international capital flows towards highly developed countries is the temporary phenomenon. And wave of cross-border mergers in the developed part of the world economy and even more consequences of financial crisis in 1997—1998, that weakened reputation of a number of developing and transitional countries are coming to an end. At the same time larger number of developing countries reform the economy with an aim to promote its attractiveness for foreign investors. All of that give grounds to expect recovery of the former rates of capital inflow into the new industrial, post-socialistic and other countries of world periphery⁷. By estimations, these rates in 2000—2015 can account for 18 to 22 %, and the annual inflow of direct investments will increase (in US \$ of 1999) to US \$450—530 billion in

⁷ Attention of investors will switch from traditionally important regions to the developing markets. Asia and East Europe, these two regions have the especially positive prospects for FDIs. Latin America will keep return of FDIs, and flows to Africa will remain at low level. There will be a certain renewal of FDIs in the group of developed countries, however on relatively low level in a short-term period. The USA will remain most attractive to FDIs in the developed world, as for the main European economies expectation are not so positive. Choice by the experts of the most attractive countries of investments is unexpected. Half of the countries of the first ten identified by experts, are so-called developing world. 87% of experts on MNCs and 85% experts on FDIs give preference to China. The top five countries encompass US, India, RF and Brazil. The list of top 15 countries also contains a number of developing countries - sources of FDIs including South Africa, India, Brazil, Republic of Korea. Some countries are the important source of FDIs only for their neighbors.

2005, US \$1030—1430 billion by 2010 and US \$2400—3800 by 2015. (see table. 3)

Table 3

Average growth rates of foreign direct investments (%)

	1981—1995	1996—2000	2001—2005	2006—2010	2011—2015
Developed countries	11,7	14,0	14,5	15,0	15,0
Developing countries	25,7	26,0	23,0	20,0	18,0
World in total	11,7	15,0	15,5	15,8	15,6
Calculated on the basis of: UNCTAD, 1997; World Development Report, 1998; World Economic Outlook, September 2000; World on the border of millenniums. — M.: «Publishing House NEW AGE», 2001					

In the structure of FDIs the re-orientation to the services sector is taking place. In the beginning of 70th the part of this sector was only 1/4 of total volume of FDIs in the world; in 1990 year – lower than half, and by 2002 it reached almost 60% or, by estimations, US \$4 trillion. For the same period share of raw materials in the global total volume of FDIs decreased from 9 to 6 %, and the share of processing industry decreased more sharply – from 42 to 34 %. On average, the share of services sector in 2001—2002 was 2/3 of the total volume of FDIs inflow, or approximately US \$500 billion. Besides, since the trans-nationalization of the services sector in the countries of basing and recipient countries goes behind the similar indicator for processing industry, there are possibilities for further re-orientation to the sector of services.

The second direction for investments (after the investments into the real capital) are the operations with securities. Actually an important today's trend is the predominance of international capital flow in the form of foreign portfolio investments which by volumes considerably exceeds direct foreign investments and international credits. This was fostered by appearance of new debt financial instruments which are circulated at the fund market⁸. Investments into derivative financial instruments are more frequently carried out with a speculative purpose, than with the purpose of hedging of markets.

The basic functions of the world financial markets can be implemented either through the deposits and credits operations of banks and other credit institutions, or through the operations with the securities. Market of derivative financial instruments or derivatives now develops most dynamically which is confirmed by the growth in volumes of emission of these financial instruments. The volume of output of derivatives during 1987—1996 increased almost in

⁸ In developed countries funds markets lately put aside banks as the source of investments into the real sector. The procedure of purchase and sale of securities is much simpler than return of the credit to bank. Currently securities is the universal method of redistribution of financial resource. With its assistance once can direct resources into the real sector, state budget etc.

10-15 times and keeps extremely high rates of growth even today. In particular, only for a period of 2002—2004 the combined nominal cost of issued derivatives, that circulated outside of the organized markets, increased by more than 70 % and in 2004 accounted for US \$220 trillion, and the volume of derivatives, issued at the organized markets, accounted for more than US \$46 trillion. Thus, the market of derivatives by its volumes largely exceeds any other segment of international financial market. The main instruments of international market of derivatives encompass the currency and interest rate swaps, forward contracts, options and others. Structure of international market of derivatives by types of instruments in 2004 was as follows: interest rate derivatives — 75 %, currencies — 12 % and others — 13 %. Up to 80 % of all currency derivatives issued in 2004 had a term of redemption to 1 year, for interest rate derivatives this indicator was 35 %. Predominance of interest rate derivatives is the certain proof of growth of mobility of capital, as by this condition the most effective operations encompass those that are based on interest arbitrage itself.

Export of capital is the most influential factor for deepening the financial globalization, rapprochement of different countries development levels, creation of atmosphere of mutual trust and respect of interests in the international environment. It should be noted that the export of capital is possible only at presence in the economy of country-exporter of considerable savings, and only those can be transformed into a capital both for internal and foreign investments. Without creation of powerful free financial resources in the certain number of countries financial globalization can not develop. In present conditions, the export of capital is the most reliable mean of development of economy for developing countries. Without regard to growth of FDI's from developing countries, the share of the developed countries still accounts for more than 90% all inflow FDI's.

The flows of foreign capital bring substantial economic benefits to all parties. Foreign investors diversify the risks outside of domestic market and gain access to possibilities of receipts of income in the whole world. Countries which receive the flows of capital gain various benefits. Above all, capital inflow increases the level of investments. When it goes about FDI's, capital inflow is often accompanied by transfer of the management experience, programs of training of personnel and development of important connections with suppliers and international markets. However flows of international capital, especially the flows of inconstant short-term investments strengthen a certain danger for developing countries. Those encompass sharp changes of moods of investors and speculative splashes, which can blow up the currency mode, endanger banks and powerful companies and weaken an economy. This requires making the policy and creation of institutes that will help to attain equilibrium, so that the mobility of capital brought benefits to the developing countries, instead of blowing up their economy.

Globalization of world economy caused the change of forms of investment process in particular, 1) enormous world financial flows stimulated by globalization (and which at the same time is supported and activated by them) are divided into two groups — short-term — tactical and long-term or the strategic investment; 2) within the world financial flows the tactical investments predominate considerably. Thanks to globalization, the volume of hot money circulating in the world with an aim to find most profitable area grows sharply; 3) pace of financial flows involved into the short-term investments is extraordinarily high. Their movement in the world economy has chaotic, unforeseen character; 4) if every investor that moves money at the international level follows the clearly developed investment policy, short-term capitals in the whole world economy are free from any influence whether regulative or supervisory.

Financial operations are the reflection and quintessence of those processes which take place in the real sector of economy, the degree of integration of countries to the world economic system is foremost determined by its integration into the international financial markets and participation in the financial globalization. Introduction of new financial technologies and innovations stimulates intensive flows of capital, which in its turn, is reflected in further dissociation of the services area and reproduction. The important feature of globalization in financial area is liberalization and, in particular, in relation to flows of capital (significant growth of number of transfers between countries, concentration of operations in largest international capital markets), and trade in highly convertible financial assets gained most active development.

In a world economy there is a new form of international balancing, in the framework of which world balance of export and import of products is counterbalanced with world balance of export and import of capital, and only all this complex system of financial flows in the whole forms the dynamics of currency exchange rates and sets problems which require solving on the way of international coordination of monetary and financial policy. However, the world currency system is not adequate to the economic conditions formed now. It became, de facto, obvious only in the beginning of XXI century, although the problem was sharpened already during the period of the Asian crisis, but then the emphasis was put to role of international organizations and possible ways for their transformation. Intensification of debt relations at the US real estate market in 2007 revealed essence and different influence of epoch of unchangeable credit money.

In financial area the powerful impulse to globalization was given, actually, by increased need in loans for countries reforming its economies; progressing liberalization of currency regulation. In the field of finances, globalizing process already entailed formation of adequate and autonomous industry of economy – financial system with more clear features of globalness. World financial flows move into this system, the net of permanent, stable relations,

correlation of demand and supply of financial resources in world scale is formed between the participants. In the field of finances, formation of the independent system of world economy, including national financial markets as constituent part, develops quite quickly and with most results. Both world production and world trade go with lower speed and less achievements than financial area.

With indisputable priority of development of world production and trade, growing intensity of innovative constituent of the economic development, those are using successes of financial globalization which actively progresses. Besides, development of the world financial system opens area for many very attractive, often speculative international operations. However, this fosters the dynamism of the system. Thus, without regard to all problems and disproportions, financial markets in the conditions of globalization execute both traditional and new functions; have considerable potential and serious prospects for development and growth. Functioning by own rules, financial markets dictate from now the laws to the states and responsible politicians. Consequently, the high indicators of internationalization of financial relations are examined not only as results of globalization but also simultaneously become instruments for globalization processes. Financial system, financial relations simultaneously are both objects and subjects of globalization.

Consequences of financial globalization

Thus, between globalization of the world economy and development of world financial markets there is close interconnection. Both processes influence each other and this determines their deep interdependence. Globalization would not make progress without the financial resources of the world markets, and markets evolve under the direct influenced of the globalization trends. Globalization of finances as an important constituent of globalization of the world economy is based on the powerful by its scales flow of capital between countries – on international financial flows.

Other negative consequence of financial globalization is the chronic debt crisis which captured ten countries, mainly developing ones. Economic gap between developing countries and developed ones is increasing. This gap is often stimulates principles disagreements in the political and social bodies of the developed and developing countries. And as a result of these disagreements dependence of developing countries increases compared to developed ones. An intensive exchange of information between all countries resulted in dissemination of «way of life» standards of developed countries all over the world.

Thus financial globalization can foster financial crises but it also creates possibilities for overcoming those. At the same time clear decision for debts⁹ problems is not found so far. Growth of debt is natural addition to the development of financial globalization. The problem of debts requires timely measures for its settlement. With strengthening of the role of finances in the world economic relations, facilities and methods of regulation of such relations change substantially. The role of customs tariffs is decreasing, as well as that of non-tariff instruments for regulations of flows of goods between countries (quotas, requirements for quality of goods etc.), and on the whole the role of the foreign trade relatively decreases in international economic relations. Movement of capital gains the growing importance.

It is often more advantageous to organize the production in the country, than to export products there. The flows capitals are as though ousting the flows of goods in the world market. It is especially typical for the activities of international firms which prefer long-term and stable relations. It is advantageous, as a rule, both for the countries-importers of capital, especially for developing ones, since the new jobs are created, revenues of population increases. In practice internationalization in financial sector and expansion of operations of international firms (multinational corporations) is able to solve many problems which exist in the less developed economies, to shorten gap between center and periphery.

One of such steps and kind of chance for stabilization and start of development is the decision of the G-7 countries on writing off debts¹⁰ to 18 poorest countries of the world approved in June 2005 at meeting of ministers of finance in London. G-7 promised also to 'forgive' debts yet to more 20 states, if those implement strict conditions on reforming of management system and combating corruption. IMF made the decision to writing off US \$40 billion to 18 poorest countries on September 25, 2005 at the meeting in Washington. This decision was supported by the representatives of the World Bank. And the debts will be annulated for Benin, Bolivia, Burkina-Faso, Guyana, Ghana, Honduras, Mauritania, Madagascar, Mali, Mozambique, Niger, Nicaragua, Rwanda, Senegal, Tanzania, Uganda, Zambia and Ethiopia. By the end of 2005 IMF must write off US \$15 billion to additional 10 most poor countries however this is tied to the June 2005 requirement on carrying out reforms and combating corruption.

A next problem lies in the fact that integration of capital markets resulted in simplification of procedure of capital transfer. It is hard for credit regulation institutions to forecast timely or to reveal destabilizing flows of

⁹ The debt crisis, insolvency of powerful companies and states can cause irreparable damage to the whole world economy. This in its turn shows that in current conditions financial policy becomes the key method for regulation of economic development both within the limits of one country and at the world level.

¹⁰ The principle decision in relation to debts 'forgiveness' to the poorest countries of the world was approved in summer 2005 on the summit of G-7 in Scotland.

capital, in order to make necessary adjustments in good time. Market integration strengthens vulnerability of financial market and complicates the issue of control of its operation. For transitional countries another large problem arises related to imposition of general difficulties of globalization to unsolved internal economic problems. Structure, practice and logic of today's globalization, based on the newest information and telecommunication technologies, stipulated the new international division of labor, that not only fosters the change of balance of economic power between the leading industrially developed countries but also assists development of trend towards creation of economic multi-polarity. If countries successfully deal with solving these problems, then globalization of markets is the positive phenomenon, instead of forcing load. As the sovereign state, Ukraine undertakes the first steps in the world economy, and this in the turn requires of it a number of decisions on principle issues, such as transformation to an opened type economy taking into account all features of this model, both positive and negative. However Ukraine has its own specific features (by virtue of its geo-strategic location), in particular, development trends of the end of 90th and prospects for the nearest decade of millennium show the need in balancing the relations between the West – as it borders the European Union and on the East - with Russia and other countries of the CIS. In such situation of deficit of financial resources, narrowness of international relations and access to the world markets it is first of all necessary to pay attention to new trends of world economic development, taking into account the national interests and remembering the need to gain its own niche in the world market, since today the world economy represents a well-balanced system in which every country or group of countries takes certain place, and even if there are some exceptions, well-operating mechanism in short period of time makes self-correction. However we in no way fall out of this system, since in the change of millenniums a lot of changes and corrections happen, from the first sight, in irreproachable withstand mechanisms and theories; and Ukraine together with other countries (Russia, Baltic countries, Byelorussia and others) has all chances deservingly to enter the neo-economy epoch being not overburdened by all principles of post-industrialism, developing principles of regionalism, newest financial civilization on innovative principles.

Summing up afore-mentioned it is possible to make conclusion, that implemented in practice in the end of 60th - beginning of 70th of the last century the liberal model of financial globalization did not give the desired results. Many researchers of problems of financial globalization discuss this and it is hard to disagree since:

Firstly, financial globalization was not promoting the stability in the world capital market, and in contrast it became the catalyst of greater vulnerability and speculativity;

Secondly, it did not promote the development of the long-term borrowed capital market, leading to certain asymmetry in the flows of capital and sharpening the chronic problem of debts;

Thirdly, it created favorable conditions for financial speculators, which instead of influencing the intensity and efficiency of direct investments, began to take away financial liquidity from the country;

Fourthly, financial globalization sharpened the problem of enlargement of «financial bubble» and self-sufficiency of financial sector, fostering increase of gap between financial assets and material assets towards the first ones;

Fifthly, fund market due to ousting of national bank credit did not increase access of the enterprises to the borrowed capital for financing the investments;

Sixthly, the openness of national economies does not counterbalance the chances of companies on the world financial markets in relation to their financing;

Seventhly, large-scale financial liberalization did not force world financial centers to co-ordinate their activities globally, and the latest trends towards the change of configuration and even transcontinental (transatlantic) character of integration of those once again shows non-willingness of the centers to change in favor of world community;

Eighthly, information technologies did not diminish the problem of providing of financial assets, and 'gold' remains an asset and basis for international currency liquidity, however now the issue is not in gold itself, but in so-called group of 'platinoids';

Ninthly, The successes was not reached in involvement into this proves of lots of countries of periphery, though there are attempts and partial positives (the countries of 'center' succeeded to form the international market of capital assets, satiate it with 'world money' and to redistribute for their own benefit the financial capitals of the corporate sector).

Except for negatives there are also certain positives and some changes in the financial sector itself, in particular:

- strengthening and clear outlining of the 'centre and the 'periphery' took place in financial, institutional and technological sectors;

- re-orientation of investment activities, investments into the real assets begins to increase;

- finances of new markets become less speculative and more calm in relation to profitability;

- new financial instruments and new types of financial services appear;

- in the currency area trends towards increase of creation of collective currencies (Asian collective currency – ACU; negotiations of China, Japan and South Korea on creation of single currency for three countries; intentions of the Arabic countries to create the dinar of bay etc.);

— there is the permanent return to the neo-Keynesian models of anti-crisis strategy;

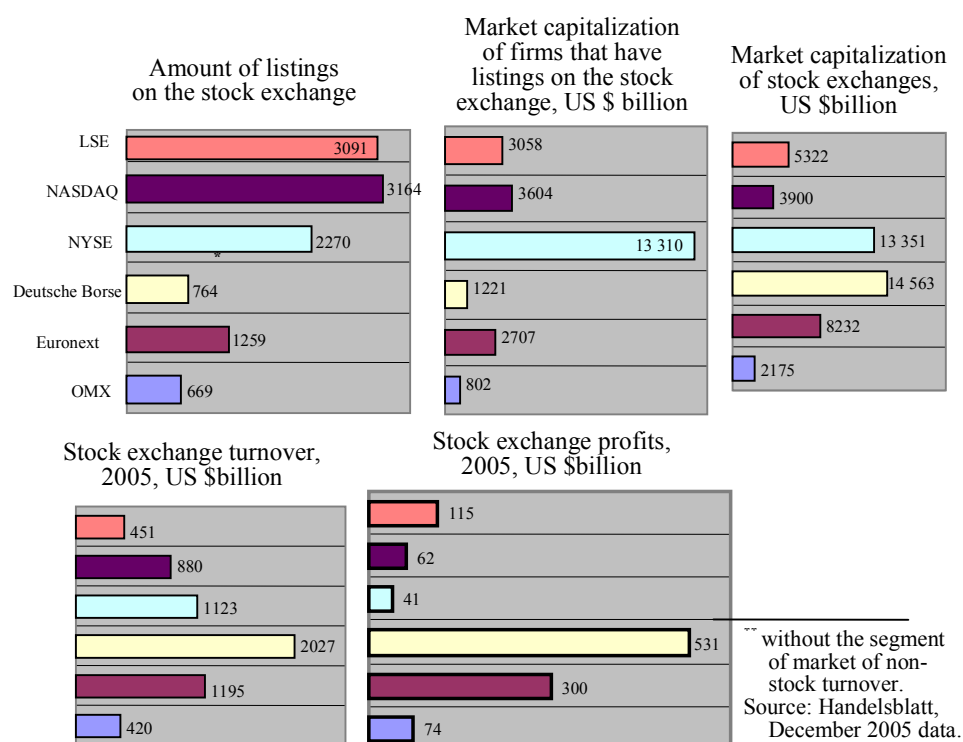
— the World Bank changed interpretation of the role of the state in the economy towards strengthening of functions of national institutions;

— formation of united powerful transcontinental trade spots involving world financial centers is happening now (however, now it is observed only between America and Europe).

This trend can be considered as positive, and something as negative, but in latest periods, especially in the second half of 2006, it becomes more similar to strengthening of power of the USA and to the desire to lay hands on trade spots of Europe, as a kind of revenge for the saltatory fluctuations (decline) of dollar value in relation to euro. It is proved by the proposal of NASDAQ to purchase the London Stock Exchange for US \$5,5 billion. Especially taking into account that most holdings of shares of the British stock exchange already belongs to NASDAQ (25,1% of stocks), now Americans aim to get complete control of the exchange. The positive lies in the fact that uniting two powerful businesses can create the leading global spot got cross-border trading in securities with their simultaneous listing in London and New York.

In this companies with general capitalization of US \$26 trillion will be traded on this new spot. Competitor of NASDAQ the New York stock exchange (NYSE) develops the plans for absorption of pan-European stock exchange (Euronext).

For a world economy in whole, and financial sector, in particular, such enlargement is not something negative, however in such situation it is necessary to make the new rules of game and new course to globalization for all participants of the process without an exception. With growth of international mobility of capital and competition for its in the field of international financial relations, chaoticness, unforeseeableness of international flows of capitals grew and relations between debtors and creditors extremely intensified, instability of basic capital markets considerably increased. In opinion of author, the answer lies in policy of clear and successive conduction of financial reforms, which simultaneously would provide stability in developing countries and benefits from integration in the world markets of capital.



Source: Viele Hürden auf dem Weg zur Traumehe // Handelsblatt. — 16 März 2006. — № 54. — S. 26—27

Graph 6. Comparison of the most important stock exchanges

As the conducted analysis shows, financial globalization is difficult and contradictory process, which strengthens and generates asymmetry in development of world economy. It fosters not only the acceleration of economic development but also increases the risks of international financial operations, considerably extends the area of influence of local financial crises. Stock exchange collapses, crises of state finances, once happening in borders of one country, in new conditions spread to whole regions, and can outgrow and into the world shocks. Almost all countries are bound by the credit relations, cross-flows of capitals, purchase of foreign assets and sale of the assets to non-residents. (Financial pressures and confusions of one country easily spread outside of its borders). It should be remembered that enormous financial resources which «fluctuate» on international and national money-markets are able to use for own benefits, the least error and faults in monetary policy of many, not very economically strong countries. Actual task for the development of financial globalization is the adoption of international

rules of movement of short-term capitals with the purpose of bringing to minimum of possible harm effects from purposeful speculations.

Analyzing financial globalization it is possible to make basic, but dual methodological conclusion. At first, even the most usual, generally accepted and correct visions of «natural» and «unnatural» issues in an economy and society in general show their relativity. Secondly, again, as the century ago, actual issue is about the monistic beginning of societal and historical or at least economic development. Globalization took place, and the question is in how to correctly estimate driving force and orientation of public, or at least economic development. For a change of consensus on «mainstreaming» in an economy a new monistic paradigm, organized round the concept of information, complications and non-linearity arises.

Understanding of this fact resulted in the revision of international financial architecture, put a number of serious questions requiring answers. Will the benefits of liberalization of capital flows justify expenses accompanying this? Can developing countries find ways to benefit from globalization, not falling under so large risk, which, as a rule, threatens the poorest population?

The answer should lie in economic policy of clear and successive financial reforming, which simultaneously would provide stability in developing countries and provide benefits from integration into the world markets of capital.

There are four key components of such approach:

— for gaining benefits from internal financial liberalization, developing countries should strengthen the bank regulations and, if possible, create mutually complement markets of equities;

— simultaneously with strengthening of the bank regulation, policy measures in relation to reduction of demand for the short-term foreign borrowings and fluctuations of their volumes should be taken;

— it is necessary to consider possibilities for strengthening international cooperation in development and pursuing tax, budget and monetary policies;

— long-term foreign investments must be stimulated by the policy of provision of healthy economic environment – including investments into human capital, creation of terms for work of internal markets without unnecessary disproportions, favoring the strict observance of rights and fulfilling commitments of investors – instead of proposing subsidies or other stimulus. Other trend of the process of globalization is removal of division for commercial and investment banking activities. A lot of factors stimulated the removal of limitations of Glass-Stigoll type in the USA and article 65 in Japan, and two key of those are the global competition and development of instruments and methods of effective risk management (mainly derivative products and hedging methods). These developments did out-of-date historical grounds for division of these two types of activities.

Realizing the essence of asymmetry and paradoxes caused by globalization and modern character of development of world economy it

becomes apparent that the time came for search of new priorities, unions, rethinking of role and essence of regions, development of new instruments, new rules of game –search of the newest paradigm of functioning of world economy of XXI century. Forming united (for most countries of the world) financial system must become the result of concordance of political and economic interests of the national economic systems, instead of following the way for destruction of those. Besides, world community is not yet ready to lose its policies and to diminish (not destroying) its historical and cultural originality for ‘economic expediency’. All of it requires development of new paradigm of development of modern world economy.

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