DIVERSIFICATION OF NATIONAL FINANCIAL MARKETS IN THE CONTEXT OF GLOBALIZATION

Urgency of the research. Current global economic transformations are making a revolutionary impact on the world financial system which is shown in the acceleration of financial globalization processes, which is of objective character and is a natural result of increased scale of transboundary financial assets transitions.

The research objective. The purpose of this article is to analyze globalization imperatives, which have had a substantial catalyzing impact on the scale and dynamics of national financial markets diversification.

The statement of basic materials. The article contains analysis of factors affecting diversification of national financial markets. Specific characteristics of national financial markets diversification processes in the context of globalization are determined and the impact of global economic transformations on the world financial system is analyzed.

Conclusions. The shift of geo-economical and geopolitical power center under the impact of systematic and universal character of national financial markets diversification, to the sphere of financial resources circulation, transforming financial capital into a powerful instrument of global economic development and institutionalization of the world economic system, has been detected.

Keywords: globalization imperatives, diversification processes, financial consolidation, regional economic integration.

DOI: 10.25140/2410-9576-2018-2-2(14)-135-142

Urgency of the research. Current global economic transformations are making an unprecedented, revolutionary impact on the world financial system. It is shown, first of all, in the acceleration of financial globalization processes, which is of objective character and is a natural result of increased scale of transboundary financial assets transition; dynamization of investment and credit activities of transnational corporations and banks; increased internationalization of national financial systems; deepening of interstate financial relations; liberalization and convergence of monetary, investment, and credit markets; diversification of accumulation and redistribution mechanisms in the economy of investment and credit resources.

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Target setting. The impact of global economic and globalization imperatives, which have had a substantial catalyzing impact on the scale and dynamics of national financial markets diversification require a deeper research.

Analysis of a recent research and publications. A significant number of works by national and foreign researchers is dedicated to the analysis of diversification of national financial markets, in particular: R. Pitts, H. Hopkins, C. Buz, L. Allen, W. Hamilton, D. Lukyanenko, A. Poruchnyk, Y. Stolyarchuk, etc.

The research objective. The purpose of this article is to analyze globalization imperatives, which have had a substantial catalyzing impact on the scale and dynamics of national financial markets diversification.

The statement of basic materials. Diversification processes of national financial markets have significantly accelerated in the context of globalization, which caused deepening of financial systems internationalization in different countries; triggered the processes of accumulation, exploitation, and appropriation of financial resources outside national borders, as well as stimulated expansion of investment and credit activities of transnational corporations and banks [1]. Therefore, key globalization imperatives that have had a substantial catalyzing impact on the scale and dynamics of national financial markets diversification are of paramount importance.

First of all, attention should be drawn to acceleration of trans-nationalization processes in financial and economic activities that manifests itself in the growth of the scale of activities of transnational structures. The statement is supported by the following data: currently there are about 82 thousand TNC with more than 825 thousand foreign branches worldwide; 500 of the largest TNCs realize 80% of the world’s electronics and chemical products, 95% – of pharmaceuticals, 76% – of engineering products. TNCs control up to a half of the world’s manufacturing sector, two thirds of international trade, about 4/5 patents and licenses for modern equipment and technologies[2]. According to UNCTAD, during the period of 1990-2014 the added value produced by foreign branches of TNCs increased from $1,0 trln. to $7,9 trln., their total assets – from $4,6 trln. to $102,0 trln., total sales – from $5,1 trln. to $36,4 trln., the number of employees – from 21,5 to 75,1 mln. people, export activities – from $1,5 trln. to $7,8 trln.[2].

Dynamic development of transnational business has become the material basis for diversification processes in the financial sector, first of all, on the grounds of intensification of integration processes, banks joining the global financial system, increase in versatility of their activities, and deepening of their cooperation with non-banking financial institutions. In the span of previous years the share of private funds engaged by non-bank financial institutions (which is approaching a 50% mark in the USA) has been rapidly growing [3]. According to the ‘Fortune Global 500’, out of the top 30 largest international financial groups half of the companies with the highest financial rates belong to the insurance market, and the other 50% – to the banking services market. Among those companies on the list that operate in the insurance market more than a half specialize in life insurance [4]. The total sales of the top 10 largest world companies in life and health insurance as of 2014 was $557,8 bln.; total revenue – $27,1 bln., total assets – $4,0 trln., and market capitalization – $516,2 bln.[5].

On top of that, the enormous scale of transnational business and its expansion to an ever-increasing number of countries and regions require flexible adaptation of local financial markets to its needs, and thus – their diversification. At the same time, high level of standardization and unification of transnational activities requires that bank and non-bank institutions in all countries, where affiliate branches of TNCs are located, should function in accordance with rules and regulations established by the developed countries.

The next globalization imperative of national financial markets diversification is escalating competition between its operators (first of all, between banks, and between banks and non-bank institutions as well) for global investment and financial and credit capital, for consumers of financial services, as well as for market segments. This imperative reflects the main and constant, since the times of formation of capitalist market economy, motive of corporate sector business structures operation – generation of the maximum revenue, its accumulation and capitalization, as well as priority of economic activities financial effectiveness over production of natural and physical goods, in other words – supremacy of financial economy over the real one. This causes a constant increase in demand for financial resources, escalation of competition for the opportunity to produce financial services, as well as speculation on financial resources instead of their direct investment into
In this context it should be noted that today we are witnessing the end of the age of non-diversified specialized financial institutions. As a result of financial globalization, apart from principal activities (payment and account, loan and deposit client services) they actively engage in direct and mortgage investment, project financing, leasing and factoring transactions, develop information services and consulting business. And although most of the above does not belong to traditional types of financial services, development of financial institutions in these fields is intensifying, and they themselves are not only penetrating into the system processes of other segments of economy, but are bringing in their own “rules of the game”. As a result, the subjects of the real economy are taking ever more active part in stock speculations, adopting traditional banking services, granting credits to their clients without involving bank institutions (b2c – business for consumers and b2b – business for business)[6], which ultimately leads to transformation of production capital and trade capital into financial one.

The established tendency of financial institutions outgrowing the framework of non-diversified specialization can also be noted in the banking services sector, where in the past decades diversification processes of turning commercial banks into so-called ‘financial supermarkets’ significantly accelerated. It is a specific business model of retail banking, which provides clients with the necessary banking and non-banking package (securities transactions, insurance, etc.) in one place, excluding manipulations that engage their own financial resources. Banking outlets that employ the financial supermarket model are normally located in places convenient for the clients (mobile carrier stores, supermarkets, malls, etc.), specialize in simple investment products (that do not include transactions with investment deposits, bank accounts, metals accounts, etc.) and do not set high requirements for the clients in the event of opening credit lines.

The first financial supermarkets were established in Europe back in the 1970-1980s, and in the U.S. and Japan – in the late 1990s. Currently they are common in the Benelux countries, Southern Europe, the U.S. and Japan [7]. An example of realization of such retail banking business model is Citigroup with its banking institutions that operated as large financial supermarkets until the end of 2012.

Escalating competition in the global financial services market leads to such globalization imperative of financial markets diversification as acceleration of consolidation processes in the financial field, which have been shaping new conditions of financial intermediaries’ activities in the recent decades. Therefore, strengthening of competitive positions of financial markets agents is only feasible on the basis of maximal mobilization of their inner development potential and employment of its exogenous variations, among which an important role currently belongs to mergers and acquisitions. Foreign experience shows that mergers and acquisitions are also one of the most efficient mechanisms of concentration and centralization of financial intermediaries’ capital, redistribution of market segments between them, unification of banks and independent financial companies, strategic re-orientation of their activities, significant reduction of transaction expenditures and lowering the barriers to enter new financial services markets. Thus, in the period of 2008-2013 the total worth of net sales in transnational mergers and acquisitions in the financial sector increased from $103,6 bln. to $134,9 bln. (in 2009 they accounted for $17,1 bln., in 2010 – to $58,5 bln., in 2011 – to $64,7 bln., in 2012 – to $49,6 bln.),[8], or from 16,8% to 33,8% of the global net sales in mergers and acquisitions.

Alongside national mergers and acquisitions, such as the unification of the French banks ‘Societe General’ and ‘Paribas’, the current processes of mergers and acquisitions are constantly gaining a more global character, when financial institutions of different national affiliation are getting involved in such operations. Here, in particular, the merger of the German ‘Deutsche Bank’ and the American ‘Bankers Trust’ should be mentioned, totaling over $10,1 bln.(1998); of the British ‘Nat West’ with the American ‘Union Bank’ and the Swiss ‘Swiss Bank Corporation’.

Especially aggressive in the context of mergers and acquisitions during the 2000s was the policy of the American ‘Bank of America’, which, in the period of 2004–2008 alone acquired ‘Security Pacific’,
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financial market, eliminated its geographical and instrumental division, and fostered consolidation of financial companies into conglomerates and syndicates by allowing them to conduct non-core activities and to execute consolidation agreements on mergers and acquisitions cannot be left without attention. The liberalization trends in regulation of national financial markets appeared when states switched to the system of floating exchange rates in 1973, which promoted emergence of new financial products, growth of the role of innovative financial technologies, increase in transparency of financial transactions, and establishment of closer ties between national financial markets.

The essence of deregulation of financial markets lies, first of all, in refusal of the state to intervene directly in the activities of financial intermediaries through changes in national legislation. In the banking sphere it means the refusal of state to require a certain level of interest rates in deposit and credit bank operations; to give directives regarding credit in certain fields and for certain entities; to require compulsory crediting of specialized financial institutions by the banks; and to ban banks from opening certain types of accounts, combining different types of activities, and to regulate the number of affiliate branches.

At the same time, financial liberalization in the sphere of stock market transactions expects refusal to claim compulsory financing by the banks of state budget deficits through buying state securities for an established price; transition to auction form of state securities emission; abolition of limitations for national emitters and investors to access national equity markets; cancellation of fixed stock commission fees, etc.. Therefore, as a consequence of liberalization of banking and stock segments of national financial markets, already in 1980s developed countries saw the operation of both primary and secondary security markets[10], which confirms the subject, product and class, technological and instrumental, and institutional and regulatory diversification of their financial markets.

If we analyze a more long-term foreign experience of financial markets liberalization, we will find that the most liberalized, deregulative regimes of financial markets operation were mostly implemented in periods of economic growth, when, for the purpose of expansion of monetary offering financial intermediaries were allowed to conduct operations unusual to them. The best example of that is the Financial Services Modernization Act (so-called Gram – Leach – Billey Act) adopted by the U.S. Congress in 2000. This Act, having replaced the Glass – Steagall Act of 1933, abolished the functional principle of the U.S. financial market regulation, mandatory separation of deposit and investment functions of the banks, and the strict limitations regarding bank interest rates in fixed period and savings deposits (the so-called ‘Regulation Q’); allowed banking holding companies to merge with financial sector companies (investment banks, assets managing companies, insurance companies, and non-bank institutions); and also allowed financial institutions to perform operations naturally extrinsic to them, from the point of maintaining circulation of a certain financial asset in the economy.

Following the adoption of this Act investment banks, insurance and pension funds obtained the right to engage in commercial crediting; and commercial banks – to engage in stock operations, insurance, trade in futures, options, swaps, etc.. Furthermore, universal banks became underwriters, organizers, and traders on the stock market; and project financing, which about 20 years before that was mainly the specialization of the largest universal and commercial banks, became a platform for activities of investment banks, which began introducing these projects to the stock markets. In other words, a complete ‘intertwining’ of functions belonging to financial institutions took place with their transition to performance of so-called transformed functions, which, on the one hand, provides convergence of the global credit (first of all, in the segment of syndicated loans) and stock markets, but on the other hand, significantly masks the nationality of financial capital.

Deregulation and liberalization of financial operations also involve reduction of taxes and commission fees for financial transactions; removal of barriers for foreign investors on their way to national financial markets; mitigation of competition legislation where it concerns establishment of financial holdings; creation of a network of offshore credit- and financial institutions operating in preferential tax regime. Although such measures cause a significant diversification of operations performed by the players of the world financial market in terms of countries and regions, and also financial products through implementation of complex derivatives (securitized assets and credits, ‘squared’ non-recourse debt, banks’ holding of corporate sector shares, consumer loans and credit cards of savings institutions, etc.), they also became the major cause of the 2007-2009 global financial
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years old in the world will surpass 3 bln., 500 mln. out of that – in developed countries, 2 bln. – in developing countries, 520 mln. – in the least developed countries. [11]

Therefore, the ageing of population in industrially developed countries and in a number of developing countries directly affects profitability of financial assets and causes substantial changes in the structure of financial markets of whole regions. The case is that in an ageing society the key objective of the state policy becomes mitigation of pressure on the joint savings and securing an adequate level of profitability of financial capital by means of diversification of financial assets and development of advanced financial instruments, which will foster an efficient process of transformation of the joint savings into investments. One of the most efficient diversification mechanisms of financial markets in such case is development of pension funds and of other financial intermediaries that will mediate the processes of accumulation, distribution and consumption of financial capital in the economy.

At the same time, the increase in percentage of working age population and improvement of its well-being also stimulates diversification of financial markets, considering the increase of the capital savings volume in the economy, and, therefore – the objective need of their effective investment through financial instruments of the banking, insurance, foreign exchange, and stock markets, consequently stimulating diversification of financial markets. Thus, according to the economists of ‘Credit Suisse’, in the period of 2000-2014 the world population doubled its wealth, having increased from $117 trln. to $263 trln.. That, considering the population growth, amounts to 77%. Currently the middle class (with financial assets from $10 thousand to $100 thousand) worldwide can be said to include about 1 bln. people (the Chinese making one third of this number). During the indicated period the total number of dollar millionaires in the world has grown by 164% and as of today amounts to 34,8 mln. people (41% of whom are the U.S. residents), including 128 thousand people in ownership of capital in the amount of more than $50 mln. (with 45 thousand of them owning more than $100 mln. of capital, and 4,3 thousand – more than $500 mln.). In the period by 2019 the total amount of capital worldwide will have increased by 40% and reached $369 trln., and the total number of dollar millionaires will reach a 53 mln. mark (2,3 mln. of them will be Chinese residents, 20 mln. – American, 19 mln. – European) [12].

Surprisingly, even a great percentage of poor population of the country may also become a catalyst of diversification of its financial market through the development of the so-called socially-oriented financial instruments (microbanking, social banking, directed consumer lending, unsecured general short-term loans, local bank loans, etc.), which not only provide opportunities to satisfy the current needs of individuals in credit resources, but also foster resolutions of social problems and significant mitigation of wealth inequality.

This phenomenon has received a very suitable name in the western scientific literature – «financial inclusion», which reflects the access level of individuals of different social backgrounds and that of legal entities to financial services. The highest level of financial inclusion as of today belongs to countries with high income, where 92% of households have access to the banking sector and not more than 60 mln. of adult population do not use the services of the official financial sector. The same rates for the countries of Central Asia and Eastern Europe are 50% and 193 mln. accordingly; for those of Latin America and the Caribbean – 40% and 250 mln.; of Africa south from Sahara – 12% and 326 mln.; of the Middle East and North Africa – 42% and 136 mln.; of South Asia – 22% and 612 bln.; of East Asia and Asia Pacific – 42% and 876 mln. accordingly [13].

Conclusions. To summarize the above it is necessary to indicate that the processes of national financial markets diversification in the context of globalization have gained systematic and universal character. This naturally results in institution-wise change of role and functional purpose of financial capital in the global reproducing process, increase in its flexibility, development of autonomy from the real sector of economy, and deepening of its integration and interrelation with other forms of capital. Under such conditions the center of geo-economic and geopolitical power is gradually shifting to the sphere of financial resources circulation, transforming financial capital into a powerful instrument of global economic development and institutionalization of the world economic system.

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Received for publication 01.03.2018

Бібліографічний опис для цитування :
Shlapak, A. V. Diversification of national financial markets in the context of globalization / A.V. Shlapak // Науковий вісник Полісся. – 2018. - № 2 (14). Ч. – С. 135-142.

Шлапак
Алла Василівна
кандидат економічних наук, доцент кафедри міжнародного обліку і аудиту, Київський національний економічний університет імені Вадима Гетьмана; https://orcid.org/0000-0001-8697-7039; E-mail: allashlapak@gmail.com; Shlapak Alla Vasylyvna Candidate of Economic Sciences, Associate Professor at the Department of Interregional accounting and audit, Vadym Hetman Kyiv National Economic University

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