FACTA UNIVERSITATIS
Series: **Economics and Organization** Vol. 2, N° 2, 2004, pp. 127 - 132

FINANCIAL TRANSACTIONS GLOBALIZATION

UDC 339.72

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Abstract. *The paper analyzes the relationship between globalization of financial markets and international economic relations. The starting point is the assumption that financial markets globalization is a result of the structural changes in world economy functioning. That is, the globalization process has been changing in intensity and quality, due the dynamics of changes in the world economy.*

1. Financial Markets Globalization Flows

The essence of financial markets globalization is denationalization of financial transactions, which do not recognize time and space barriers. The reason for this is that the international financial transactions appear in the form of an electronic impulse which means that the speed of carrying them out is limited only by computer transmission.

It can be said that financial markets globalization, and so the international banking as well, are influenced by the structural changes in world economy functioning. The globalization process changes its intensity and quality, due to the dynamics of changes in the world economy. Taking into account this starting premise, it is possible to differentiate four phases relevant for the analysis of financial markets globalization. The first phase started by middle of 1960's when the following changes took place: 1. Economic integrations among homogenous groups of countries were formed, 2. International economic relations were developing very fast and broadly, 3. In developed market economies big corporations internationalized their operations, 4. Limitations in financing international financial system were made relative, followed by the growing catalyzing role of international financial organizations, as International Monetary Fund, World Bank, International Financial Corporation, etc.

The second phase of globalization was bound to 1970s, during which the financial relations were intensified, especially through international banking. This could be explained in the following way: 1. Increased imbalance of the balance of payments in the scope of developed countries group which can be explained by the first and second petroleum shocks (in 1973 an 1979), 2. Appearance of developing countries petroleum

Received May 20, 2003

producers and importers (OPEC) which induced an enormous surplus of the balance of payments based on that, 3. Consequent establishment of new savings centers which contributed to a more severe division between the previous and the new savings centers, and also appearance of new flows of savings and investments, 4. In order to cover imbalance in their balance of payments, the developed countries developed mechanisms for petro-dollar recycling, 5. The developing countries solved imbalances in their balance of payments through increased imports of foreign capital, something that suited well at the moment, because interest rates were very low on the world market.

The third phase took place in the eighties. First, the problem of developing countries that had been burdened with debts, escalated, namely, the one that had to be solved integrally through plans for reprogramming and refinancing international debts. Second, the processes towards creating European monetary and financial system were intensified. Third, new financial world systems were created ("Asia Tigers"). At last, due to the application of increasingly modern information technology, the first real revolution in functioning of banking operations and other financial institutions took place.

The fourth phase of financial markets globalization started at the beginning of 1990's and it may be said to be going on even today. The former EEC became the European Union with the primary objective for the member countries to realize complete integration of economic and financial relations starting from 1999, based on the uniform *euro* currency.

2. Global Financial Market Features

Analyzing the following the basic features of the global financial market can be obtained: 1. Scale and structure of financial resources, 2. Structure of the basic groups of countries' share on the market, 3. Institutional and sector share, 4. Degree of joining home with foreign markets ("osmosis"), and 5. Positive effects, risks and control (1).

In regard to the scale of financial resources, the global financial market is characterized by a steady rate of growth which is the result of depth and breadth of economic and financial transactions among countries. The structure of global markets financial resources is made of markets of bank credits, shares, bonds and commercial papers. The financial resources structure on the global market is influenced by more refined factors than is the case with growth rates, and they are the following: 1. Various disparities of interest rates, exchange rates, bonds price, shares and commercial papers, and 2. Degree of stability conditions in the scope of certain market segments. For example, in the period 1984-86 the growth rates of the bonds market were higher in terms of markets of credit resources which resulted from an escalation of the international debt crisis against the biggest world banks. On the contrary, in 1987, the scale of financial resources on the bonds market heavily decreased under the scale of bank credit resources. This was explained as having been induced by the tide on the capital market caused by financial problems on the most significant national markets and already lessened problem of international debts crisis. It may be said that the changes in the financial resources structure are consequent upon the changes in the fundamental conditions of world economy functioning. It is important that the structural changes take place in predictable and desirable margins, and it would be in the function of rationalization and competitiveness of global markets (2).

The major participants on the global financial market are developing countries, as a group of countries with financial deficit, and developed countries as a group with financial surplus. Oscillations in the developing countries participation were observed, especially during the second part of 1980's, regarding the realized reduction of the scale of financial resources which were to be given for the development of these countries. If this reduction was to be long-term one, that would mean stagnation of their economies on one side, and stagnation in the world economy development, on the other side.

The global financial market sector structure means economic sectors, which dominantly form financial surpluses, on one side, and sectors which dominantly withdraw resources from the global market, on the other side. It is optimal that the biggest users of financial resources have to be those sectors which are propulsive and open to technological innovations.

The institutional structure of the global financial market consists of: 1. Transnational institutions, as International Monetary Fund, World Bank and other international and regional financial organizations, 2. International financial market, the parts of which are bank credit market, market of bonds and other securities, euro-currency market, 3. International foreign currency market: Spot, companies, forward, futures, 4. Multinational companies, 5. Central banks of some countries, 6. Home capital markets, and, 7. Commercial banks. "The international financial market is one of the most important parts of the global financial system and it operates on the basis of complex relations of market forces and mechanisms, countries' regulative systems, monetary and financial arrangements of transnational institutions and an active role of banks and the other financial subjects" (3).

A significant feature of the global financial market is joining with home (national) financial markets. The degree of their interrelationship is known as "osmosis", and it means flexible and fluid interrelationship of complex and stratified market structure. In order to carry out this process smoothly, it is necessary to have a careful control directed towards eliminating observed rigidities and deformations in the financial resources flows. There is a need for sketching and functioning of monitoring and supervising both on national and international level, with the aim to realize coordination and harmonization of supervising in the function of rational and efficient international financial market development.

In analyzing positive effects of financial market globalization one should keep in mind that market stability is determined by the degree of integration and efficiency, over setting foreign currencies of the most significant world currencies, structure and scope of international risks and degree of stability of the most important national capital markets. In contrast to the home financial market, making financial, investment and credit decisions on international plan is under the influence of a great number of factors, and it is subject to a complex risk structure as well as more subtle strategies of financial resources rationalization.

3. Specific Aspects of Financial Markets Globalization

International financial market globalization can be explained as a structural tendency towards integrated market development on the basis of numerous financial flows internationalization. Financial markets globalization is a very dynamic one, for it is reflected both in an expansive growth of the scale of financial resources on financial markets, and in real growth, when effects of foreign currencies change, double calculating and partial covering between individual markets, is eliminated. For example, in 1982 new net international credits were 90 billion dollars, but in 1987 they reached the sum of 255 billion dollars.

The first and most significant feature of globally shaped financial market is progressive expansion of multinational banking operations as a result of the international bank operations. A great number of banks from different countries appeared on the world financial market, mostly from the so-called group of ten most developed countries from a wider group of OECD countries. After initial domination of the banks from the Group 10, in the formation of global financial market new world financial centers have got a growing importance, with Japan on the top and the other far-East financial markets ("offshore markets"). The first and most significant place in the world banks rank order belongs to Japanese banks over which about 50% of net credit international resources are realized. Also, about 2/3 of the total transfer on the capital market is carried out by residents of Japan.

For globalization level of the financial market, relations among international social product, international trade and scope of financial transactions are of special importance. At first higher growth rates of international trade with respect to the growth of international social product were noticed. For example, in the period 1960-80, average annual growth rate of international social product was 5%, while in international trade the rate was 7%. Cited difference in rates resulted in a higher growth of demand for financial resources and payments on international scope. Namely, the scope of financial transactions on international financial market began to surpass that of the world trade, and it is result of both determination of international financial transactions over deficit and surplus of the current balance of payments of individual countries, and free capital flow due to the differences in the marginal yield rates of financial resources between countries, that is, the differences in interest rates per countries.

Taking into account the above-mentioned tendencies, it is not surprising that the data showing that in the period 1960-80 the international financial transactions got an autonomous character, that is, that even more than 50% of the financial transaction were done out of trade movements. In this period, the average growth rate of the approved loans on the world credit market was 26%, while the average growth rate of the international trade was 7%. The growth is much higher with respect to the growth of credit resources in any developed country, e.g. in Germany it was 11%. During 1980's financial transactions were reoriented from credits to bonds. In the period 1981-86 the growth rate of capital transfer on the world bond market was 34%, and that is also much higher than the growth rate of capital transfer on national bond market.

The third characteristic of global international banking is a growing share of so called automated market transaction of financial resources among countries, in relation to the classic banking methods and instruments. Namely, the penetration of market methods and of more liberal regulations on capital flows makes it possible for the capital and money resources to cross national borders much faster and easier. The process of securitization has been developed, and it is the process in which there is direct financial joining of final clients with final debtors on the international market. The initial international financial transactions during 1960's were based on short-run credits for financing international trade movements. During 1980's the process was intensified based on petro-dollar surplus of OPEC countries that flowed into business systems of the big banks in the developed countries, which had mechanism for deposit account protection against risk. Consequently, the big banks of the developed countries covered increased credit demand of developing countries, in order to cover their balance of payments deficits. It was a favorable period for credits borrowing on international financial market, since interest rates were low, terms flexible and conventional methods for making contracts. In addition, the importance of private direct instruments increased.

During 1980's the structural changes in international financial resources transactions took place in the way that there were relatively less official capital transactions and private direct investments (flows which do not make indebtedness heavier) for the benefit of increasing indebtedness transactions and borrowing financial resources sensitive to the interest rates changes. The reason for the change is in manifested debt crisis of developing countries (in 1988- 1,300 billion dollars), which made over 50% of their GDP. Over 50% made debts were credits with fluctuating interests by which market adjustment of interest rates was realized. "Banking transaction of resources among countries is based on much more faster accepting all changes in the field of debtor credit solvency, than it was the case with all the other forms of capital transaction" (4).

In addition to the market models introduction in international financial resources transaction, there was a *general trend of liberalization of financial and capital flows among countries* that contributed to globalization of international financial markets and international banking business. In contrast to national financial markets, where there are rigid limitations concerning securities issue, on international market, which is considered to be unregulated, there are not institutional regulations on required performances of the enterprises that issue securities.

A significant feature of the global financial market and international banking is mass application of increasingly improved information technology, which made possible integration of Eurocurrency credit and capital market with the other world financial centers, providing for continuous operations of world exchange organizations. Information technology also makes possible undisturbed approach to markets, and lower costs of obtaining information and credit resources mobilization. Information technology importance for international banking operations is in the fact that information on borrowing power and financial instruments quality are more accessive than ever before, and that is an important segment of managing financial transactions risks.

Capital and financial joining of banks from different countries is the next (fifth) feature of global international banking operations. A great number of big banks from developed countries have intercrossed capital funds in their balances in the form of control blocks of shares. A high percentage of interbanks deposits and other resources are created, and they are deposited on special accounts for longer periods of time. There are also consortium and syndicate loans by which banks from different countries arrange joint credit investments. It can be said that when the debt crisis was on its top (in 1982) informal world banks community existed and it protected creditors' interests.

A significant characteristic of international banking is also standardization of financial and market parameters. Namely, a high degree of market competitiveness and efficiency made possible simplified formation of the interest rates and the other yield rates, reducing costs for carrying out financial operations, and it resulted in narrowing interest margin in international banks.

At last, in order to keep international banking system stable and limit risks, transnational monitoring institutionalization and commercial bank supervising on the international financial market are done. For that purpose, the international standard of capital adequacy of 8% in relation to weighted risk assets is settled. In addition, harmonization of business policy is done, as well as unification of bank balances and financial reports. On the other side, financial markets of a greater number of countries are liberalized in the sense that they are able to absorb financial resources from international market. Due to that, the capital movements on national financial markets are likely to be growingly carried out following the law on connected dishes. The global financial market has become a medium for fast transmission of information on financial transactions between individual countries.

Taking into account the registered dynamics of globalized financial market up to now, it is real to expect it to be in further expansion. Future globalization processes will be conditioned by the speed of introducing financial innovations, deregulative processes and development and application of new business operation technology, as well as expected increasing straining relations between developing countries and developed countries, due to the expected significant imbalances in current balances of payments. Namely, for financing an increased scope of imbalances in balance-of-payment positions, much more massive financial transactions of capital on international market will be necessary. A very important factor of financial market globalization has been financial integration of the countries of the former European Economic Community into European Union, where freedom of capital flow, provision of financial services, and formation of financial institutions are guaranteed.

GLOBALIZACIJA FINANSIJSKIH TRANSAKCIJA

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U radu je analiziran uzajamno uslovljen odnos izmedju globalizacije finansijskih tržišta i medjunarodnih ekonomskih odnosa. Polazna je pretpostavka da je globalizacija finansijskih tržišta uslovljena strukturnim promenama u funkcionisanju svetske privrede. Naime, proces globalizacije se menjao po intenzitetu i kvalitetu, zavisno od dinamike promena u svetskoj privredi.