

Vladislav Pavlát

University of Finance and Administration, Prague, Czech Republic
Institute of Finance
vladislav.pavlat@vsfs.cz

ON THE PROCESS OF FINANCIAL MARKETS' GLOBALIZATION

Introduction

The aim of this paper is to discuss the possible future financial markets' long-term development tendencies, especially the global market segments' topical development. To be able to understand global financial markets' development tendencies it is necessary to analyse the general globalization process of the world economy; financial markets are an integral part of the world economy. The quantitative research (mainly statistical analysis) of globalization the world economy globalization degree (financial markets included) is crucial to be able to answer a lot of emerging problems on this field. In this paper, different opinions on some selected questions are presented.

1. The present stage and development perspectives of economic globalization

The globalization of national economy very often is presented as a dynamical process of mutual interconnection intermediated in a form of trade, payments, capital and other relations. The market economics' development is mainly based on innovations, motivated by competition, and driven by sound speculation, capital concentration, mergers, division of labour and specialization, progressive methods of government, etc.

The qualitative characteristic of economic globalization was – and still is – an important subject of research, analysed by many individual economists and economic streams. During the 19th-20th centuries, many useful scientific results were accumulated. In spite of many different views, the generally accepted

(“mainstream”) characteristic of globalization is based on the hypothesis of a permanent upward growth of national economics. This conception is closely connected with theories of growth.

In the second half of 20th century, research of economic globalization was stimulated by use of computers: the elaboration of different methods of measurements was much easier than before. As a result, many different indicators, indices and models of the globalization process, based on quantitative methods (mainly statistical methods) were applied.

The „Stanford Encyclopedia of Philosophy“¹ explains the origin of the word „globalization“: in 1930, in a book on education, the word „globalization“ was used for the first time to underline the necessity of a holistic approach in education. In the 60s, many scientists of different branches of social science started to use words – internationalization and globalization – as synonyms. However, the word „globalization“ was not frequently used until the 80. It is interesting that until 1960, the „British Encyclopedia“, French encyclopedia „Larousse“, or German encyclopedia „Brockhaus“ did not include the word „globalization“ – it is missing.

In different UN documents, the word „globalization“ is explicitly explained; economic globalization often is defined as a process of limiting and diminishing of obstacles caused by frontiers of national states, as a process aiming at the liberalisation of flow of commodities, capital and labour.

The sense of the word “globalization” and a frequently used word “internationalization” is similar, and both words are still frequently used as synonyms which can be misleading.

In the Czech literature the internationalization and globalization frequently are explained as different stages of economic development, i. e. the development from national economics to international economics, and further on, to the global economics. It is possible to accept this point of view, as the process of interconnection of national economics of different states is stimulated by growth of financial markets’ interconnectedness.

There is – of course – a problem: if we try to find out, *when* the internationalization process of a national economy (i.e. the process of interconnecting the national economy into the so-called international economics) ends, and *when* it is transformed into the process of economic globalization. In my opinion, it is not correct to define this “transformation point” by some quantitative indicator only (for example, by the share of an aggregate value of goods transferred over the boundary of a state on the GDP, etc.): this is a mechanistic approach, which should be based on some qualitative judgment as well.

¹ Globalization, Stanford Encyclopedia of Philosophy, Stanford 2010.

As far as financial markets are concerned, the “global financial market“ (in a broader sense) can be explained as a whole of all financial market segments (irrespective whether national or international financial markets are considered). According to another (more restricted) approach the global financial market is represented by selected segments of the whole financial market, where transactions between the “global“ financial entities (“financial giants“) occur.

If we accept a hypothesis that the economic globalization (financial markets included) represents a higher development stage of internationalization, we would have to find out some features of a new quality – not only a quantitative “breaking point“. One of such features – according to my view – is the emergence of big economic and financial units operating on a large, world-wide scale and crossing the frontiers of national states. The bigger the scale of such international transactions, and the bigger the number of countries involved, the higher the “degree“ of economic globalization. Unfortunately, it is difficult to find appropriate statistical data to support this view. The structure of international financial statistics is not always apt to reflect the degree of globalization, and – in addition to this – the statistical data about structure of the big corporations (and their financial transactions as well) are incomplete or missing. Topical data on the permanent process of mergers and acquisitions frequently are incomplete and do not reflect the reality.

The world financial crisis gave birth of many new moments, first of all by an important change of basic approach to financial risks and financial stability. It is worthwhile saying that the efforts of financial risks limitation and of a strive for financial stability on the level of an enterprise is not sufficient to achieve a relative financial stability on the scale of national economy, without trying to achieve a decrease of financial risk and an increase of financial stability on the international scale.

Another question connected with the tendency of creating “global financial markets“ which was not yet sufficiently answered, is the hypothesis of a “straight-forward globalization“. According to this hypothesis, the process of economic internationalisation automatically (from a long-term view) leads to the economic globalization. But is it really true?

In 2012 a study was published by the American McKinsey Institute which tried to prove that the process of economic globalization during the period of 2007-2012 practically stopped. One of the most important indicators of this phenomenon is the situation on the field of capital movements: the international capital movements in 2008 significantly fell down, and in 2012 it was by 60% lower in comparison to the pre-crisis situation².

² „For three decades, the globalization of finance appeared to be an unstoppable trend: as the world economy became more tightly integrated, new technology and access to new markets propelled cross-border capital flows to unprecedented heights. But the financial crisis brought that era of rapid growth to

The process of economic internationalization and globalization is a part of general process which is going on in modern human society. These processes are studied in all branches of social science – unfortunately, without a satisfactory mutual transfer of accumulated knowledge. The reasons, why methods, forms, scale, and causes and impact of globalization process are not analyzed by researchers of all social science branches at the same time are obvious: manifold real globalization processes arise at different time and are reflected in individual social science branches in a different way. It is a process of irregular development; a parallel development is rare³.

The general globalization process of the world human community – because of the specific character of financial markets – does not allow for a rise of global financial markets in a straightforward line: cyclical development is one of the most important in-built capitalist market economy features. The second reason is the diversity of economic, legal, religious, cultural etc. structure of the world. This diversity leads inter alia to local political conflicts, insurrections, local wars, and a possibility of a new world war is not excluded. The actual situation in the world shows that Huntington's views (published in 1994) – to a certain extent – were not incorrect⁴.

Present political science is concerned with the future role of state. Historical trajectory of the globalization process – according to views of some researchers – will lead to the end of national states. Globalization is a factor which will change the “individual policy” of national states (in case if they will be willing to support the globalization tendency) into a world-wide policy.⁵

The capitalist market economy with open national economic systems supports the general globalization tendency, as far as the hypothesis of long-term economic growth without stagnation is accepted. At present, a creation of a unique world state is a sci-fi dream. However, the general, long-term globalization tendency continues, whatever obstacle are playing against it.

a halt. See: S. Lund, T. Daruvala, R. Dobbs, P. Härle, J.-H. Kwek, R. Falcón, Financial Globalization: Retreat or Reset? McKinsey Global Institute, March 2013, http://www.mckinsey.com/insights/mgi/research/financial_markets/financial_globalization#sthash.BCIXAHvq.dpuf (29.03.2013).

³ The danger of controversial and/or misleading conclusions about the general globalization trends and its constitutive parts (economic and financial globalization, political, legal, social globalization, etc.) could be diminished through the interdisciplinary holistic approach based on unified research methodology.

⁴ S. Huntington, *Střet civilizací, boj kultur a proměna světového řádu*, Rybka Publishers, Praha 2001. According to Huntington's view, a period of local war on different continents was imminent.

⁵ See, for example: D. Held et al., *Global Transformations. Politics, Economics and Culture*, Stanford University Press, Stanford 1999.

2. Some of unsolved problems to be discussed

At present, one of the difficult and frequently discussed questions is the problem of relations between the real economy and the financial globalization. In my opinion, mechanical comparisons of statistical data should be based on a more elaborated and generally accepted internationalization/globalization theory which – at present – is only emerging.

Another unsolved problem is the question of the future globalization forms: which of the two possible ways will prevail – either the “expansion” or “intensification”? From the theoretical point of view, both ways are possible. The extensive growth of markets (financial markets included), i.e. the growing volume of “international” economy, is – on one side – driven by the growth of economic power of the group of countries called BRICS, and – on the other side – by the diminishing share of the non-capitalist sector. It is possible that this tendency – under the assumption of a general growth of the world economy – may be continued (for the next two decades, at least). The way of intensification, i.e. the growing interconnectedness and interdependency of national economics of a majority of states, probably will be continued as well. It is difficult to identify these tendencies and to find out whether they will develop in an identical or opposite direction which might have different consequences.

There is also a specific question concerning financial markets as a specific and extremely important segment of the world economy: which of the above described tendencies will prevail – the extension or intensification? It seems to be probable that both tendencies (under the assumption of a growing world economy) would lead to the growth of the “global” financial markets. Let us briefly define the sector of “global” financial markets.

Financial market segments currently classified as “global” or “tending to global” are the following ones:

- a) Forex,
- b) selected sub-segments of financial derivatives segment,
- c) specific stock markets of selected products, and
- d) international off-exchange markets of selected international bonds⁶.

It is probable that other financial market segments – for example the mortgage markets – will not be globalized because of the specific national feature of these markets. Another example is the consumer lending market, which has a specific national character.

⁶ V. Pavlát, *Globální finanční trhy*, VŠFS – Eupress, Praha 2013.

Is it possible to support the above mentioned opinion about the trend from local financial markets towards the international (or global) markets by means of research results on “globalization” presented by historians? By researchers of history of national economy many new facts about the historical process of internationalization/globalization were accumulated⁷.

But it is very difficult to generalize the results of partial researches to be able to formulate an acceptable theory of the historical process of internationalization/globalization. The reason is, firstly, a lack of verifiable statistical (or other sources used by historians) sources, and secondly, a lack of a generally recognised methodology. It is well known, that the scientific methods of economic science and other social science (such as history) are not the same. At the same time, it would not be reasonable to refuse the results of research on the field of history (i.e. the history of financial markets, on international trade, capital flows, migration etc.) just because of the missing statistical data⁸.

There is no doubt that in the modern history (since the end of the 14th century) as far as the emerging capitalist market economy is considered – a secular trend of internationalization can be observed. However, the internationalization tendency was not straight-forward: it was interrupted by many war conflicts, numerous plagues and other illnesses, natural catastrophes and their long-term impact on economic development. Ergo: the degree of internationalization was unstable, upwards and downwards moving. This hypothesis is verifiable by partial estimates of the international economy⁹.

After the Napoleonic wars “international economy” had an upward trend until the First World War. Since 1918 till the end of the Second World War the upward trend stopped. After WWII till the World Financial Crisis international economy expanded again (with exception of shorter periods of partial political and economic crisis). However, from the point of view of individual countries the internationalization trend can be understood in a different way. These differences are mainly due to different research methodology and choice of incomparable data.

⁷ J. de Vries, *The Limits of Globalization in the Early Modern World*, Wiley & Sons, Berkeley 2007, <http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0289.2009.00497.x.abstract> (17.06.2014).

⁸ The German historians’ discussion on the origin of “globalization processes” is still going on. Some German authors define the “globalization” as a new phenomenon which emerged after World War II. Other historians try to prove that the process of globalisation is an “old” phenomenon: according to their view, globalisation process began as early as in the 15th century (geographical discoveries, etc.).

⁹ According to the historical statistical data, the group non-capitalist countries participation on the international economics was not important.

3. Measurement methods of world economy globalization

Methods of globalization measurement depend on the level of measurement. The globalization can be measured at:

- a) company level,
- b) branch level,
- c) national economy level.
- d) international level, and
- e) “global economy” level. The first level has a microeconomic character, the other levels are macroeconomic. The measurement methods are based on statistical and/or accountancy data, which are transformed into elementary or more complex financial-economic indicators, indices, or models of different types.

The group of elementary indicators (absolute and relative indicators) reflect the data about a) the development stage of economy (measured by GDP volume and structure), b) about the international trade (export, import, etc.), c) about capital flows (capital inflow and outflow), d) about population migration (mainly the labour force migration).

At present, many databases of different economic and financial indicators are used. The databases of international organizations are the most reliable ones. In 2009, as a result of the world financial crisis and the necessity to face the crisis impact, a common database of several international organisations (BIS, ECB, Eurostat, IMF, OECD, UN, World Bank), the database „*Principal Global Indicators*” (PGI) was created¹⁰.

The most important and indispensable tool for the economic and financial development evaluation are the indicators called “Cross-Country Concepts” which represent one of the most valuable part of the OGI system. The PGI system concentrates data from the member states of the Group G-20 and of some other states selected by the International Monetary Fund as the countries with a systemically important financial sector.

A different group of indicators are the so-called Financial Soundness Indicators (FSI)¹¹ which serve as a supporting tool for a macroeconomic analysis of financial subjects' behavior. They are used for an identification of financial systems' strength and vulnerability.

¹⁰ www.principalglobalindicators.org/default.aspx (17.06.2014).

¹¹ Financial Soundness Indicators (FSIS), 2013.

Table 1

Economic globalization index (1995, 2010, 2012)

1995	2010	2012
1. Singapore 5.91	1. Hong-Kong 7.48	1. Hong-Kong 7,81
2. Hong-Kong 5.45	2. Ireland 7.43	2. Singapore 6,31
3. Ireland 4.94	3. Singapore 6.78	3. Ireland 5,63
4. Israel 4.71	4. Denmark 5.94	4. Belgium 5,49
5. Netherlands 4,57	5. Swiss 5.86	5. Switzerland 5,30
6. Belgium 4.50	6. Belgium 5.82	6. Netherlands 5,19
7. Hungary 4.39	7. Sweden 5.90	7. Sweden 4,96
8. Austria 4.38	8. Hungary 5.35	8. Denmark 4,94
9. U.K. 4.14	9. Finland 5.29	9. Hungary 4,75
10. Sweden 4.04	10. Slovakia 5.16	10. U.K. 4,74

Source: Economic Globalization Index, Ernst and Young, www.ey.com/GL/en/Issues/Business-environment/Winning-in-a-polycentric-world--globalization-and-the-changing-world-of-business---The-Globalization-Index-2010-summary (17.06.2014); www.ey.com/GL/en/Issues/Driving-growth/Globalization---Looking-beyond-the-obvious---2012-Index (17.06.2014).

There is a group of specific “globalization indices” as well. Some of them are used to the evaluation of the economic globalization, i.e. the development from the international markets to the global markets, other indices try to include different aspects of the globalization process (political, legal, economic, financial, social, ecological, etc. aspects).

One of the numerous Economic Globalization indices is, for example, the index prepared by the company Ernst and Young. The countries in the table (see Table 1) are ranged according to the globalisation degree in 1995, 2010, 2012¹².

Conclusion

The economic development trend leading towards global markets is not straight-forward one: periods of growth of globalization and a relative decline of it are changing in turn. However, the *secular trend* seems to tend upwards. It is not surprising, because – generally speaking – the *tendency of growth* of economic globalization is interrupted by a *counter-tendency of decline*.

Financial markets present development can be used as an example: globalization of shares markets continues, but a counter-tendency of market segmentation works in an opposite direction. The cause of these opposite tendencies can

¹² Economic Globalization Index, Ernst and Young, www.ey.com/GL/en/Issues/Business-environment/Winning-in-a-polycentric-world--globalization-and-the-changing-world-of-business---The-Globalization-Index-2010-summary (17.06.2014); www.ey.com/GL/en/Issues/Driving-growth/Globalization---Looking-beyond-the-obvious---2012-Index (17.06.2014).

be found both in the sphere of real economics and the sphere of financial market. If financial markets are regulated (at present, this factor is growing), the “natural” financial markets’ development can be supported through regulative measures, or distorted by them.

One of the results of difference theoretical and ideological views is the existence of differing views on financial markets’ future. The “optimists” present the general tendency of economic globalization (financial markets included) as a prevailing, long-term (secular) tendency which cannot be stopped by any barrier. From practical point of view, this general approach is not very inspiring for national and/or international economic policy.

At present, representatives of more sceptical views on globalization prefer the orientation on financial stability. The reason is clear: during the world financial crisis, strong players preferred their “national” solutions the international solutions and – in fact – were not interested in globalization problems.

More inspiring is the approach of pragmatists: they are striving to support the development of market segment which – in their opinion – are able to help to create the new capital necessary for economic growth in the world, without distorting the relative international financial stability. But: it is not probable that national capital formation would satisfy the present need: global financial markets are expected to satisfy it.

The present situation shows that feasible economic solutions are unable to surpass the coordination of national and international regulation of systemically important financial institutions which dominate financial markets (the global sub-segments in the first place): this is the maximum which can be attained¹³. New goals were not yet formulated. Inter alia, long-term development of economic globalization is still uncertain, except for a probable low rate of economic globalization.

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¹³ V. Pavlát, Will SIFIs Regulation Succeed or Fail? [in:] Proceedings of the 7th International Conference on Currency, Banking and International Finance, ed. J. Kotlebová, Ekonóm, University of Economics, Bratislava 2012.

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Streszczenie

Celem artykułu jest opisanie potencjalnych dróg rozwoju globalnych segmentów rynku finansowego w dłuższej perspektywie. Pierwsza część artykułu podejmuje temat procesu internacjonalizacji i jego wpływu na rynki finansowe. W części drugiej opisano różne poglądy dotyczące zjawiska globalnych rynków finansowych. Na końcu przedstawiono wybrane sposoby pomiaru procesu globalizacji.

ON THE PROCESS OF FINANCIAL MARKETS' GLOBALIZATION

Summary

The aim of this paper is to discuss the possible ways how financial market segments of a global character may develop in a long-term horizon. Part 1 deals with the actual process of globalization and its impact on financial markets. Part 2 gives a survey of differing views on global financial markets as a new phenomenon. Part 3 deals with selected aspects of measurement of globalization processes. The paper has been prepared as part of a project financed by the funds for specific university research. Project name: Regulation of the financial market infrastructure – goals, possibilities, and potential impact – Vysoká škola finanční a správní, o.p.s. (University of Finance and Administration). Project number: 7427.