NATIONAL SECURITY WITHIN THE GLOBALIZATION OF FINANCIAL MARKETS

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***Abstract**: This work considers the influence of a contradictory global development trend, i.e. globalization on formation of the financial sector which is characterized by an increase in financial flows, and necessity to ensure national security under such conditions.*

Many scientific publications, various issues of authoritative international academic journals has been dedicated to globalization. They describe globalization as an irreversible process; they list advantages and disadvantages of globalization. At the same time anti-globalism representatives continue to gain momentum.

In the XXI century everyone's talking about globalization: presidents, prime ministers, members of parliament, who can resolve no problems if they leave this global development phenomenon aside, to ordinary citizens. So today it is obvious that globalization has become a main trend of the modern world development.

Therefore, economic security issues are most burning problems for every country; and this article envisages the main component – financial security – through the example of a transition economy. So over again we dedicate our study to this trend of global development in the context of national security within globalization of financial flows and markets.

***Keywords:** globalization, global finance, finance sphere, financial flows, financial security, indicators of financial security*

MATERIALS AND METHODS

In our research, we focus on the opinion of the famous foreign and Ukrainian scientists, such as Brzezinski, Stiglitz, Soros, Pakhomov, Lukyanenko and others.

This study analyzes the collected statistical database for the period 2008-2012. It was calculated indicators of financial security of Ukraine.

For a comprehensive disclosure of the problem used general scientific principles of economic research, methods of synthesis and analysis, abstraction and specification.

Objective of this paper is to study the problems and issues of national security in the context of globalization of financial markets and global flows of capital.

INTRODUCTION

Globalization means an increasing interdependence among countries of the modern world. Therefore we can clearly assume that the beginning of this century is characterized as a new phenomenon in human development. Globalization is a creation of a common economic and information space within the global (or planetary) scale. And in this early century this trend has become huge ever in human history. We shall also note that globalization reflects a new reality of growth of the global interdependence, which is mostly predetermined by new communication technologies. In this sense, globalization brings glory to this nice new era. But often people forget that "the world before 1914 was free of trade and financial barriers too, and even more open to migration" [1].

Thus, globalization is the most striking manifestation of progress, bearing many economic and social innovations. These innovations are very encouraging, not only by the previously unknown abundance of goods and services, but given a new image of humanity which is getting shaped up.

Yurii Pakhomov, a member of the National Academy of Sciences of Ukraine, believes that even now globalization, being a rising phenomenon, suffers a crisis, which is quite an unexpected thing [4]. Globalization brings hazards, risks and challenges to humanity. As a contradictory phenomenon, globalization promotes some countries – usually these are highly developed ones – making less developed countries the outsider ones, what ultimately leads to new problems, and above all, to inequalities of global development, differentiation in the world economy and polarized society. Inconsistency of economic and financial globalization is manifested in the following:

First, a gap between world countries grows faster; a gap which coincided with the beginning of globalization for a reason and can be explained by an abrupt rise of unequal exchange. An example of this is a 2011 GDP per capita (calculated based upon currency purchasing power parity divided by the total population): some countries, such as Liechtenstein, Qatar, exceeded USD 100.000 limit, and less developed countries, such as Congo, Liberia, Burundi, had USD 300-400 (in 2011 the ratio was 1:250, in 2005 the ratio was 1:175, in 2000the ratio was 1:100) [6]. As it can be seen, the differentiation has increased by 2.5 over the past decade. However, the GDP per capita is increasing worldwide, but only intensity differs.

Second, due to globalization a humanity threatening deformation of financial and market mechanisms and instruments is taking place. The changes are most noticeable in global financial sector trough innovation of financial management and organization methods. Thus, financial globalization has increased the influence of international markets on lending activities and loans of non-residents; this has led to the growth of the international network of financial institutions and corporations, to increase of the foreign share of business and to radical changes in their cash flow management systems. Financial resources allocation is influenced by financial instruments which have now changed. We mean derivative financial instruments, which are usually replacing conventional securities in the turnover. In particular, derivatives (best known as futures and options), which were brought to use at the end of the 20^{th} century – late 80's, as well as relatively new derivatives – the so-called exotic options. At the same time, financial globalization seriously affects the countries, as in new conditions competition of national economies for loans, freely redistributed across the new global world economy, gets tougher. Financial globalization makes countries to seek new ways to increase the investment attractiveness of the national economies.

Third: Serious threat to sustainable development of economy comes from the expansion of the global capital, especially speculative capital. Now most of the speculative capital is being reoriented into speculative enrichment; there is a gap between the real world GDP and a speculative capital.

However, since the Bretton Woods conference in 1944 the real world GDP has increased by 4 times and in terms of money by 40 times. "The manifestation of the crisis of the world financial system is characterized by a huge gap between a USD 400 trillion speculative capital (of which USD 140 trillion falls for the USA) and the world gross product of USD 40 trillion only". [5] In the late 70's of the XX century the gap was not much more than USD 20 trillion. Over the past 30 years it has increased to over USD 400 trillion due to stock market games and greenback emission. Thus, the global capital generates powerful speculative financial flows which lead to collapse of weak economies and destabilization of developed markets.

RESULTS

Development of the modern financial sector in the context of globalization:

In economic and financial spheres globalization is associated with revolution in technology, information, trade, foreign investment, international business, which result not only in increasing inequality between countries and nations, but also growing competition, ability of states and other globalization participants to resolve these problems. In globalizing economy the boundaries of national economies no longer play a significant role, and this economy obeys only its own laws. Formation of a huge financial sector is a peculiarity of the modern world. Its growth rates are significantly ahead of the real production capital dynamics.

Moreover, this financial capital has become a relatively independent and self-sufficient phenomenon. As a result a special type of human behavior, focus on financial transactions as the major life activity, has been formed. The global financial area is creating conditions for effective capital allocation. It is substantiated by a number of trends on the global financial market in the early XXI century, namely:

(1) Interdependence of the financial and real sectors of the economy is increasing, credit and financial infrastructure is being transnationalized and internationalized;

(2) Concentration rates of financial and industrial capital are growing, what leads to increased number of mergers and acquisitions;

(3) Banks are actively involved into offshore financial centers;

(4) Stock markets become more important due to widespread use of Internet technologies, and based on them a greater number of banking institutions are entering e-business. New financial market instruments are being created which further have transformed the commodity markets, especially raw materials markets.

Thus, the world is becoming virtually and the economic and political elite are losing control over financial instruments flow. This virtual world of the financial sector is moving at high speed and became uncontrollable. "This world is deterritorialized, it has no place of residence, a property subject is constantly changing, it easily goes beyond state's control, both national and international" [2].

Besides, the financial sector was influenced by deregulation and changes of law in most countries. For example, intrabank processes affected the nature of cross-border banking transactions, as well as its control by national and international control and supervisory bodies.

Today, when a new system of the global economic reproduction is being established, transnational corporations (TNC) start playing a major role on the global economic stage. The annual turnover of some of them may be compared to the annual budget of some small or even medium country.

These are TNC and TNB accelerating globalization and shaping global strategies. Distinctive features of transnational corporations are world markets behavior requirements, which are as follows:

- control over its operations on a global scale;
- flexibility in different business activities, coordination of its diversified activities using flexible information technologies;
- most efficient allocation of capital;
- total view of markets and competition, market competition awareness;
- Unification of all affiliates, subsidiaries and branches in a common management global network.

National security in the context of globalization of financial flows:

Such processes in the financial sphere and financial market development trends in the context of globalization lead to increased attention as to ensure financial security of a country.

A country shall ensure its effective functioning and maintain economic stability in a global environment. This can be achieved through economic security.

Economic security includes financial, investment, innovative, foreign trade, energy, social, demographic security. Undoubtedly, all the components are very important in today's economy. But in the current context of globalization of financial flows and free movement of capital, the impact of the global financial systems on a specific country moves to a new level. That is financial globalization which provides conditions for financial power and, by owing world's money and disposal costs and by managing cash flows, can influence both the world economy (including international security) and specific counties (national security).

A problem of appropriate support for national economic security affects all sectors of the national economy, business and the public at large, entire society and a country as a whole.

Therefore, in our opinion, the financial security of the country within the challenges of globalization should be considered at several levels: enterprises; industries; countries; world economies. No country's financial security can be guarantee without financial security of separate businesses and industries. At the same time, besides that financial security of a country within world economy globalization relates to micro-level subjects, it is also closely linked to the situation in the foreign exchange and stock markets.

Many factors depend on the state of financial security. They include investments security, international financial market factors, supply and demand fluctuations, the state of the monetary and credit system of a country, balanced (unbalanced) national budget, budget deficit, national debt, tax breaks and so on. Stability of the financial security is determined by indicators such as inflation, domestic and external debts of a country, state budget execution process, level of monetization of the economy, cost of bank loans, sufficient international reserves of national markets. Let us demonstrate a financial security in the context of globalization through some indicators, taking Ukraine, a transition economy country, as an example (Table 1).

Table 1

Indicators of financial security of Ukraine [7-10]

Values	Threshold	2005	2008	2012
Inflation rate (%)	5	10,3	22,3	4,6
Foreign debt (в % к GDP)	Equal to or less than 60%	45,9	55,9	76,6
Monetization level, %	Equal to or less than 50%	37,7	55,2	52,1
Budget deficit (in % to GDP)	Equal to or less than 3%	-1,8	-1,5	-1,8 (-5,9 in 2010)
Cost of bank loans (average rate), %	10	14,6	16,0	14,3
Official reserve assets, excluding gold, billion U.S. dollars		19391	31543	31795

Having considered the above table, we shall note that most indicators have a significant difference from the threshold values, which means destabilization of the financial system, and country's dependence on external factors. Having analyzed the quantitative aspect of the indicators, let us reveal its qualitative aspect. Yes, inflation level results in price increase. The inflation rate is crucial for internal financial stability level in a specific country. That is why national central banks are trying to conduct its credit and monetary policy in a way which considers the inflation factor.

The criterion of "security" of a debt is country's repay ability and serviceability of a debt. For Ukraine, given the lack of external solvency and small international reserves, external public debt shall not exceed 60%. This suggests that the current external debt can affect Ukraine's financial security.

Since early 2008 the post-global financial crisis budget deficit of the country shows growth of the budget disbalance as it has exceeded 3%, and as of the end of 2010 it was 5.9%. This typical tendency for deficit increase indicates, first of all, on the budget revenues shortfall and increased costs. At the same time as of the end of 2012, this figure stood at 1.8%, which falls within allowable value; the situation has slightly improved.

Monetization level of any economy shows a country's economy cash resources, and is defined as the ratio of M3 money supply to the annual GDP. Since 2007 this figure exceeded the allowable threshold which affects national security upgrade.

Cost of bank loans is rated on a percentage basis; a borrower pays interest to a commercial bank for using a credit. High interest rates allow us to make conclusion that loans are not very attractive to borrowers. Official reserves are external assets controlled by the National Bank of Ukraine, and on demand can be used for direct financing of balance of payments deficit, indirect impact on the amount of this deficit through intervention in the foreign exchange market and for other purposes. Official reserves are compiled in accordance with the methodology of the IMF Regulations.

Central bank foreign reserves have a significant impact on external stability of the national currency and foreign possibilities of a country. Through 2005-2011 there has been a slight tendency for increase in official reserve assets. We shall also note that the largest proportion of reserve assets is foreign currency reserves.

DISCUSSION AND CONCLUSION

Today the modern conditions of economic development of any country consider all hazards, risks and benefits of globalization. The process of globalization provides huge unlimited possibilities with all necessary conditions for economic development. Within inconsistencies of globalization financial sector gets a new look and now is characterized by huge rates of its growth, which significantly outrun capital dynamics in actual production.

In these circumstances of globalization of financial flows, Ukraine, as a transition economy country, has clearly outlined systemic issues related to provision of appropriate level of financial security; issues, accumulating over the previous years. Financial security reveals the state of the monetary and credit sphere, which should be characterized by balance, resistance to internal and external detrimental effects, ability of this sphere to ensure effective functioning of the national economic system and economic growth.

According to the financial security indicator analysis, most of the indicators exceed permissible thresholds; this has an impact on increase of national security level and its dependence on external factors. To refine financial security, more emphasis should be made on compliance strategy of financial security of Ukraine; to develop and implement an effective system of financial control; to create conditions to increase real income of the population; to introduce clear issue and settlement procedures on loans for economic entities of all forms of ownership. If the proposed measures will be used when solving these problems, it will enhance financial security of Ukraine and lead to Ukrainian economy growth and stabilization.

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