FINANCIAL GLOBALIZATION: MULTI-CAUSE PROCESS, WITH A COMPLEX DYNAMIC

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Abstract *Currently, the globalization appears as an undisputed reality of the contemporary world and leaves traces, in a small or great measure, upon all coordinates of life. The financial globalization is the most obvious form for showing the globalization, the financial field proving to be the most dynamical field. The complex processes of deregulation and decompartment which give the essence of the financial globalization process brought a real transformation of the financial environment in what concerns the ampleness of financial flows, complexity and speed of transactions, diversification of financial instruments. Within this context, the financial markets more and more interdependent, characterized by a triple unit, of time, place and operations, brings forward the impact, almost a sudden one, of financial conditions, from a region to national financial markets around the globe.*

Key words*: financial globalization, financial flows, deregulation, decompartment, disintermediation*

1. Triple unit of the financial integration and capital distribution

The defining element of the evolution of financial activity from the last decades aims a separation of the financial flows from the national territorial area, in close relationship with the trade liberalization, expansion of the transnational corporations and the circulation of the labor force. If in the past, the companies had difficulties in transferring money from one country to another, due to the complicated procedures the cancellation of an obligation or paying some rights had to follow, the things are simpler these days. The financial situations of the economic entities, the course of shares and bonds, the operations of any type can be easily monitored. The banks and the corporations may immediately react to the change of prices and exchange rate, due to the easiness in obtaining the information from the stock exchange markets.

At a general view, the innovating evolution and the one of dynamic change of the political climate, any economic tension or of any kind is found with a very strong intensity at the level of the financial activity, justifying us to talk about shaping a globally financial area. The financial globalization can be described in a simple manner as a complex process of increasing the interdependencies worldwide based upon the trans-frontier financial flows, the integration of markets and shaping a unique market of capitals, functional at the scale of the entire planet. The fast circulation of information and the standardization of the financial instruments are clear marks that the economies of different states advance to a strongly integrated system, a worldwide financial market define by a triple unit:

- The time unit or the uninterrupted functioning of the market, 24 hours of 24 hours, in the Far East, Europe and North America, meaning that a financial operator can continue any time of a day the operations on another market, that are opened after the initial ones are closed;
- The place unit: the same financial instruments may be simultaneous transacted on numerous national and international markets (e.g.: the actions of a company at more stock exchanges around the world);

- The operations unit: on all national financial operations are met the same types of financial instruments and the same types of financial operations are made with them.

Starting from the pertinent statements of the British magazine *The Economist*, such as “the financial markets are the players and the jury of any economic policy”, the question is if the financial market becomes a universal source of wellness and the guardian of the worldwide economic sense? The answer is not a simple one, and in order to formulate a pertinent conclusion we need a complete image upon all dimensions of the financial globalization, starting from its defining elements, the changes that were induced at the level of markets the associated benefices.

2. The characteristics of the financial globalization

2.1 Elimination of the capital flows control and the stability of the financial markets

The main feature of the financial globalization is the legislative depletion or the deregulation, which consists in the gradual abolishment of the regulations regarding the exchanges, as to facilitate the international circulation of the capital. With the liberalization trend it is aimed to encourage the development of competition in the financial field for the benefit of market participants, in the conditions the excessive regulations may act as barriers when entering the financial markets reducing the competition.

In the past, the financial activities were extremely regulated, starting from reasons such as: the vulnerability of this sector against the trust crisis, the need of monetary regulation instruments or the protection of savings owners. In what concerns the regulation form there were many types of regulations: direct, by which it was limited the capacity of the financial institutions to operate on the market (limitation of the credit, administrated installments of interest, the control of the exchange rate), of prudential nature for supervising the solvability of banks (defining the own funds ratio) or structural by which was limited the action field of the financial institutions (activity authorizations, regulation of the increased participations).

The deregulation tendency became more visible in the 80s for countries such as Latin America, USA, Japan and Great Britain and in the 90s, in the continental Europe. The developed countries gave up to the restrictions they controlled the inputs and outputs of capital, once with the consolidation of their economies and passing to the full convertibility of currency. In case of newly industrialized countries, the liberalization measures were stimulated by the wish of those countries to attract capital for the stimulation of investments and economic growth but also the interest of the great western financial conglomerates to value new opportunities.

The deregulation was felt not only related to the capital transfers beyond borders but also in the banking activity, contributing to a closeness of the internal and international financial markets. In this direction, USA eliminated the thresholds imposed upon the interest rate and founded the International Banking Facilities, a mean through which the American banks could use the main offices from the country in order to offer deposit and credit services to the foreign customers, without taking in account the demands of the federal reserves and the regulations imposed to the interest rate. France allowed the banks to issue deposit certificates in French francs and ECU (later also in foreign currency) on internal markets, and Holland allowed the foreign and internal banks to issue a more assorted range of financial instruments.

Beyond these evolutions, the deregulation does not mean the complete give up to regulations. The financial markets continuously remain regulated, governed by laws and regulations, they being organized markets. Therefore, a clear, complete and stable legislation is absolutely essential and represents a necessary premise in order to assure the subsequent development of financial markets.

After the deregulation from the 80s which emphasized the bankruptcy risk of more fragile financial institutions and the growth of markets instability, the international authorities became more and more preoccupied by this subject, and at the beginning of 90s it started to show a re-regulation tendency, of prudential nature, harmonized at European and international level. A good example is the “Cook rate”, applied in 1993 by the Committee from Basel for Banking Supervision[85], which imposes the banks to observe a solvability ratio of 8%. Such reasoning determines the banks to adopt strategies for evaluating the risks and efficaciousness to the growth of assets’ costs.

[85] The Committee from Basel of Banking Supervision is an international organism formed by the representatives of the banking supervision authorities from the main industrialized countries: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, England and USA. They carry out their activity through periodical meetings (once to three months) carried out at the offices of International Regulation bank from Basel.

Subsequently, the International Regulations Bank elaborated new norms, pretty complex, regarding the risks on the financial markets and especially, the markets derived, in order to avoid the multiplication of the processes of payments cancellation of some banking units. These norms started to be applied from 1998 and impose to the banks either to establish a reliable internal procedure and guaranteed by the authorities or, for the banks that do not have the necessary means to use a standardized system elaborated by the Basel Committee (Basel II), from 2001, which regards the minimum banking capital and is structured on three piles: the minimum capital demands, banking supervision activity and the market discipline, which implementation has as objective the achievement of a high safety and solidity level of the financing-banking system.

2.2 The increase of financing through the financial instruments in the detriment of banking credits

Another feature of the financial globalization is the banking disintermediation in the circuit of financing. Disintermediation can be described as a technical evolution and refers to the direct recourse of the operators at financial markets, meaning the use of a direct financing mechanism in the detriment of indirect financing[86], through the carry out of placement and borrowing operations. In other words, it is about passing from an economical system where the financial (the banks) represented the main financing circuit, to a market one, the financing being made mainly through the direct funds owners and requesters.

Disintermediation can be characterized most by opposition with the intermediation that made of the banks the only possible connection between the resource owners (depositors or savers) and those who borrow, resulting in credits. In time, the enterprises started to prefer a direct market financing, that allows a reduction of the intermediation costs (associated with obligatory reserves and the insurance commissions) and an increase of the assets (an international credit is hard to be ceded on the secondary worldwide market compared to the financial market where ceding a placement is made easily), the classical crediting and depositing activity of banks being completed by the use of capital markets instruments.

Thus, it is manifested an ample process of substituting the financial assets that eliminates the separation between the banking credits and the bonds and considerably reduces the volume of classical credits in the international financing. A form of banking disintermediation is the securitization, which appear under different forms, from opening the monetary markets for enterprises regarding the possibility to issue treasury bonds (interest rate is not imposed anymore but depends upon the demand and offer, becoming less expensive), up to allowing the banks to issue negotiable titles in the trade-off of debts they have in the balance, especially for the real estate credits (the credit cost decreases).

Although the two terms (disintermediation and securitization) are most often used in the specialty literature in order to describe the new tendencies of the evolution of the international financial-banking activity new trends, it would be best that the references to be made as a term of “re-intermediation”, because the re-intermediation does not disappear of an effective manner but it takes place only a change of its form, through the recourse to other intermediaries.

The large scale intermediation of financial assets owning cannot be completely eliminated, in the conditions when the complexity of the financial products is greater, when the information are so important, the supervision of the evolution of chattels portfolio and the risks management requests more time, and the modern instruments use assumes more advanced own knowledge or the intervention of professionals. In this context, a most important role is the one of a new category of intermediaries such as the institutional investors, represented by the pensions fund, collective placement bodies, insurance companies. The capital markets institutionalization trend assures the fluidization of the funds transfer beyond the national borders, the improvement of the titles portfolio diversity, the increase of the investments stability, the increase of the stock exchange liquidity and a substantial volume of transactions, and not the last one, a more efficient arbitration of the price differences.

2.3 The integration of the financial market compartments

The globalization covers also the aspect of changing the structure of the financial markets, because it assumes besides the opening of the national economies the elimination of barriers that separate the different compartments

[86] The indirect financing is characterized by the fact that the banks grant a very important credits mass, and the financial markets play a limited role. The enterprises with capacity and financing need are not directly met on the market, but pass through an agent (the bank), which collects the available funds and grants credits to the requesters.

of the financial market. More precisely, there is a decompartment of them, establishing connections between the monetary market, the capital one and the insurances one.

Until the end of the 70s, the financial system from many countries was strongly compartmented, meaning that the financing circuits were autonomous and responded each to a particular need, the access to different markets being reserved to a limited number of enterprises. Currently, the appearance of new financial instruments makes less visible a clear line between the monetary market that assures the short term financing and the capital market that assures the long term financing.

For example, the bonds, which traditionally are on average and long term their period was shortened by the Euromarkets, while de deposit certificates, in the past issued on few months, can be now on many years. There is a connection of the banking activity and the insurance activity by the appearance of new elements in the structure of the banking services, such as the so-called bancassurance system. This consists of the sale of insurance policies through the distribution network of the commercial bank, base upon a convention within this purpose with the insurance-reinsurance societies. Bancassurance means to offer an insurance product to the bank customers, the idea being to increase the potential of the insured persons base of insurance companies, on one hand, and to use the sums collected as resources attracted by the bank and to record additional incomes, on the other side.

The gradual abolishment of frontiers between the different market segments contribute to the shaping of a global financial market, where the duration and nature notions are not significant anymore for specific products. Within this context, the investor seeks for the best efficiency or the debtor who seeks a more reduced financing cost may pass easily from one title to another, from one currency to another, from one procedure to another.

3. The dynamics of the financial globalization process

Compared to its defining elements, the financial globalization may be best described as a dynamic process with evolutions and complex results. The explosive development of the global financial activities and the complexity of global financial markets transformed the management of developed economies, offering significant occasions for governments and corporations to penetrate new markets and allowing the investors to obtain the best efficiency worldwide.

The positive and innovating aspects of the financial globalization take in account the fact that the development of new vast and liquid capital markets, increased competition and the use of new and complex technologies allow the reduction of transaction costs, an increased efficiency in distributing the capital and the easy access to external financing, determining an increase of the production potential from the world. The efficient financial markets contribute to the intensification of economic growth rhythm and the degree of labour force occupation, by a better distribution of the capital and the reduction of related costs. In other words, the main advantage aims a greater value and selection freedom for the market participant, correlated to an increased level of economic growth and efficiency.

Many voices state that the globalization process does not assure a good allotment of resources between the resources around the world and that it is favorable mainly for the developed countries and great transnational companies, taking in consideration the localization of great international financial centers and the investment flows mainly oriented to these countries, but there must not be ignored or minimized the advantages the developing countries have as result of globalization.

First of all, the international financial flows oriented to these countries, even if in smaller volume, determine a better market discipline both at macroeconomic level and in the financial field, for the public debtors and the private ones. The foreign capital has the capacity to impose effectively such a discipline due to the fact that it may be easily re-oriented to other markets, if the local conditions are not satisfactory. In parallel, more available capital leads to a greater profoundness of the financial market and to the increase of the complexity degree. The debtors and the creditors have access to a wider range of financial instruments and may better manage the risks. The emissions destined to the global investors allow the reduction of the financing costs, because against the increased competition they are willing to purchase the shares and local bonds at greater prices. We must not forget that the direct foreign investments bring not only capital, but also new technologies, know-how, efficient management procedures that stimulate the productivity and the economic growth.

Second, the financial globalization acts in the direction of improving the financial infrastructure, for that the investors and the beneficiaries of funds carry out the activity in a more transparent, competitive and efficient system. Therefore, the diversification and the multiplication of the funds sources improve the competition and adopting the Accounting International Standards leads to a greater transparency. The foreign banks assure the implementation of the greatest banking techniques, both regarding the risk management and the general operational management that grants more efficiency to the banking sector and leads to a more prudent behavior, more discipline and the reduction of moral hazard issues.

In a synthetical manner, the channels through which the financial globalization contribute to a greater ratio of economical growth in the emerging countries may be divided in two categories: direct and indirect channels. The direct channels are related to the determining factors of the economic growth, respectively the increase of the domestic saving, the reduction of the capital cost, the transfer of new technologies and the development of the financial sector at local level. On the other hand, the indirect channels, which in most cases may prove to be more important than the direct ones, aim a greater level of production specialization, as result of better procedures for the management of risks, and also the improvement of the institutional frame and the promotion of a more qualitative policy, induced by the competitive pressures or by the so-called "discipline effect: of globalization.

Generally, without denying the fact that the global financial market plays an essential role in the efficient distribution of the capital worldwide, must take in account the fact the this is achieved in a way that has profound implications for the sovereignty and national autonomy resulting some costs in terms of risk, volatility and ample crises.

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