

Financial Security of the State in Terms of Globalization Processes Escalation*

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ABSTRACT. The article provides review of the globalization and global integration processes impact on the financial sector formation characterized by an increase in financial flows with the lead role played by transnational corporations and transnational banks. The globalization study has been already reflected by numerous scientific publications and various issues of reputable international academic journals describing the process as irreversible and objective along with demonstrating globalization merits and demerits, etc.

In the 21st century, globalization is an issue discussed by everyone: ranging from presidents, prime ministers and members of parliament supposed to solve problems of any scale taking into consideration the global development phenomenon, to ordinary citizens. Today, globalization has obviously become a major trend of the modern world development, which is why issues implying sound development assurance become pressing for each country. The article dwells upon the main component of economic security – the financial one (Ukraine case study). Thus, we are engaged in studying the global development trend in terms of assuring security of the state under conditions of financial flows globalization and existence of global integration processes.

KEY WORDS: globalization, information society, transnational companies and banks, financial globalization, financial instruments and technologies, exotic options, financial stability, financial markets, deregulation, global strategies, global financial centers, offshore centers, global integration, economic and financial security, financial security indicators.

Introduction

During the second half of the 20th century gradual transition to the new stage of society development has been made with the stage given such names as *information society*, *information age*, *post-industrial era*.

Alvin Toffler, an American sociologist and futurist, a co-developer of the post-industrial society concept, points out that the new stage of social development implies both a high-tech and an anti-industrial civilization. This stage of development was called the *Third Wave* which «brings with it a genuinely new way of life based on diversified, renewable energy sources; on methods of production that make most factory assembly lines obsolete; on new, non-nuclear families²; on a novel institution that might be called the «electronic cottage»; and on radically changed schools and corporations of

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² A nuclear or a small family is a family consisting of parents and children

the future»¹. The emerging civilization imposes new rules of behavior for us and guides us beyond standardization, synchronization and centralization, as well as beyond the desire for accumulation of energy, money, or power.

The modern era is also called the continuous transformation era as well as the era of society transition from the old entropic market system to the new highly-organized system of management². This is a system with the source of growth implying knowledge, whereas along with other types of economic resources the dominant factors also imply the intellectual capital formation and use processes enabling creation of high-tech and scientific products, provision of qualified services, which leads to both business competitiveness improvement and economy improvement as a whole.

In terms of contemporary social development the transnational companies have essentially expanded their operation and traveled far beyond the boundaries of a single country. Thus, nowadays issues are being raised as well as debates held as to whether or to what extent will huge companies be able to avoid control by the state, and most share the opinion that «their ability to do this has increased considerably in recent decades, with the onset of the transnational corporation and so-called globalization»³. It is transnational corporations (TNC) and transnational banks (TNB) exactly that have triggered increase in financial flows. In terms of the globalization trend escalation as well as TNC and TNB expansion most problems of states are associated with creation of the security area.

Numerous national and foreign experts are engaged in studying problems implying contradiction of globalization processes as well as that of global integration processes. In particular, among foreign experts the works by Z. Bauman⁴, Z. Brzezinski⁵, I. Wallerstein⁶, A. Rugman⁷, O. Sabden⁸, A. Toffler⁹ and others should be mentioned. As regards national scientists the works by O. Bilorus¹⁰, R. Voytovych¹¹,

¹ Alvin Toffler, *The Third Wave*, Translation from English by L.M. Burmistrova, K.L. Tatarinova, K. Burmistrov (M.: AST, 2010), p. 15/

² *The State and the market: regulation mechanisms and methods in terms of transition to innovative development*: coll. Monograph in 2 volumes (scientific publication), under editorship of S.A. Dyatlov, V.A. Plotnikov, vol. 2. (Saint Petersburg: Asterion, 2010), p. 313/

³ Immanuel Wallerstein, *The End of the World as We Know It: Social Science for the Twenty-first Century*, translation from English under editorship of V.I. Inozemtsev (M.: Logos, 2004), p. 80/

⁴ Bauman Z., *Globalization: The Human Consequences*, translation from English (M.: Ves Mir Publishing Company, 2004), p.188/

⁵ Brzezinski Zbigniew, *The Choice: Global Domination or Global Leadership* (K.: Kyiv-Mohyla Academy Publishing House, 2006), 204 p.

⁶ Immanuel Wallerstein, *The End of the World as We Know It: Social Science for the Twenty-first Century*, translation from English under editorship of V.I. Inozemtsev (M.: Logos, 2004) p. 368/

⁷ Rugman Alan *The End of Globalization* (Random House business books, 2012), 256 p.

⁸ Sabden O.S., Armensky A.Y., «On the practicality of transition to a single measure of currency in the post-crisis economy,» *Bulletin of Third Session of the World Nobel Congress in Economics* 1(5): 1 (2012): p. 355—361/

⁹ Alvin Toffler, *The Third Wave*, translation from English by L.M. Burmistrova, K.L. Tatarinova, K. Burmistrov (M.: AST, 2010), p. 371

¹⁰ Bilorus O.G., «Global trends in development and transformation of geopolitical and geoeconomical strategies,» *Scientific News Bulletin of the Academy of Diplomacy of Ukraine*, issue 15 (2009), p. 50—61

¹¹ Voytovych R.V., *Global integration as a new form of social development*, Collection of scientific works of the National Academy of state management under the President of Ukraine No.2 (2010): p. 3-15

D. Lukianenko¹, Yu. Pakhomov², A. Filipenko³ et al. should be noted. Thus, the study of problems and issues related to global integration processes and globalization has been conducted, however the issue of the state security assurance under such circumstances has not been considered to a sufficient degree.

This study objective implies determining imperative impact of the global integration processes as well as globalization processes upon the state position, as well as upon its further development security level aimed at competitiveness improvement.

Globalization contrariety in terms of economy

Globalization implies increasing interdependence of the contemporary world states. Therefore, it can be assumed that the 21st century beginning should be regarded a new phenomenon in the mankind evolution. Globalization implies emergence of the global (planetary) scale single economic and information space. For that matter, early 21st century is characterized by this trend taking an unprecedented scale ever experienced in the history of mankind.

Most often, the leading expert economists of the world point out that *globalization* as an economic concept was adopted by scientists in the 1980s to symbolize the scale of social changes experienced by civilization as a whole. At that, focus is made on the social process, during which geographic boundaries of social and cultural systems are erased. In recent years, this doctrine has become even more popular due to the rapid development around the world and the technologic progress.

It should also be noted that globalization reflects the new reality of increasing global interdependence to a large extent caused by the new communication technologies (in this regard, national borders no longer pose a real barrier to free trade and capital movement). It is in this sense that globalization offered praises to the glorious new era. However, everyone often overlooks the fact that «until 1914 the world had been at least as free from commercial and financial barriers and more open to migration»⁴.

Thus, globalization proves to be the most striking manifestation of the progress bringing in endless economic and social innovations. These innovations are largely encouraging not only by the criterion of abundant

¹ Lukianenko D.H., *Economic integration and contemporary global problems*: manual (K.: KNEU, 2005), p. 204.

² Pakhomov Yu., «Ukraine and Globalization Challenges,» *Den* (August 7, 200), p. 1

³ Filipenko A.S., *Global forms of economic development: history and present time* (K.: Znaniia, 2007), 670 p.

⁴ Brzezinski Zbigniew, *The Choice: Global Domination or Global Leadership* (K.: Kyiv-Mohyla Academy Publishing House, 2006), 204 p., p. 127

goods and services previously unknown, but also in terms of the brand new kind of humanity that can be seen today.

Globalization is also a «complex and contradictory phenomenon contributing to the development of successful countries, while assigning the role of outsiders to those less developed; globalization allows to solve old problems, but brings in the new ones with the main of those being global economy differentiation and society polarization»¹.

Yury Pakhomov, Academician with the National Academy of Sciences of Ukraine, believes that though an upstream phenomenon globalization is already in decline today, which is an unexpected circumstance². Globalization brings hazards, risks and challenges to mankind. As a contradictory phenomenon, globalization contributes to the development of certain countries — usually highly developed ones while assigning the role of outsiders to those less developed, which ultimately leads to new problems, above all, uneven global development, global economy differentiation, society polarization.

Contrariety of both economic and financial globalization is manifested by the following:

Firstly, the gap between countries grows dramatically, the gap which emerged simultaneously with the globalization beginning and can be explained by unequal exchange abrupt increase. An example of this is provided by GDP index per capita for 2011 (calculated based on currency purchasing power parity divided by country population): some countries such as Liechtenstein and Qatar crossed the USD 100 thousand border, whereas less developed countries such as Congo, Liberia and Burundi show values below USD 1 thousand, namely, USD 300-400 (Table 1.).

It should be noted that there are two methods of GDP calculating: (1) by the exchange rate (GDP is calculated in terms of national currency followed by the national currency amount converting to U.S. dollars using market exchange rate); (2) by the purchasing power parity (PPP). In the latter case, 2500-4000 consumer and investment goods are selected with this basket value calculated both in U.S. dollars and in the national currency of the country. The ratio of the basket value in the national currency to the U.S. dollar value determines the national currency exchange rate versus PPP.

GDP index per capita determining by PPP is internationally recognized as the most objective method for the purposes of comparing the standards of living regarding countries of different groups and is applied worldwide by financial institutions and agencies. At the same time, with the purpose of comparing GDP of developed countries, GDP index per capita calculation method by exchange rate is usually applied for the above-mentioned reasons.

¹ Filipenko A.S., *Global forms of economic development: history and present time* (K.: Znaniia, 2007), 670 p.

² Pakhomov Yu., «Ukraine and Globalization Challenges,» *Den* (August 7, 2001), p. 1/

Table 1. GDP per capita by PPP

Country	GDP index per capita				
	2000	2005	2009	2010	2011
Liechtenstein ¹	no data available	no data available	no data available	122 100	141 100
Qatar	57 500	69 500	72 500	77 300	88 300
Luxembourg	53 600	68 300	79 400	84 800	89 000
Singapore	33 800	45 400	50 900	57 800	60 700
Norway	36 100	47 600	54 200	57 000	60 400
USA	35 100	42 500	45 300	46 600	48 100
Austria	26 300	33 600	38 900	40 400	42 200
Russia	6800	11800	18900	19900	22200
China ¹	no data available	no data available	no data available	6700	8400
Ukraine	3300	5600	6300	6700	7200
Burundi	440	480	570	580	600
Liberia	300	350	500	540	585
Congo	230	280	330	350	370

Source: table compiled by the author according to the World Bank data. [Electronic resource] Access mode: <http://data.worldbank.org>

Analysis of data in Table 1 allows noting that the ratio between rich and poor countries in 2011 made 1:250; the ratio in 2005 was 1:175 with that in 2000 being 1:100. As seen, over the past ten years the differentiation has increased by 2.5 times. Nevertheless, the GDP index per capita keeps growing in all countries, albeit with different intensity.

In terms of GDP index per capita the richest countries such as Luxembourg, Qatar, Norway, Brunei Darussalam and Kuwait, have the total percentage in the global production of less than 1%. In 2011, seventeen countries showed GDP index per capita of less than 1 thousand U.S. dollars, with the poorest of them being Congo, Liberia, Burundi, Ethiopia, Guinea, Zimbabwe and others showing GDP index per capita of USD 300-800. The global average figure is about USD 8,900 per capita.

Secondly, against the globalization background the deformation of financial market mechanisms and instruments is observed which poses a threat to humanity. These changes are especially notable in the field

¹ The World Bank has no data on certain countries, including Liechtenstein, China. These data were taken from the Statistics worldwide website. [Electronic resource]. Access mode: <http://iformatsiya.ru/>. According to some sources of international organizations, Qatar has GDP per capita of more than USD 100 thousand.

of international finance due to introducing innovative methods of financial resources organization and management. As a result, the capital has gained considerable mobility flowing around the world towards the most attractive and more favorable opportunities, whereas the nature of operations performed by the global market players, diversification taken into account, does not any longer allow to identify them with the country of nationality. Consequently, financial globalization has strengthened the impact of international markets on lending and borrowing transactions by residents of different countries, which led to growing of the international network of financial institutions and corporations, as well as to increase of the business share attributable to foreign countries, and to fundamental changes in their financial flows management systems.

Distribution of financial resources is also influenced by financial instruments that recently underwent significant metamorphoses. This implies derivative financial instruments, which usually tend to substitute for conventional securities when in circulation; particularly, derivatives (the best known of them being futures and options) introduced late in the 20th century (more precisely, late in 1980s) and relatively new derivatives such as so-called exotic options. The term *exotic option*¹ was introduced even later. Prior to introduction thereof such terms as *boutique option* and *designer option* had been used. The following types of exotic options can be distinguished: *Average/Asian, Barrier, Basket, Binary, Capped, Compos, Compound, Quasi-American, Rainbow* and others. The option types are huge in number; with these types of exotic options divided into several classes. The qualitative characteristics used for creation and classification of exotic options are the following:

- function of payments on option;
- relation between the underlying asset price and function of payments on option;
- level of difference with respect to other options;
- interdependence level;
- number of underlying assets;
- trajectory description possibility;
- option exercise date;
- possibility of integrating with other assets.

Regarding international financial stability the major threat is posed by derivative securities. If traditional securities (such as stocks and bonds) are often referred to as paper or fictitious capital, the derivative securities (derivatives) are a tier two fictitious capital. Their value as well as the income generating opportunity depends directly on movement of price for other financial instruments or commodity assets. The global derivatives market total amount estimates are largely approximate and tended to

¹Exotic options are derivative securities with properties making them more complex than the options. Exotic options are usually traded in the OTC market

fluctuate as early as in the beginning of the century within the range of USD 85-125 trillion (by the underlying assets par value)¹.

At the same time financial globalization significantly affects the states as well, since under new conditions the competition of national economies escalates as regards gaining credit resources that are freely redistributed on the new global world economy scale. Financial globalization compels the states to seek new ways of increasing the investment attractiveness of their national economies.

One of the basic reasons for the financial markets instability is the political institutions falling behind the economy, which has long outgrown national boundaries and, according to experts, requires supranational planning, certain forms of joint control over the sources of fluctuations within financial and other markets². Thus, it can be expected that more stringent rules will be developed and certain arrangements or certain bodies will be established, which would ensure control over the international speculators interests (such control always offers both merits and demerits or positive and negative effects, but today the merits are likely to be more numerous). This has been under discussion for quite a long time, but, perhaps, the current crisis will contribute to taming international speculators.

Thirdly, serious threats to sustainable economic development are posed by the global capital expansion, especially the speculative capital. Today, a large share of the capital becomes reoriented at speculative enrichment; there is a large gap between the real global gross product and speculative capital. There is not a single product (service) created by society (either ideological, legal, political, scientific, educational, social, economic, technological or environmental, etc.) production of which would not require time and power expense.

However, since the 1944 Bretton Woods Conference the real global gross product increased by 4 times, whereas in terms of money — by 40 times. «The global financial system crisis manifestation is characterized by a huge gap between the speculative capital amount of USD 400 trillion (of which the amount of USD 40 trillion is accounted for USA) and the global gross product amount of USD 40 trillion»³. In the late 1970s the gap did not exceed USD 20 trillion. As a result of stock market speculations over the past 30 years as well as due to the 'printing press' operation the gap reached over USD 400 trillion.

Everyone would agree that the unprecedented in terms of scale pyramid schemes, speculation, 'bubbles', 'financial froth' etc. created a very unstable situation in the U.S. economy and those of numerous other

¹ «Contemporary crisis: new features and classic of the genre,» *History and Modern Times*, issue No. 1 (2009), p. 18

² Herman van der Vee, *Histoire Economique Mondiale*, translation from French by A.I. Tikhonov, under the general editorship of V.I. Bovykin (M.: Nauka, 1999), p. 374

³ Sabden O.S., Armensky A.Y., «On the practicality of transition to a single measure of currency in the post-crisis economy,» *Bulletin of Third Session of the World Nobel Congress in Economics* 1 (5): 1 (2012), p. 357

countries, which in one way or another impacts development of other countries. However, speculation and 'bubbles' occurred almost in all times, even during the periods of prosperity. It is more important to point out that financial speculation during the past three decades was based on the emergence of new financial technologies, new financial products and improvement of financial instruments trading techniques.

To date, these are either widely used financial technologies or those still under implementation based on expanding opportunities for capital concentration and managing others' funds by obtaining rights to purchase and to sell huge assets for 2—3 % of their value. This implies resorting to multi-risk reinsurance, prompt loan granting, strengthening depersonalization of capital circulating in the international markets. Efficiency of all these technologies is usually enhanced by information and computer innovations. Such symbiosis (i.e. of computer technologies, stock market business, banking business, insurance business, etc.) has rendered financial operations an unprecedented scale, entailing detachment of such financial technologies from the real sector or increase of the already existing gap¹.

Thus, the global capital spawns strong speculative financial flows that entail destruction of economies in the weak states and destabilization of the developed countries markets, as well as escalate the threat to development of countries.

Financial sector development in terms of contemporary globalization

Regarding economics and financial sphere, globalization is associated with revolutionary changes in technology, information, trade, foreign investment and international business, which result not only in aggravating inequality between nations and people, but also in escalating competition and improving capabilities of states and other participants in the globalization relations to solve these problems. As regards economies of states involved in globalization processes the frontiers of national economies no longer play a significant role with such economies being subject only to the laws of their own.

A distinctive feature of the modern world implies formation of a huge financial sector. Its rates of growth are significantly higher than capital dynamics indices in terms of real production. Moreover, this financial capital is being converted into relatively independent and self-sufficient entity. As a result, a special type of human behavior pattern was formed, which implies focusing on financial transactions as on the major way of active living.

¹ During the last decade trading in derivatives has evolved much faster than the real economy sector, the value of which is generally being reduced.

The global financial sector provides conditions for efficient capital allocation, which is confirmed by observance of certain trends in the global financial market as per early 21st century, namely:

(1) growing interdependence of financial and real sectors of the economy; credit and financial infrastructure transnationalization and internationalization. Transnational capital is formed in the global financial markets. Transnational capital movement from countries characterized by its relative abundance to those in its need but in excess of other production factors is observed. The main holders of transnational capital are transnational banks (TNB). Bank capital transnationalization implies attracting capital to the international financial market, which today leads to escalating competition in both global and national aspects and expansion of foreign banks activities. It is transnational banks that accelerate the globalization processes and form global strategies. The characteristic features of the latter are the following requirements as to behavior in the global markets: control over own operations on the global scale, flexibility in different areas of activity, coordination of own diversified activities using flexible information technologies; capital allocation ensuring the highest profitability; common vision of markets and competition situation, knowledge of competitors in the global markets; consolidating all branches, subsidiaries and offices in a single global network under general management;

(2) increasing concentration rates of the financial and industrial capital leading to an increasing number of mergers and acquisitions. Mergers and acquisitions in the financial sector become common along with stipulating features of international banking, financial, insurance business, etc. One of the reasons for consolidation of financial institutions is the opportunity to Therefore, the banking capital concentration degree is considered one of the main indicators used to characterize the 'health state' of a country's financial system, and the trend to creating ever more significant banking institutions by reducing the number of small ones is observed worldwide. The driving force of mergers and acquisitions in the banking sector is the internal consolidation as well as expansion of foreign banks.

Today, the main factors accelerating the process of financial institutions merging are as follows: technological changes, the changing role of the state, in particular delegation of certain bank functions, escalating competition within financial sector, corporations striving to achieve cost-effectiveness due to scale, expanding the range of bank activities by providing customers with advanced services.

(3) active involvement of banks by offshore financial centers. In general, there are currently circa 77 global financial centers the top ten of which include London, New York, Hong Kong, Singapore, Zurich, Seoul, Tokyo, Chicago, Geneva, Toronto¹. As of early 2013, 49% of companies

¹ *The Global Financial Center's Index 12. Long Finance*. Financial Centre Futures, 2012 (September, 2012), P.4.

based in London believed this financial centre to remain the most competitive for the next 3 years; 73 % of companies based in Asia believed the Asian financial centers to be more competitive, whereas 77 % of companies regarded other financial centers to be the most competitive¹. The main factors of a financial centre competitiveness are considered to be as follows: (1) 'connectivity' with the rest of the world, i.e. the degree to which a financial centre is renowned around the world and connected to other financial centers by means of different technologies (Luxembourg); (2) 'diversity', i.e. the multiplicity of spheres and sectors represented by a financial centre (Amsterdam, Dublin, Seoul, Shanghai); (3) 'specialty', i.e. a distinguishing special feature of a financial centre offering the following services to companies: asset management, investment, banking, insurance and other professional services (Beijing, Dubai, Geneva).

Among global financial centers the most famous offshore centers comprise islands Jersey, Henry, Maine, Cayman Islands, Virgin Islands, Hamilton, Gibraltar, the Bahamas, Malta, etc. As for the number of offshore banks, they already exceed a thousand. The founders of offshore banks are primarily major banks and transnational corporations, which while conducting their global business strive to use the offshore banking benefits and advantages. Offshore banking is conducted under privileged conditions in such respects as taxation, currency-related operations, banking and administrative activity. In terms of offshore banking the potential difference of various national laws is used along with low constituent and management costs and use of electronic communication means. Since today money and other payment instruments can be easily encoded in combinations of electronic signals, the offshore banking transactions are carried out promptly, accurately and in a confidential manner, thus avoiding any outside monitoring or control, while being directed anywhere in the world where the business environment provides for the maximum benefits. Assets of the offshore banks circulate constantly providing their owners and managers with higher profits. The offshore banking business benefits are ensured due to the possibility of avoiding personal and corporate taxes, circumventing numerous restrictions on business operations, as well as due to strict confidentiality;

(4) growing role of stock markets triggered by the widespread use of web-technologies. Moreover, use of web-technologies contributes to involving more banking institutions in the electronic business. New financial market instruments emerge and transform commodities markets, especially those of raw materials. Thus, the world develops attributes of a virtual one, while the economic and political elite lose control of the financial instruments movement. This virtual world of the financial sector keeps moving at high pace and is no longer manageable. «This world has

¹ *The Global Financial Center's Index 12. Long Finance*. Financial Centre Futures, 2012 (September, 2012), P.7.

become deterritorialized¹ with no 'permanent residence address', property subjects keep changing and easily avoiding any government regulation, be it national or international»². Deterritorialization also remains under consideration in the context of social acceleration³.

Also, the financial sector is impacted by deregulation and legislation changes in most countries. For example, internal banking processes have developed influence on the nature of transnational operations of banks and regulation thereof by national and international surveillance and control authorities.

Today, with the new system of global economic reproduction under development the global economic stage is characterized by an increasing role of transnational companies (TNC), while annual turnover of certain among them became commensurable with annual budgets of small and even medium-sized national states.

It is transnational companies and transnational banks that accelerate globalization processes, develop global strategies and contribute to increasing financial flows. The characteristic features of the transnational corporations are the following requirements as to behavior in the global markets:

- control over own operations on the global scale;
- flexibility in different areas of activity, coordination of own diversified activities using flexible information technologies;
- capital allocation ensuring the highest profitability;
- common vision of markets and competition situation;
- consolidating all branches, subsidiaries and offices in a single global network under general management.

During thirty years of such system existence the value of unsecured money kept rapidly increasing from USD 1 trillion to 500 trillion, while the gross global product assured by real capacities increased during the same period from USD 20 trillion to 50 trillion. Doubtlessly, such a situation poses a direct threat to the global security.

Security of the state in terms of financial flows globalization and global integration processes

Globalization objectivity taken into account, one of the basic trends of contemporary global economy development implies uniting countries and regions as well as establishment of global and regional blocs. Thus, ensuring unity and integrity of contemporary humanity with the

¹ Deterritorialization is characterized by transformation of cultures in the context of globalization (provides cultural context of globalization).

² Buzgalin A., Kolganov A., «Global economic crisis and post-crisis scenario development patterns: Marxist analysis.» *Issues of Economics* No.1 (2009), p. 127

³ Eriksen Thomas Hylland, *Tyranny of the Moment: Fast and Slow Time in the Information Age* (London: Pluto Press, 2001), 160 p.; Scheuerman William E., «The (classical) Realist Vision of Global Reform. International Theory,» *Journal of International Politics, Law and Philosophy* 2:2 (2010): P. 246 — 282.

underlying different aspirations and interests of states having the potential to result in global unity of the world is taking place due to global integration¹. Global integration as a new form of global development provides for the world order transformation, namely, gradual integration of the world into the new planetary-scale reality. However, «integration and disunity, globalization and territorialization² are mutually complementary processes. To be more precise, they represent two aspects of the same process: the sovereignty, authority and freedom of action redistribution process on a global scale, which was catalyzed by the leap in development of technologies»³. Thus, the modern Internet technologies taken into consideration use the advanced financial sector instruments and financial market development trends in terms of globalization lead to increasing global financial flows while requiring special attention aiming to ensure financial security of the world states.

The state should ensure its effective operation and maintain economic stability within the global environment. This can be achieved by means of economic security (however, by far concern of certain countries about 'security' is reflected by such concepts as 'vulnerability' and 'uncertainty').

Economic security comprises financial, investment, innovation, foreign trade, energetic, social and demographic kinds of security. Certainly, all the components are very important in terms of today's economics. However, in the context of today's financial flows globalization, free movement of capital, the impact of the global financial systems on a single country reaches a new qualitative level. It is financial globalization that creates financial power conditions which due to owning the global money and regulating value as well as managing financial flows allows influencing both the global economy (including international security) and single countries (national security).

The problem of proper maintaining financial security of a state affects all sectors of the national economy, business, all segments of the population, as well as the state and society as a whole.

Therefore, in our opinion, financial security of a country in terms of the globalization challenges and global integration processes should be considered at both country level and the global economy level. At the same time, attention should also be paid to security at the levels of companies and industries, since failure to achieve financial security of individual businesses prevents ensuring financial security of the country. However, financial security of a country in terms of world economy

¹ Voytovych R.V., «Global integration as a new form of social development,» *Collection of scientific works of the National Academy of state management under the President of Ukraine* No.2 (2010), p. 3.

² We regard territorialization as blurring of the real sector boundaries; this concerns TNC activities when a company is located within a certain country's territory and 'fits' in its system of geospatial relations.

³ Bauman Z., *Globalization: The Human Consequences*, translation from English (M.: Ves Mir Publishing Company, 2004), p. 100.

globalization is closely related not only to the micro-level subjects, but also to the situation in the international financial markets.

Many factors depend upon a country's state of financial security. These include investment security, international financial market factors, supply and demand fluctuations, national monetary system state, national budget balance (imbalance), national budget deficit, national debt, tax benefits, etc.

The financial security stability is determined by such indicators as rate of inflation, amounts of national internal and external debts, status of compliance with the national budget, economy monetization level, cost of bank loans and sufficient amount of international reserves in national markets.

In terms of globalization the financial security can be shown using certain indicators within case study of Ukraine as a country in transition (see Table 2).

On analyzing this table, it should be noted that most indicators show a significant difference from the so-called 'threshold' values, which implies financial system destabilization and the country's dependence on external factors.

Table 2. Ukraine's financial security indicators

Indicators	Threshold values	2005	2008	2011
Rate of inflation (%)	5	10.3	22.3	4.6
External debt amount (in % to GDP)	60 % max	45.9	55.9	76.6
Monetization level, %	50 % max	37.7	55.2	52.1
Budget deficit (in % to GDP)	3 % max	-1.8	-1.5	-1.8 (-5.9 in 2010)
Cost of bank loans (average weighted rate), %	10	14.6	16.0	14.3
Official reserve assets, excl. gold, USD million	No data available	19 391	31 543	31795

Source: Calculated by the author based on statistical data of the National Bank of Ukraine, the Ministry of Finance of Ukraine, the Ministry of Economic Development and Trade of Ukraine and the State Statistics Service of Ukraine. [Electronic resource]. Access mode: www.bank.gov.ua, www.minfin.gov.ua, www.me.gov.ua, www.ukrstat.gov.ua

Analysis of the quantitative aspect of the indicators allows analyzing the qualitative one. Thus, rate of inflation is reflected by increasing prices. The rate of inflation proves determinant with respect to the domestic financial stability level in a specific country. Therefore, national central banks strive to implement their monetary policies in such a manner as to take the inflation factor into account.

The criterion of debt 'security' implies the state's capability of their servicing and repayment. In Ukraine, given the lack of external solvency and small amounts of international reserves the level of external national

debt should not exceed 60%. Thus, conclusion can be drawn that today the amount of external debt poses a threat to financial security of Ukraine. The amount of Ukraine's external debt as per late 2011 and 2012 made 76.6 % to GDP (for example, the amount of external debt in 'problematic' EU countries as per late 2012 was as follows: Greece — 175 %, Italy — 123 %, Spain — 85.3 %).

Following the global financial crisis since 2008 the national budget deficit has been characterized by increasing budget imbalance, since it exceeded 3 % making 5.9 % as per late 2010. Typical deficit increase trend primarily indicates incomplete implementation of the budget revenue part and increasing expenditure. As per late 2011 this indicator made 1.8 %, i.e. within the allowable value range, thus the situation slightly improved.

The economy monetization level indicates national economy assurance with financial resources and is determined as the ratio of total money by M3 aggregate to the annual GDP. Since 2007, this index has been exceeding the allowable threshold values, thus influencing the national security level increase.

The cost of bank loans is determined by the amount of interest paid by the borrower to a commercial bank for the use of its resources lent. Given the highest interest rates, conclusion should be drawn as to low attractiveness of such loans to borrowers.

Official reserves are the external assets controlled by the National Bank of Ukraine and readily available for direct funding of payments imbalance, indirect regulating such deficit volumes through intervention in the foreign exchange market, as well as for other purposes. Official reserves are formed according to the methodology laid down in the IMF Manuals and Guides.

International reserves of the central bank significantly influence external stability of the national currency as well as foreign interaction capability of the state. During the period from 2005 to 2008 (prior to the global financial crisis) a slight tendency to increase in official reserve assets has been observed. However, starting with 2008 a significant reduction of the official reserve assets occurred, whereas in early 2013 Ukraine's official reserve assets substantially decreased amounting to USD 24709 million¹. It also should be noted that the largest share of reserve assets constituted foreign currency reserves.

Conclusions

Current economic development conditions of any country account for all hazards, risks and benefits of globalization. Today the globalization process offers huge unrestricted opportunities providing all the necessary conditions for economic development of a country. In terms of

¹ Official website of the National Bank of Ukraine. [Electronic resource]. Access mode: www.bank.gov.ua

globalization contrariety a new kind of financial sector development is observed which is characterized by enormous growth rates significantly exceeding those of capital dynamics in the real production sector.

Under such circumstances implying financial flows globalization and global integration processes, the national scale system problems developed over the past years and implying proper level of economic security assurance (specifically, regarding its financial component) have become really pressing for countries in transition and Ukraine, in particular. Financial security illustrates the state of financial and credit sector, which should be characterized by such attributes as balance, resistance to internal and external negative effects, as well as capability of the sector to ensure both effective functioning of the national economic system and economic growth.

As demonstrated by analysis of Ukraine's financial security indicators, majority thereof exceed permissible threshold values thus affecting national security improvement and country's dependence on external factors.

In our opinion, development of Ukraine during the next decade will be taking place under complex international environment conditions, highly competitive financial markets and rigid international relations. With a view of improving the financial security concept more attention should be paid to ensuring compliance with financial security strategy of Ukraine, developing and implementing an effective financial control system, creating conditions for increasing real incomes of the population, introducing explicit procedure for granting loans to business entities of all ownership forms and repayment thereof. Solving the said problems by means of applying proposed measures will enhance financial security of Ukraine and lead to the stabilization and growth of Ukrainian economy.

In general, all factors such as the global financial crisis, the global energy and environmental crisis, escalating competition in globalized markets, continued globalization impact on the states of the world, the growing role of globalization trends give rise to the issue implying further development of states which would be able to implement internal transformation as well as to integrate in the new global economy and resist external threats. Therefore, further prospective line of researching this problem in the future implies major forms of global integration along with consideration of the global integration processes and mechanisms of ensuring national security by countries.

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