

Evaluating The State Of Financial Globalization: Ukraine's Specific Features*

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ABSTRACT. This article presents a system for evaluating the state of financial globalization in a given country. It identifies the contemporary distinctive features of globalization in the area of finance. It also systematizes available globalization indicators at all levels of the financial system. It collects and analyzes statistical data with regard to key financial globalization indicators for Ukraine and Russia as countries that will soon become members of the World Trade Organization. Based on this analysis, the article provides an overview of the contemporary distinctive features of the financial sector in these countries in the context of globalization.

KEY WORDS: globalization, financial globalization, cyclic progress of globalization, financial integration, globalization indicators, financial globalization indicators, financial system, evaluation of financial globalization.

Introduction

Globalization is one of the main distinctive characteristics of today's world. It has penetrated almost all areas of human life and its impact is now as powerful as ever. Today it is especially important to study the problems and specific aspects of economic, and in particular financial, globalization, which is also growing in view of Ukraine's anticipated membership in the World Trade Organization. Furthermore, as globalization deepens, the academic community is trying to more closely address the problem of how to measure it.

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Thus, a system for evaluating the processes of financial globalization is needed to ensure their efficient management, to forecast their implications, and to provide a comparative analysis.

The current problems and trends of globalization are examined by various disciplines and academic schools; that is why there is no single approach to the interpretation of 'globalization'. The distinguished researcher, T. Levitt,¹ who introduced this term to academic usage, defined 'globalization' as a merger of markets of certain products manufactured by multinational companies. Today, the majority of experts agree that globalization is an objective social process, marked by growing interrelationships and interdependence among national economies, national political and social systems, national cultures, and interaction between people and the environment.² The economic encyclopedia also describes globalization as the exchange of goods, services, capitals and labor across national borders, which has become a continuous and escalating process of national economies intertwining internationally since the 1960s.³ Globalization extends the international division of labor and, at the same time, gradually builds an integrated and interdependent global economy, where its individual components are closely connected by financial-economic, industrial-technological, informational and other links that are much more comprehensive, numerous and deeper now than at any previous time. Globalization is the highest stage of internationalization of all production factors and, by embracing all national economies, it gradually builds an integrated global economic system.

Financial globalization is one globalization process and is described as a free and effective movement of capital between countries and regions, the operation of a global market, the formation of a system for supranational regulation of international finances, and the implementation of global financial strategies by multinational corporations and transnational banks.⁴ In its broadest sense, financial globalization is the ideology, policy and practice that integrates national monetary systems and replaces them with 'global money'.⁵ Globalization manifests itself at the regional (and sometimes sectoral) level through financial integration which can be represented as the approximation and gradual integration of national economic and financial systems within a certain region and which is one of the

¹ Levitt, Theodore (1983). The Globalization of Markets, in *Harvard Business Review*, 61 (May/June), 92—102.

² Lukashevych V.M. *Hlobalistyka*, Lviv, Novyi svit — 2000, 2004, p. 13—16.

³ Hlobalizatsiya, in *Ekonomichna entsyklopedia*, v. 1. Kyiv, Akademia, 2000, p. 264—265.

⁴ Khominich L.P. Finansovaya globalizatsiya, in *Bankovskiye uslugi*, 2002, No. 8, p. 2—13.

⁵ Makushkin A. Finansovaya globalizatsiya, in *Svobodnaya mysl — XXI*, 1999, No. 10 (1488). p. 30—43.

most advanced forms of economic internationalization. Effective integrated associations lay a solid foundation for their further expansion and enlargement; in other words, they prepare the ground for globalization.

Because globalization research is so important, many foreign and domestic scholars examine this issue, especially those by M. Alle⁶, O. Belorus⁷, P. Herst and G. Thompson⁸, G. Kolodko⁹, D. Held and A. McGrew¹⁰, G. Soros¹¹, O. Mozgovy¹², H. Manilovska and L. Yaremko¹³, V. Lukashevych¹⁴, D. Lukyanenko¹⁵, T. Tsyhankova¹⁶, A. Filipenko¹⁷, Z. Lutsyshyn¹⁸, S. Sidenko¹⁹, Yu. Pavlenko²⁰, O. Plotnikov²¹, A. Kredysov²². Both domestic and foreign researchers have studied the issue of measuring the rate of development of globalization in general and finance in particular, such as T. Andersen and T. Herbertsson²³, J. Hanson, P. Honohan and G. Majnoni²⁴, B. Hubsy²⁵, O. Rohach²⁶, S. Pereslegin and N. Yutanov²⁷, V. Avane-

⁶ Morris Alle. *Globalizatsia: razrusheniye usloviy zaniatosti i ekonomicheskoho rosta. Empiricheskaya ochevidnost*, Moscow, TEIS, 2003.

⁷ *Globalnye transformatsyi i strategii razvitiia*, by Belorus O., Lukyanenko D. et al, Kyiv, Oriane, 2000.

⁸ Paul Herst, Grehem Thompson. *Sumnivy v hlobalizatsiyi*. Translated from English, Kyiv, K.I.S., 2002.

⁹ Kolodko Gzegoz V. *Hlobalizatsia i perspektyvy postsotsialistychnykh krain*. Kyiv, Osnovni tsinnosty, 2002, p. 202.

¹⁰ Held D., McGrew A. *Hlobalizatsia/antyhlobalizatsia*, Translated from English, Kyiv, K.I.S., 2004.

¹¹ Soros G. *Dzhordzh Soros pro hlobalizatsiyu*, Kyiv, Osnovy, 2002 and Soros G. *Kryza hlobalnoho kapitalizmu*, Kyiv, Osnovy, 1999.

¹² *Mizhnarodni finansy*, Ed by O. Mozgovyi, Kyiv, KNEU, 2005.

¹³ Manilovska H., Yaremko L. *Hospodarska hlobalizatsiya ta upravlinnia zovnishnioekonomichnoy sferoyu*, Lviv, LKA, 2001.

¹⁴ Lukashevych V.M. *Hlobalistyka*, Lviv, Novyi svit — 2000, 2004.

¹⁵ *Stratehiyi ekonomichnoho rozvytku v umovakh hlobalizatsiyi*, Ed. by D. Lukyanenko, Kyiv, KNEU, 2001.

¹⁶ *Hlobalna torhova systema: rozvytok instytutiv, pravyl, instrumentiv SOT*, Ed by T. M. Tsyhankova, Kyiv, KNEU, 2003.

¹⁷ *Ukraina i svitove hospodarstvo*, by A.S. Filipenko, V. Budkin, A. Halchynsky et. al., Kyiv, Lybid, 2002.

¹⁸ Lutsyshyn Z. *Transformatsiya svitovoi finansovoi systemy v umovakh hlobalizatsiyi*, Kyiv, VTs DrUk, 2002.

¹⁹ S. Sidenko. *Sotsialno-ekonomichny vymir suchasnoyi hlobalizatsiyi*, in *Mizhnarodna ekonomichna polityka*, 2004, June, Issue 1.

²⁰ Pavlenko Yu. *Hlobalizatsiya ta tsyvilizatsiyi zrushennia siohodennia*, in *Mizhnarodna ekonomichna polityka*, 2005, October, Issue 1.

²¹ *Transnatsionalni korporatsiyi*, by O. Plotnikov, V. Rokocha et. al., Kyiv, Takson, 2001.

²² *Upravleniye vneshneekonomicheskoy deyatelnosti*, Ed. by A. Kredysov, 2nd edition, Kyiv, Vira-R, 2001.

²³ Torben M. Andersen, Tryggvi Thor Herbertsson. *Measuring Globalization*, Bonn, IZA DP817, 2003.

²⁴ James A. Hanson, Patrick Honohan, Giovanni Majnoni. *Problemy integratsiyi I mashtabov*, in *Hlobalizatsiya i natsionalnye finansovye sistemy*, Ed. By J. A. Hanson, P. Honohan, G. Majnoni. Translated from English, Moscow, Ves Mir, 2005, p. 4—5.

²⁵ Hubsy B. *Investytsiyi protsesy v hlobalnomu seredovyschi*, Kyiv, Naukova Dumka, 1998.

²⁶ Rohach O. *TNK ta ekonomichne zrostannia*, Kyiv, VPTs «Kyivskyi Universytet», 2003.

²⁷ Pereslegin S., Yutanov N. *Ot «sistemnoy modeli» k strukturodinamike*, from www.arhipelag.ru/authors/pereslegin/

sian, T. Dzhrbashian, A. Egiazarian²⁸ and others. A significant contribution in studying the issue of evaluating globalization and developing indicators has also been made by experts of the Organization for Economic Cooperation and Development, *Foreign Policy* magazine and A. T. Kearney consultancy firm, International Monetary Fund, World Bank, etc.

The goal of this article is to develop a system of for evaluating financial globalization for individual countries and to provide a comprehensive evaluation of financial globalization for Ukraine and Russia.

Distinctive features of financial globalization today

Presently, globalization has a number of distinctive features, including the following key aspects. First, there is a probability that globalization will slow down. As we examine the ideas of cyclical global development presented by ancient philosophers, the historical experience, the evolution of economic and financial globalization, as well as works by domestic and Western experts and modern trends in the world economy, we can conclude that separate stages of globalization should be distinguished by the degree of their intensity. Most academics and practitioners believe that globalization is a continuous process, irreversible and 'eternal'. For instance, the world renowned Polish economist and international expert Professor Gzegoz V. Kolodko noted that "...transformation should end at some point but globalization in principle will always continue. This is a process and not a condition that can be achieved once and forever."²⁹ In other publications³⁰, I proposed the idea of cyclical intensity in economic and financial globalization, according to which economic and financial globalization is a continuous and irreversible process, but depending on many political, economic, financial, environmental, psychological and other factors, the intensity of globalization may accelerate or even halt. Globalization will deepen as long as the public approves it, countries, nations, economists and politicians see its significant advantages, and multinational compa-

²⁸ Avanesian V., Dzhrbashian T., Egiazarian A. Kontseptsia strategii ustoichivoho ekonomicheskogo razvitiia Armenii na dolgosrochnuyu perspektivu, in *Ekonomicheskii ezhenedelnik Armenii*, June 10-16, 2003, No. 27 (531).

²⁹ Kolodko Gzegoz V. *Hlobalizatsia i perspektivy postsotsialistichnykh krain*. Kyiv, Osnovni tsinnosti, 2002, p. 202.

³⁰ Stukalo N.V. Finansova hlobalizatsiia: suchasni tendentsii rozvytku ta vysnovky dlia Ukrainy, in *Prometei: rehionalnyi zbirnyk naukovykh prats z ekonomiky*, Donetskyi ekonomiko-huanitarnyi instytut MON Ukrainy, Instytut ekonomiko-pravovykh doslidzhen NAN Ukrainy, Issue 2 (17), Donetsk, TOV «Yuho-Vostok, Ltd», 2005, p. 41—44.

nies and banks obtain considerable benefits from it. This will continue until any negative aspects and consequences of globalization exceed its positive impact on the public in general and each country, company and individual in particular, or certain force-majeure circumstances slow it down. With the passage of time, various international economic players begin to look for new ways to increase their profits by integrating world markets in goods, services, capital, labor, etc., which results in another period of accelerated globalization. This assumption is demonstrated, for instance, by the fact that globalization accelerated in the early 20th century, then slowed down, and then accelerated again with the collapse of the USSR. Regardless of the fact that international economic relations today display a tendency to accelerate and deepen globalization, I predict that globalization in the world economy and finances will slowdown in the nearest future (a slowdown but not a complete halt). This prediction is confirmed by the fact that more and more experts and specialists express their doubts as to whether globalization's positive effects are greater than its negative effects. Examples can be found in the research by Nobel Prize winner Morris Alle³¹, Paul Herst and Graham Thompson³², George Soros³³ and others.

Secondly, financial globalization takes place within the framework of modern trends in philosophy which themselves undergo a transformation that signifies a shift from modernism to postmodernism.

Postmodern characteristics include a retreat from the ideals of democracy and humanism, a division of society into those who are 'more dignified' and others, the recognition of natural market selection and severe competition, etc. The global financial market is one of the most vivid manifestations of the postmodern worldview. Proof of this is that some leading players have emerged from an intense market selection and competition on the global financial market, and their specific markets depend on them. Moreover, global capital tends to flow between developed markets while undeveloped markets are constantly in need of capital; as a result, financial centers and industrially developed countries become richer and richer while poor countries become poorer and poorer. The rapid development of postmodern philosophy may lead to unpredictable and disastrous consequences for the entire society and the global financial

³¹ Morris Alle. *Globalizatsia: razrusheniye usloviy zaniatosti i ekonomicheskoho rosta. Empiricheskaya ochevidnost*, Moscow, TEIS, 2003.

³² Paul Herst, Graham Thompson. *Sumniy v hlobalizatsiyi*. Translated from English, Kyiv, K.I.S., 2002.

³³ Soros G. *Dzhordzh Soros pro hlobalizatsiyu*, Kyiv, Osnovy, 2002 and Soros G. *Kryza hlobalnoho kapitalizmy*, Kyiv, Osnovy, 1999.

system in particular. Under such conditions, state policy should prioritize the national interest by securing a stable and effective financial system in the country. State financial policy should be nationally based, internationally oriented and socially coordinated because “political decisions made in the center of the global system are focused on the internal economic priorities of respective countries». ³⁴ Unfortunately, Ukraine thus far is not a country whose national interests impact on global decisions; therefore, the Ukrainian financial system should be protected from unfavorable consequences of external influence.

Thirdly, regardless of the fact that the more globalized a country, the fewer state functions are carried out at the national level, the role of the state under conditions of financial globalization remains significant. Ukrainian state policy under these conditions has the following priority areas: improve the tax function and increase tax control (this could be primarily achieved through the gradual reduction of the tax load on the economy and strengthened tax control to ensure that taxes are paid in full); stimulate wider access to global financial instruments and global financial markets on the whole by way of legislation; provide state support and encouragement of non-governmental organizations; more active participation in coordinating tax policy and financial policy in general with other countries throughout the world and in developing common standards that can help to protect Ukraine's national interests.

Measuring financial globalization

Let us analyze the key indicators of globalization. *Foreign Policy* publishes annually the Globalization Index³⁵ that reflects the level of political, economic, personal and technological globalization in 62 countries throughout the world, which produce 96% of the world's GDP and comprise 84% of the world's population. The Index is calculated based on 14 groups of indicators divided into four groups: first of all, economic integration indicators (international trade, foreign direct and portfolio investment, international payments, etc.); personal contact indicators (international tourism, international telephone conversations, mail, money orders, etc.); technology indicators (number of Internet users, Internet servers); and international politics indicators (number of embassies, membership in interna-

³⁴ G. Soros. Novaya globalnaya finansovaya arkhitektura, in *Voprosy ekonomiki*, 2000, No. 12, p. 60–64.

³⁵ *Foreign Policy* official site — www.foreignpolicy.com.

tional organizations, etc.). According to 2004 data, Ireland, Singapore and Switzerland have the highest globalization rating. Ireland has been the most globalized country in the world for three successive years. Ukraine is in 43rd place and is the lowest rated of all Central and East European countries. This is explained, first of all, by slow reforms in key sectors (such as telecommunication), and political instability and corruption in the country. Among other countries in this region, Slovenia in 19th place is ranked for the first time among the twenty most globalized countries of the world. The Czech Republic (14th in the Globalization Index) leads the Central and East European countries.³⁶

In addition to the above index, there are other indicators that describe various aspects of globalization. For instance, S. Pereslegin and N. Yutanov³⁷ proposed a globalization indicator which represents the relationship between an economically developed space and the total space available for economic activity. Other important globalization indicators include the relationship between trade volume and gross domestic product as well as data on foreign direct investment.³⁸ According to information provided by the World Bank, the average ratio of trade volume to GDP in the world was 22.5% in 1989 and 27.4% in 1999. Based on statistics from *The Economist*³⁹, we have calculated that this ratio was 38.4% in 2005. According to UNCTAD's assessments, the value of accrued foreign direct investment on a global scale is continually growing and increased, in current prices, from US\$719 billion in 1982 to US\$1.889 billion in 1990 and to US\$6.3 billion in 2000⁴⁰.

The level of globalization of the world economy is often measured by such indicators as the volume of internationalized production of goods and services; its growth rate relative to the volume and growth rate of all gross product in the world; the volume and dynamics of foreign direct investment relative to volume and dynamics of all investment — both domestic and international; volume and dynamics of international capital centralization (mergers and acquisitions in various countries) compared to total volume of capital centralization, including domestic mergers and acquisitions; volume and dynamics of complex international investment projects com-

³⁶ Measuring Globalization: Economic Reversals, Forward Momentum, in *FOREIGN POLICY*, A.T. Kearney. March/April 2004, from www.foreignpolicy.com.

³⁷ Pereslegin S., Yutanov N. *Ot «sistemnoy modeli» k strukturodinamike*, from www.arhipelag.ru/authors/pereslegin/.

³⁸ Avanesian V., Dzhrbashian T., Egiazarian A. Kontsepsiya strategii ustoychivogo ekonomicheskogo razvitiya Armenii na dolgosrochnuyu perspektivu, in *Ekonomicheskii ezhenedelnik Armenii*, June 10—16, 2003, No. 27 (531).

³⁹ *Mir v tsyfrakh — 2005*, Moscow, Olimp-Biznes, 2005, p. 232—233.

⁴⁰ Official site UNCTAD — www.unctad.org.

pared to total volume of similar projects – both domestic and international; volume of total international trade in goods and services, its growth rate relative to the gross product; volume of international transactions with patents, licenses, and know-how; volume and dynamics of international transactions by banks and other credit institutions compared to the total volume and dynamics of all such transactions; volume and dynamics of international stock markets compared to the total volume of these markets and their growth rate; volume and dynamics of currency markets compared to the total scope of monetary markets. Based on the above indexes, researchers⁴¹ try to develop the general globalization index for the current world economy, and a globalization index for individual countries and regions as well as the degree of their integration in the world economy.

Comparative dynamics of prices for similar goods in various countries holds a special place among globalization indicators. Theoretically, the liberalization of foreign commerce should remove trade obstacles and standardize prices.

In 2005, the Organization for Economic Cooperation and Development (OECD) issued the OECD Handbook on Economic Globalization Indicators⁴² which includes such globalization indicators as foreign direct investment and activity of multinational corporations, internationalization of technologies and trade in science-intensive products. It has been noted that the term 'globalization' was previously used mainly with regard to markets in finances, goods and services, while today this term covers research, technology and innovation. The above OECD Handbook defined three major indicators of the internationalization of technology:

- 1) the cost of industrial research and development (R&D) by multinational corporations and overseas subsidiaries;
- 2) payments (e.g., royalties) for exports of intangible assets (technology) and payments for imports of technology;
- 3) external balance resulting from the sale of high technology products that include intangible assets on the world market.

An evaluation of the globalization of technology is based on the following indicators:

- 1) the share of R&D cost in total cost of overseas subsidiaries controlled by parent overseas companies;
- 2) the share of industrial R&D funded from overseas compared to the total R&D volume;

⁴¹ Rohach O. *TNK ta ekonomichne zrostannia*, Kyiv, VPTs «Kyivskyi Universytet», 2003.

Hubsky B. *Investytsiyni protsesy v hlobalnomu seredovyschi*, Kyiv, Naukova Dumka, 1998.

⁴² *OECD Handbook on Economic Globalization Indicators*, OECD, 2005 // www.oecd.org.

3) sales of R&D results by overseas subsidiaries within the country of their location.

Indicators of foreign direct investment (FDI) indirectly characterize financial technology transactions between direct investors (multinational companies) and companies which consume this FDI (affiliated companies) as part of the sale of R&D. Furthermore, for the purpose of evaluating globalization, it is recommended to use such an indicator as the share of FDI held by multinational corporate investors in the shareholders' capital of specific affiliated company registered overseas.

In *Measuring Globalization*⁴³, economists Torben M. Andersen and Tryggvi T. Herbertsson developed a general globalization index based on nine globalization indicators: freedom of alternative currency use; freedom of exchange on financial markets; freedom of foreign trade; gross volumes of private capital movement relative to GDP; total export and import of goods and services relative to GDP; received quotient profit relative to GDP; paid quotient profit relative to GDP; changes in trade conditions; and inflow of foreign direct investment relative to GDP. Based on above indicators, the current level of globalization in various countries across the world was evaluated (OECD Member States taken as an example). Today, Ireland is the most globalized country, Belgium — second place, United Kingdom — third place, followed by the Netherlands, Switzerland, Denmark, Austria, Portugal and others. The authors also assessed the globalization potential of various countries, determining the United States, the Netherlands, Belgium, France and Switzerland as leaders.

Among financial globalization indicators, specialists primarily point out the number of foreign deposits placed by individuals and non-banking institutions of the country; portfolio investment flows; and the number of deposits in foreign currency.⁴⁴ Growth of these indicators in both developed and developing countries is a sign of financial globalization at a higher level.

In other words, a range of globalization indicators are used in the world to evaluate the world economy and finances but they are not integrated into one system in order provide an overall, comprehensive picture of the globalization progress. We believe that it is necessary to systematize the existing globalization indicators for finances. Let us base our systematization of financial globalization

⁴³ Torben M. Andersen, Tryggvi Thor Herbertsson. *Measuring Globalization*, Bonn: IZA DP817, 2003.

⁴⁴ James A. Hanson, Patrick Honohan, Giovanni Majnoni. Problemy integratsiyi I masshtabov, in *Globalizatsiya i natsionalnye finansovye sistemy*, Ed. By J. A. Hanson, P. Honohan, G. Majnoni. Translated from English, Moscow, Ves Mir, 2005, p. 4—5.

indicators on the understanding of the financial system as a system that allows certain institutions and other participants of financial relations to use certain instruments in financial markets at the household, company, state, interstate and global levels. This definition was developed and specified in previous publications⁴⁵ based on an integrated analysis of interpretations of the terms 'finances' and 'financial system'.

Developing a system for evaluating financial globalization

Today the term 'financial system' is often interpreted without due regard to contemporary realities that affect the development of the world financial system in general and Ukraine's financial system in particular as well as to important theoretical research by domestic and international experts in this area. In the Ukrainian literature, we should single out the attempt by B.A. Karpinsky and O.V. Herasymenko to collect information on definitions for 'finances' and 'financial system'.⁴⁶ The authors themselves define the financial system of a country as an interrelated combination of an objective GDP distribution and subjective influence of government policy on this GDP within the existing economic and legal environment, and they define the finances, in their proper sense, only as securities and appropriate funds that help to form, move and use them. A serious theoretical study of this issue was undertaken by a number of Ukrainian and foreign scholars, especially by V.D. Bazylevych, L.O. Balastryk, S.V. Mochernyi, O.D. Vasylyk, B.G. Fedorov, T.V. Braicheva, Zvi Bodi, Robert Merton and others.

Because of its complexity and multidimensionality, the term 'finances' needs to be interpreted in several aspects:

Firstly, we agree with the interpretation by V. Oparin and G. Bashnianin that, in its broad meaning, "finances are the totality of monetary relations for the purpose of forming, mobilizing and allocating financial resources as well as the exchange, distribution and redistribution of the gross domestic product value, which was created based on their use, and of the national wealth in certain circumstances."⁴⁷ This definition fully meets the requirements of both

⁴⁵ Stukalo N.V. Osoblyvosti suchasnoho traktuvannya terminiv 'finansy' ta 'finansova systema', in *Naukoivyi visnyk Volynskoho derzhavnoho universytetu im. L. Ukrainky. Ekonomichni nauky*, No. 1, 2006, p. 132—138.

⁴⁶ Karpinsky B. A., Herasymenko O.V. *Finansova systema*, Kyiv, Tsentri navchnoi literatury, 2003, p. 10—12.

⁴⁷ V. Oparin. *Financy*, G. Bashnianin. *Finansovi systemy*, in *Ekonomichna entsyklopedia*. In 3 volumes. V. 3., Ed. By S. V. Mocherny et al., Kyiv, Vydavnychiy tsentr «Akademia», 2002, p. 796.

modern financial science and the practical implementation and regulation of financial relations. What may be added to this definition in order to make it more precise is that the above monetary relations take place on several levels: households, companies, state, interstate, and global levels.

Secondly, in its narrow meaning, finances are the monetary resources of a state, a company or an individual.⁴⁸

Thirdly, finances is the science about how and with what instruments people manage monetary resources, realize their financial relations on various levels: household, company (company finances), state (state finances), international (international finances) and global (financial globalization) levels.

Finance experts, professors Zvi Bodi and Robert Merton offered a shrewd definition of the financial system as the totality of markets and other institutions used to make financial agreements for exchange of assets and risks.⁴⁹ This system includes markets in shares, bonds and other financial instruments as well as intermediaries (banks, insurance companies, etc.), companies that offer financial services, and authorities that regulate the activity of these institutions.

Taking into account the above overview of other definitions of 'the financial system', today's realities in which financial systems develop in various countries across the world, as well as the international and global financial system on the whole, we believe that the financial system should be defined as the totality of such elements as financial instruments, financial institutions and financial markets. In other words, the science of finances studies how financial institutions and other entities realize their financial relations with the help of financial instruments on financial markets. On the other hand, we need to keep in mind that financial relations are realized at several levels: households, companies, state and international levels. Moreover, the rapid development of global financial instruments and the operation of global financial markets allow us to single out one more level of the financial system — its global level.

Therefore, the financial system is a system of financial instruments used by financial institutions, and other entities participating in financial relations, on financial markets at household, company, state, interstate and global levels. Based on this specified definition, Table 1 includes all elements and levels of the financial system. Therefore, when evaluating financial globalization, globalization indicators should be analyzed separately for financial instruments, financial institutions and financial markets.

⁴⁸ *The Oxford Dictionary for the Business World*, Oxford University Press, 1993, p. 303.

⁴⁹ Zvi Bodi, Robert Merton. *Finansy*, Translated from English, Moscow, ID «Viliams», 2000, p. 38.

Table 1. Elements and levels of the financial system

		LEVELS OF FINANCIAL SYSTEM				
		Household finances	Company finances	State finances	International finances	Global finances
ELEMENTS OF FINANCIAL SYSTEM	Financial instruments	Cash, credit cards, credits, deposits, etc.	Currency, credits, deposits, securities, etc.	Budget, taxes, government credit, domestic government bonds, subventions, investment, etc.	Main currencies, special drawing rights, gold, derivative financial instrument, etc.	Global obligations and other global financial instruments
	Financial institutions	Banks, stock exchanges	Banks, stock exchanges	National bank, ministry of finance and other government agencies	Multinational banks, International Monetary Fund, World Bank, national banks, stock exchanges, etc.	
	Financial markets	Currency market, stock market, capital market, Nonbanking financial services market (including insurance, leasing, billing services), precious metals market, etc.				

Table 2 systematizes the available indicators which can be used to evaluate the level of financial globalization for any country of the world at each of the five levels of the financial system.

It appears from Table 2 that the generally used financial globalization indicators at the level of global finances have not been identified, though, to a certain extent, such indicators could include the volume of global financial instruments, such as global bonds, etc., as well as general globalization indicators.

Therefore, there is no financial globalization measuring system today. After conducting a series of research and taking into account the multidimensional nature of economic concepts 'financial system' and 'finances', we can conclude that, in order to build a specific multifactor model, the elements of the financial system should be analyzed separately, i.e. a range of globalization indicators should be identified for each element of the country's financial system.

It is important to note that in selecting indicators for these multifactor models, several principles were adhered to, namely the degree of their direct impact on the country's level of financial globalization, the quality of the relationship between the nature of the influence on the final indicator and their simultaneous subordination, the controllability of these factors (indicators), i.e. the ability to influence the final indicator with their help. Furthermore, general, international recognition of certain indicators, their calculation methodology, and availability of specific statistic information on these indicators for the majority of the

countries across the world are taken into account. For instance, most indicators used to build multifactor models are calculated in accordance with the Special Data Dissemination Standard introduced by the International Monetary Fund (IMF), the IMF agreement on the provision of information on the International Investment Position of Ukraine, the country's Balance of Payments rules, and the country's International Investment Position, etc.

Table 2. System of indicators describing the level of the financial globalization

Level of financial system	Indicators describing the level of financial globalization
Household finances	<ul style="list-style-type: none"> ● volume of foreign deposits made by individuals, ● volume of deposits and credits made or received by individuals in foreign currency, ● gross volume of private capital movement relative to GDP
Company finances	<ul style="list-style-type: none"> ● volume of foreign deposits in domestic nonbanking institutions; ● volume of deposits and credits made or received by legal entities in foreign currency in domestic banking institutions
State finances	<ul style="list-style-type: none"> ● portfolio investment flows ● direct investment flows from and into the country ● other investment assets (trade credits, financial leasing, etc.) flows ● freedom to use alternative currency ● freedom of exchange on financial markets ● inflow of direct foreign investment relative to GDP ● gross external debt ● number of banks with foreign capital, including those with 100% foreign capital ● volume of the country's financial service export and import
International finances	<ul style="list-style-type: none"> ● volume and dynamics of international capital centralization (mergers and acquisitions in various countries) compared to the total volume of capital centralization, including mergers and acquisitions inside the country; ● volume and dynamics of complex international investment projects compared to the general scope of similar projects, both domestic and international, ● volume and dynamics of international transactions by banks and other credit institutions compared to the total volume and dynamics of all transactions; ● volume and dynamics of international stock exchange markets compared to the overall size of these markets and their growth rate; ● volume and dynamics of currency markets compared to the total scope of monetary markets
Global finances	Not identified

Indicators used for the comprehensive analysis of the level of globalization of the country's financial services were selected based

on the fact that it is directly connected to such key factors as the volume of currency deposits made by individuals and legal entities of the country, the volume of foreign currency credits in the economy, the volume of foreign deposits held by individuals of the country, the volume of foreign deposits in non-banking institutions, gross external debt, flows of direct and portfolio foreign investment as well as other investment assets such as trade credits, short-term and long-term credits, currency and deposits, financial leasing, etc., volume of the country's export and import of financial services.

The level of globalization of financial institutions depends on such factors as the number of banks with foreign capital in the country, including banks with 100% foreign capital, the volume of their registered capital, the number of foreign branches of national banks, the number of international financial stock exchanges in the country, and the number of international financial organizations operating in the country. Because certain indicators have been taken into account at a previous stage of the analysis, and in order to maintain the parallel alignment and relationship of indicators, we believe that, from this list of indicators, the volume of registered capital of banks with foreign capital, including those with 100% of foreign capital, is the one that should be incorporated in the model.

Proceeding from the assertion that the financial system consists of financial institutions, instruments and markets, the third element of the financial system – financial markets – should also be analyzed. In our calculation of the country's financial globalization index, this third element was not introduced because the majority of globalization indicators for financial markets have been taken into account during the selection of globalization indicators for the level of the country's financial services.

Therefore, the following indicators should be taken into account for a comprehensive evaluation of a country's level of financial globalization:

E – the volume of export of the country's financial services;

I – the volume of import of the country's financial services;

CD – the volume of currency deposits in the country's domestic banking institutions;

CC – the volume of foreign currency credits in the country's economy;

ID – the volume of gross external debt;

DI – the volume of foreign direct investment;

PI – the volume of foreign portfolio investment;

OI – the volume of other investment assets (in accordance with the country's international investment position);

BC – the volume of registered capital of banks with foreign capital, including those with 100% foreign capital.

Analyzing the dynamics of principal financial globalization indicators for Ukraine and Russia

Because Ukraine and Russia are on the verge of accession to the World Trade Organization, which will have a significant impact on the liberalization of their financial markets and result in a wider impact of the financial globalization on their national financial systems, this next section analyzes those indicators that will provide an understanding of the participation of these countries in the financial globalization process (Table 3). Table 3 includes indicators from those selected and systematized above for a comprehensive evaluation of the level of financial globalization for Ukraine and Russia from 2002 to 2005.

Table 3. Financial globalization indicators for Ukraine and Russia, 2002–2005⁵⁰, in million USD⁵¹

Country	Year	<i>E</i>	<i>I</i>	<i>CD</i>	<i>CC</i>	<i>ID</i>	<i>DI</i> ⁵²	<i>PI</i>	<i>OI</i>	<i>BC</i>
Ukraine ⁵³	2005	<i>N/A</i> ⁵⁴	<i>N/A</i>	9023	12306	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
	2004	24	125	5980	7400	9253	-198 + + 9517	-31 + + 6354	-6025 + + 24285	323
	2003	20	62	3875	5598	9031	-166 + + 7566	-26 + + 4065	-3908 + + 19796	228
	2002	19	56	2392	3480	8531	-144 + + 5924	-28 + + 3293	-3087 + + 18786	207
Russia ⁵⁵	2005	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
	2004	270	695	25700 ⁵⁶	40526	214500	-12 824 + + 10 346	-4257 + + 4406	-24 853 + + 17680	<i>N/A</i>
	2003	176	314	24495	32763	147500	-9727 + + 7958	-2180 - - 2329	-15 352 + + 22 645	<i>N/A</i>
	2002	143	237	<i>N/A</i>	24833	152600	-3533 + + 3461	-796 + + 3756	-3874 + + 2120	<i>N/A</i>

⁵⁰ Statistical data for the majority of parameters was not available for the full 2005.

⁵¹ The data in the Table is provided in million USD for ease of comparison. The data provided in official sources in Ukrainian hryvnia or Russian rubles was converted in USD using the rate of the Ukrainian National Bank or Russian Central Bank respectively as of March 1, 2006.

⁵² The data for the volume of direct, portfolio and other investment is given by two figures: volume of investment from the country and investment to the country. In our opinion, the rate of net investment is not indicative for measurement of the country's financial globalization.

⁵³ The data for indicators with regard to Ukraine was taken from the official site of the National Bank of Ukraine — www.bank.gov.ua.

⁵⁴ Statistical data for the majority of parameters was not available on 15th March 2006.

⁵⁵ The data for indicators with regard to the Russian Federation was taken from the official site of the Central Bank of the Russian Federation — http://www.cbr.ru/statistics/credit_statistics/.

⁵⁶ The data for indicators with regard to the Russian Federation was taken from the official site of According to the data of the Central Bank of the Russian Federation, the volume of the foreign currency deposits amounted to 19.2% of the money supply at the beginning of 2005 and 18.3% at the beginning of 2004.

It can be seen from Table 3 that all indicators that describe a country's financial globalization are growing in Ukraine. The volume of currency deposits and foreign currency credits demonstrated the highest growth rate (3.7 and 3.5 times higher in 2005, respectively, compared to 2002) similar to the volume of financial service import (almost 2.5 times higher in 2004 compared to 2002).

Ukraine's banking system is more and more exposed to financial liberalization which accompanies Ukraine's accession to the World Trade Organization. The table demonstrates that in 2002-2004 the registered capital of banks with foreign investment went up by 1.5. Due to the lack of reliable final data of this indicator for 2005, this information is not included in the table, but according to available information, the share of foreign capital in Ukraine's banking system went up from 14% to 24% in line with the sale of the Postal and Pension Stock Bank Aval, Ukrsibbank and others in 2005.

Another typical trend for Russia is an increase in all indicators during the last several years. The consumer demand for foreign currency is growing significantly every year. According to the Central Bank of the Russian Federation⁵⁷, in January 2005, the share of consumers' expenses for buying foreign currency in total expenses increased to 8.5% compared to 5% in January 2004. The balance of transactions in cash currency by individuals who are Russian residents doubled and the demand for the dollar was growing while demand for the Euro decreased in 2004 (due to the strengthening of the US dollar and instability of the Euro in the world financial markets in that period).

The volume of deposits in foreign currency has also noticeably grown. The growth rate for this indicator in January 2005 was 5% compared to 0.9% in January 2004, even though the threshold for the compulsory sale of export receipts was lowered. A trend in 2004-2005 was the growth of foreign currency deposits by non-financial organizations (by 10.6% in 2004) compared to the growth of household deposits in foreign currency (by 0.6%). Such dynamics in deposit growth in foreign currency has resulted in an increase of their share in the total money quantity from 17.6% as of January 1, 2005 to 19.2% as of February 1, 2005 (compared to 18.3% as of February 1, 2004).

In 2005 the net foreign assets of Russia's banking system increased four times as much as in January 2004. In January 2005, the number of credit organizations with 100% foreign capital increased by 1 organization and was 34 organizations. The number of credit organizations with over 50% of foreign capital in their registered capital remained the

⁵⁷ *Rossia: ekonomicheskoye I finansovoye polozheniye*, Moscow, Tsentralnyi Bank RF, March 2005.

same — 9 organizations. The total number of credit organizations with foreign capital decreased by 3 organizations; and there were 128 organizations as of February 2005. However, Russian banks had only 3 branches abroad and this number has not changed recently, and they have 30 representation offices abroad.

According to Rossat⁵⁸, foreign investment in 2004 increased by 36% compared to 2003 and amounted to US\$40 billion. The share of direct investment tended to grow. Investment in the Russian economy was made from 116 countries in 2004; the main investing countries include Cyprus (16.8% of the total amount of foreign investment in Russia), the Netherlands (14.6%), Luxembourg (14.5%), Germany (11.4%), the United Kingdom (10.6%).

In terms of external debt management, Russia displayed a new tendency of prescheduled repayments of its external debts. In January and February 2005, the Russian Government repaid 6.3 billion USD of external debt, which is more than twice as much as in 2004 (US\$3.1 billion), due to a prescheduled repayment of its IMF debt.

Therefore, the following should be noted comparing financial globalization indicators for Ukraine and Russia for the last few years:

First, both Ukrainian and Russian financial systems are increasingly exposed to financial globalization, and this is demonstrated by the accelerated growth in all key indicators of financial globalization in recent years.

Second, both governments try to manage more effectively their external debts by pursuing the policy of zero government debt growth or the policy of prescheduled repayment of debts to international financial organizations.

Third, today both Ukraine and Russia demonstrate a trend towards increasing the share of foreign capital in the total registered capital of their banking systems on the background of insignificantly changing the level of penetration of their domestic banks into the external markets.

Conclusions

The following conclusions can be made from the above analysis:

First, in the course of liberalizing Ukraine's financial sector and its further integration in the international financial environment, the following key aspects of financial globalization should be considered to-

⁵⁸ *Denezhno-kreditnaya politika i situatsiya na finansovykh rynkakh*. Moscow, Ministerstvo ekonomicheskoho razvitiya i torgovli RF, 2005.

day: a possible deceleration of globalization, a philosophical shift from modernism to postmodernism, and the growing role of the state in financial globalization to ensure maximum positive globalization effects.

Second, the analysis of existing economic and financial globalization indicators has demonstrated the lack of a clear system for evaluating these processes. The above systematization of financial globalization indicators based on five levels of the financial system (namely, household, company, state, international and global) helps to identify the key indicators of a country's financial globalization and demonstrates the absence of general comprehensive indicators of financial globalization.

Third, both Ukrainian and Russian financial systems are increasingly exposed to financial globalization; this is demonstrated by the accelerated growth of all key financial globalization indicators in recent years. Under such conditions, the governments of these countries try to more effectively manage their external debts by pursuing the policy of zero national debt growth or the policy of prescheduled repayments of debt to international financial organizations. Both Ukraine and Russia also demonstrate a trend towards increasing the share of foreign capital in the total registered capital of their banking systems on the background of insignificantly changing the level of penetration of domestic banks into the external markets. Therefore, the policy of gradually re-aligning this imbalance by encouraging the development of new financial instruments, etc. should be a priority in light of accession to the WTO.

Fourth, in order to improve the system for evaluating financial globalization, a financial globalization index and a general world financial globalization index need to be established, which would help to evaluate the dynamics of financial globalization in the world in general and conduct an analytical research of factors that have an impact on it.

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