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FINANCIAL GLOBALIZATION AND CRISIS OF FINANCIAL INNOVATION INSTRUMENTS

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In the conditions of financial globalization main profit of economic agents is formed exactly in a financial system that is why financial globalization determines vector of development of world economy. The most essential feature of modern national markets' development and world economy in general is accelerated growth of capital and production concentration in various spheres of economic activities. Forming different types of integrated business-groups, financial-corporative structures which have substantial production capital and expanding possibilities for accumulating financial resources is an indicator of massive concentration and centralization of capital.

Characteristics of developing global integration processes in world economy is their financial component which is connected with financial innovations of finance-crediting institutions, with their developing transnational strategies of positioning, and with stock market and also with profitable motion of stock instruments.

Financial economy, according to professor of MSU named after M.V. Lomonosov Professor U.M. Osipov's definition, is creation of financial capital which became an engine of modern world economy. Professor U.M. Osipov emphasized specifics of global financial economy as a system of financial relationships in which financial institutions are the leaders and financial operations account for the main proportion of all transactions on the world market. [1, 81].

Basic features of financial economy are the following:

- turning national financial markets into open systems united in a common global financial market;
- enormous volumes of deals on financial market and high level of its liquidity;
- boosting in capital movements and variety of applied financial instruments;

One of the most significant tendencies in developing global world economy is deepening cooperation of reproduction structures of different countries on different levels and in different forms and transnational companies' activities encourages it greatly. International production is connected with development of international division of labor as well as with its new forms. Agents of international manufacturing are transnational corporations (TNC) and transnational banks (TNB) which are "locomotives" of global financial economy and international production. Substantial volume of international production accounts for activities of different kinds of world economy agents in the frames of international production cooperation.

An important feature of global financial economy is, in E.F.Avdushkin's opinion, is dominance "in monetary volume of financial markets over tangible products and resources' markets, speculative part of world finances over their investment component" [2, 29].

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Processes of internationalization, regional integration, globalization and localization in spite of their interdependence and interaction are different in their specific laws in modern conditions. Integration becomes deeper in developed countries – countries of financial core – in which localization processes limiting integration and stimulating global processes in world economy are also developing because governments of national states are interested in attracting foreign investments and capitals of TNC for economy development. Developing internationalization processes is a result of TNC activities.

Global financial services TNB accompany international economic relationships on all levels. World finances connect national economies in a common interdependent system. During export-import operations international accounts are made or international credits are demanded, during international migration of labor force transfers of wages are transported. It is necessary to remember that there is an independent world financial market with its own mechanism and particular development.

During pre-crisis period a level of foreign investments increased and this made financial markets more dependent from each other. Access to information, new technologies stimulated creating of global banks and financial mediators. They allowed investors to transfer money just pressing the button while minimizing deals' costs.

Global financial economy is based on real capital – direct investments - but most obviously it appears in derived financial instruments. Taking into account fast increasing complexity of derived instruments' construction and high speed of copying financial technologies on the market, it is rather actual to ask a question how well state regulators and professional associations understand new financial products and services which can be called financial innovations. These innovations are used by investment banks and investors connected with them.

Before the global crisis growth of financial depth of market was associated with big economic increase and in this case it was considered that financial innovations influenced the market well. For example, securitization instruments allowed investors to diversify their risks and release themselves from need to have expensive bank capital.

The crisis demonstrated failure of these affirmations. Growth of financial assets on developed markets to a large extent reflected not effective distribution of assets but growth of financial bubbles. Securitizing assets was just illusionary because major investors were mediators during securitizing of instruments which they produced themselves.

Global financial centres (GFC) should be considered as complex structured systematic formations which have global and subglobal coverage providing modernization of integrated inside them financial institutions. Balance of financial economy can be reached through crisis. Financial centre as a system of financial control allows controlling through crisis. Modern economy is transcendent because of using financial innovations and in the conditions of financial globalization one can say about the crisis of complex financial instruments.

The meaning of modern financial-economic crisis is that besides identified disproportions in economic life of the country it also showed significant shortcomings of modern economic policy and first of all – of financial sector which particular feature of development was dominance of speculation financial instruments and technologies.

Financial globalization development is determined by using information-financial technologies. This phenomenon is a controversial process of implementing new instruments which have dichotomic character depending on financial-investments sphere development's vector and objective social-economic results of innovation financial instruments use.

Financial innovation on global market is a complex process of making new financial instruments and financial technologies on the basis of innovation technologies and the goal is to earn a profit and to decrease risks' level. Financial innovations can be destructive, "toxic" triggering a reaction of risk strategy of financial capital on a global market and they manifest themselves in their dichotomic character.

Dichotomic kind of influence of financial innovations on the development of financial-investment complex of national economy is connected, from one hand, with formation of new instruments of risk evaluation, redistribution and decreasing and, from the other hand, with predominance of speculative virtual deals in the interests of enriching economic agents on the market instead of redistribution of money capital into priority innovation projects providing modernization growth of national economy.

From this point of view financial innovations in the conditions of unstable monetary policy "close" some negative information about economic agents, "washing away" their risks with the help of new financial instruments that leads to risks' accumulation and triggers crisis situations on local and global markets. Becoming because of the risks outsiders, emitters developing value strategies structure information about their company trying to make information flows positive. In opinion of a number of well-known experts, it is dichotomic character of innovation financial product which in due time accelerated a crisis in a financial sphere of the USA and then had been translated to forming financial markets of the other countries.

As financial product as a type of financial innovation in investment-bank sphere is a material part of established service of a financial institution and is to be sold on a financial market (mortgage bonds, complex risks' insurance policy, credit card, deposit certificate, securities, derivative financial instruments) all banking products in explicit or implicit form involve risks and their amounts greatly differ depending on types of financial products.

Contents of financial innovations in modernization of banking policy in Russia must mean making new financial instruments as forms of redistribution of money resources which involve a certain level of risks, liquidity and profitability corresponding to creditors (investors) and loaners' needs.

Now banking system in Russia cannot offer itself such innovation products which allow eliminating misbalance in monetary and currency-monetary spheres. However, it is necessary to make products which will motivate using their own sources of investments and thus creating a system of internal financing of the country development with the prospect of its innovation growth and making progressive structure of national manufacturing in which science-intensive branches of economy play a leading part.

As the result of global economic crisis demonstrated, dichotomic character of complex financial instruments directed to the growth of liquidity of the operators of financial market, first of all, banks and insurance companies, dramatizes disproportions of reproduction process and limits dynamics of forming national innovation development strategy.

Modern global crisis (more exactly – its current wave because in the prospect one can predict the second and even the third waves of the crisis) is not an occasional but typical event connected with long-term trends (megatrends) of world political and economic development. At the same time modern crisis has its special features connected with far-gone processes of globalization, regional political and economic integration, global migration and so forth. It is important divide in world development and in many ways it has been caused by these particular processes.

Events in the sphere of housing mortgage lending when mortgage banks in the USA were on the verge of bankruptcy because of defaults in payment of their loaners became an accelerator of crisis phenomena. There came doubt if it is worth giving the population not only mortgage loans but also other consumer credits. Commercial banks in the USA and some other countries felt alarm and in fact folded operations in the sphere of consumer loaning. This immediately influenced the branches of automobile industry and house building. As other branches of economy are connected with these two ones decline in production touched them, too. Thus, this world economic crisis started.

Risk financial innovations such as default swaps on mortgage lending agreements and securitization are also considered as a source of the world economic crisis. Default swaps are used as a mechanism of credit risks' hedging. Secured themselves this way (having sold a risk), banks started decreasing responsibility level towards their investors – real creditors of banking operations. The problem of "moral risk" as a kind of post contract opportunism appeared. Securitization of assets is an instrument which allows turning long-term investments into liquidity assets (money). Mechanism of the deal is the following: banks which provide a loan on security of property rights make a pool of liabilities from mortgage bonds. This pool is sold to a certain financial company (mediator) which issues on this diversified secured loan homogenous and highly liquid securities (shares, as a rule) and places them on a stock market. Having sold his/her own shares, financial mediator attracts money on which he/she buys a new pool of mortgages from the bank giving it, in its turn, a regular portion of banking resources for mortgage lending. As a result, a bank gets rid of long-term liabilities (that allows it holding long-term liquidity ratio H4) and gets a constant source of financing credit agreements while a mediator diversifies his/her own risk and increases liquidity of financial instruments. Securitization of assets also means that a stock market turns into a source of credit resources of banking system. Bank involved into the scheme of securitization is a hostage of investors' moods on world stock markets that decreases its stability.

It should notice that securitization of assets also began to spread on leasing agreement, automobile lending and commercial mortgage lending. But in fact, because of advance financial crisis in developed countries this kind of activity in Russia could not greatly spread. Financial innovations similar to credit default swaps and securitization seemed to be interpreted as an instrument of developing financial system, changing of assets and liabilities' structure and quality, adjusting financial resources' offer to its demand. At the same time risks of similar innovation institutions seemed to be greatly underestimated and "fragility" of world financial system (term by H.Minsky) became more obvious.

And, of course, more common problem is a rather big volume of speculative capital in world economy which is ready in search of arbitrage to move from one economy to the other, to overflow from some instruments to the others deepening financial instability both nationally and internationally. World financial market is becoming an object of regard not only for excess savings' owners but for a certain stratum of population which stakes on reckoning and luck and sees it as an exciting gamble. Financial speculators' activities, from one hand, suppress current volatility and stabilize markets in short-term period but, on the other hand, they deform long-term trend ("bear" and "bulls" rallies and so on) giving rise to big financial cycles. Thus, a financial cycle itself has behavioral, that means, institutional nature.

In a post-crisis period it may appear new system risks (market of government debts – European debt crisis in 2010 - which put global finance on the verge of renewal of world financial crisis), overheated in 2009 stock markets of developing countries with growth dynamics more than 80-100% a year (including Russia).

That is why it is quite likely that concentrations of credit, market, percent risks additionally accumulated for the crisis period of 2008-2009s will lead to market shocks in some countries (new industrial countries, developing economies of Asia and Latin America) which then can - in a shape of financial pandemic – spread it on financial systems of analog countries or the countries which are situated in the same regions, or on the countries with similar risk concentrations.

Thus, Russian financial system as one of the assets of world finance closely connected with and correlated to international finance markets is – because of its low competitiveness, sensitivity to speculative operations – one of the most vulnerable for financial infection objects.

Rererences

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