

**Zvarych R. Y.**

*PhD (Economics), Associate Professor,  
Doctoral student of international economics department  
Ternopil National Economic University (Ternopil),  
Ukraine; e-mail: romazvarych@yahoo.com  
ORCID ID: <http://orcid.org/0000-0003-3741-2642>*

## **FINANCIAL AND CREDIT IMPERATIVES OF ALTERGLOBALIZATION THE EMERGING MARKETS**

**Abstract.** The article analyzes the financial and credit imperatives of alterglobalization the emerging markets. In the study, it is researched the theory of financial globalization and there are established advantages, benefits and disadvantages of financial globalization for emerging markets. There are defined the main conditions and risks of global financial stability and there are analyzed the capital flows to emerging market economies. In the article, it is researched that the combination of declining global trade and growth would increase corporate vulnerability. It is concluded the distribution of government debt breakdown of emerging market economies in foreign currency and nonresident holdings of local currency. In the research, it is established a correlation between emerging market economy and advanced economy volatilities. In the study, it is proved that disadvantages of financial globalization include availability of crises, shocks, risks, external risks and nonliquidity. In the article, it is developed the financial-credit imperatives of alterglobalization the emerging markets and it is argued the transition of emerging markets to an alternative global model of economic development.

**Key words:** alterglobalization, economic crisis, emerging markets, financial globalization, financial risk, financial and credit imperative, global stability.

**JEL Classification:** F65; G01; G15

Formulas: 0; fig.: 5; tabl.: 0; bibl.: 15

**Зварич Р. Є.**

*к. е. н., доцент,  
докторант кафедри міжнародної економіки  
Тернопільський національний економічний університет (м. Тернопіль),  
Україна; e-mail: romazvarych@yahoo.com*

## **ФІНАНСОВО-КРЕДИТНІ ІМПЕРАТИВИ АЛЬТЕРГЛОБАЛІЗАЦІЇ РИНКІВ, ЩО РОЗВИВАЮТЬСЯ**

**Анотація.** В статті проведено аналіз фінансово-кредитних імперативів альтерглобалізації ринків, що розвиваються. Досліджено теорію фінансової глобалізації та виокремлено її переваги і недоліки для ринків, що розвиваються. Встановлено умови та виявлено основні ризики глобальної фінансової стабільності. Проаналізовано капітальні потоки, які спрямовані до ринків, що розвиваються та розподіл в цих країнах державного боргу в іноземній і місцевій валюті. Встановлено кореляцію між економіками ринків, що розвиваються та волатильністю розвинених країн. Виокремлено фінансово-кредитні імперативи та аргументовано перехід ринків, що розвиваються до альтерглобальної моделі економічного розвитку.

**Ключові слова:** альтерглобалізація, глобальна стабільність, економічна криза, ринки, що розвиваються, фінансова глобалізація, фінансово-кредитні імперативи, фінансовий ризик.

Формул: 0; рис.: 5; табл.: 0; бібл.: 15

**Зварыч Р. Е.**

*к. э. н., доцент,  
докторант кафедры международной экономики  
Тернопольский национальный экономический университет  
(г. Тернополь), Украина; e-mail: romazvarych@yahoo.com*

## **ФИНАНСОВО-КРЕДИТНЫЕ ИМПЕРАТИВЫ АЛЬТЕРГЛОБАЛИЗАЦИИ РАЗВИВАЮЩИХСЯ РЫНКОВ**

**Аннотация.** В статье проведен анализ финансово-кредитных императивов альтерглобализации развивающихся рынков. Исследована теория финансовой глобализации и выделены ее преимущества и недостатки для развивающихся рынков. Установлены условия и обнаружены основные риски глобальной финансовой стабильности. Проанализированы капитальные потоки, направленные в развитые рынки и распределение в этих странах государственного долга в иностранной и местной валюте. Установлена корреляция между экономиками развивающихся рынков и волатильностью развитых стран. Выделены финансово-кредитные императивы и аргументировано переход развивающихся рынков к альтерглобальной модели экономического развития.

**Ключевые слова:** альтерглобализация, глобальная стабильность, экономический кризис, развивающиеся рынки, финансовая глобализация, финансово-кредитные императивы, финансовый риск.

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**Introduction.** The current position of world development is characterized by dynamic deepening of integration processes the political, economic and cultural life of the world. The term globalization came as new stage of internationalization of economic, which is characterized by a sharp increase in the role of external factors in the development of all countries and the creation of transnational capital, strengthen global integration process as a result of global operations of TNCs. Meanwhile, there is a difference in understanding structure and logic of modern globalization processes – globalization of objections to the globalization of absolutisation. Such phenomenon actualizes the new alternative model of the world economy as a new stage of the process of economic transformation [1]. Foreign capital flows can be a contributing factor to domestic credit excesses and banking crises. The empirical results show that external financing can drive credit booms, particularly if they come in the form of gross debt inflows. If the great financial expansion is a key driver of cross-country vulnerability, then policy should focus on domestic vulnerabilities through financial regulation and structural financial reform [2]. Financial globalization has gathered attention since the early 1990s because of its macro-financial implications and growing importance. The potential benefits of financial globalization will likely lead to a more financially interconnected world and a deeper degree of financial integration of developing countries with international financial markets. Financial globalization also carries some risks. These risks are more likely to appear in the short run, when countries open up – especially emerging markets economies. One well-known risk is that globalization can be related to financial crises. These conditions caused the main goal of the research – to find the financial and credit imperatives that caused alterglobalization of the emerging markets [3].

**Literature review and the problem statement.** Ceballos F., Didier T., Schmukler S. find that globalization via the diversification channel expanded throughout the world during the 2000s, as domestic residents invested more abroad and foreigners increased their investments at home, generating more cross-border holdings. The paper also shows that the nature of financing through both diversification and offshoring has improved for emerging countries [4]. Rogoff K., Kose M. show that richer countries may benefit more from openness than EMEs, given “thresholds” of financial development above which benefits outweigh costs [5]. Dilip K. examines the impact of ever increasing financial globalization on emerging market economies, both in the former communist countries of Eastern Europe and the developing world in general. Author covers issues such as global capital flows and financial liberalization, global financial architecture, financial and macroeconomic instability [6]. Pleyers G. define that alterglobalization provides a comprehensive account of critical global forces and he attempts to solve one of the major challenges of our time – building of a fairer, sustainable and more democratic co-existence of human beings in a global world [7].

**Research results.** The growth in the global financial system coincided with even more rapid financial integration between countries. As authorities removed restrictions on cross-border investment, financial institutions, firms and individuals increasingly invested abroad. The long periods of capital

flows between economies contributed in many cases to greater trade flows and income convergence. Equity flows, such as foreign direct investment, were associated with greater risk sharing and technology transfers across borders and became an important source of stable financing for both advanced and emerging economies. Yet some types of capital flows, particularly debt financing by banks and capital market investors, proved very volatile, with “sudden stops” of foreign money and “capital flight” by residents a recurring theme of crises especially in EME crises [8].

In theory, there are different ways through which financial globalization can lead to improvements in the financial sector infrastructure. First, financial globalization can lead to a greater competition in the provision of funds, which can generate efficiency gains. Second, the adoption of international accounting standards can increase transparency. Third, the introduction of international financial intermediaries would push the financial sector towards the international frontier. Fourth, Stulz (1999) argues that financial globalization improves corporate governance; new shareholders and potential bidders can lead to a closer monitoring of management. Fifth, Crockett (2000) claims that the increase in the technical capabilities for engaging in precision financing results in a growing completeness of local and global markets. Sixth, Stiglitz (2000) argues that the stringent market discipline imposed by financial globalization has consequences not only on the macro-economy, but also on the business environment and institutional factors [9].

Although financial globalization has several potential benefits, financial globalization can also carry some risks. The recent stream of financial crises and contagion after countries liberalized their financial systems and became integrated with world financial markets, might lead some to suggest that globalization generates financial volatility and crises. Second, globalization can also lead to crises if there are imperfections in international financial markets. The imperfections in financial markets can generate bubbles, herding behavior, speculative attacks, and crashes among other things. Imperfections in international capital markets can lead to crises even in countries with sound fundamentals. Third, globalization can lead to crises due to the importance of external factors, even in countries with sound fundamentals and even in the absence of imperfections in international capital markets. If a country becomes dependent on foreign capital, sudden shifts in foreign capital flows can create financing difficulties and economic downturns. Fourth, financial globalization can lead to financial crises through contagion by shocks that are transmitted across countries. Three broad channels of contagion have been identified as: real links, financial links, and herding behavior or “unexplained high correlations” [10].

Short-term risks have moderated in the past six months as markets have shown resilience to a number of shocks. Pressures on emerging market assets have eased, helped by firmer commodity prices, reduced uncertainty about China’s near-term prospects, and expectations of lower interest rates in advanced economies. But medium-term risks are rising in a new environment of increased political and policy uncertainty. Expectations for monetary normalization in advanced economies have shifted even further into the future, and weak growth and low interest rates are increasing the challenges for banks, insurers, and pension funds. Although most advanced economy bank balance sheets are robust, sustainable profitability is weak, reflecting unresolved legacy problems and bank business model challenges. Corporate leverage in many emerging market firms has peaked at high levels, and debt servicing capacity remains weak. These developments have complicated the outlook for attaining a more balanced and potent policy mix, and could lead to a prolonged era of economic and financial stagnation. Policymakers must take a more comprehensive and collaborative approach to protect and advance financial stability and inclusion and revitalize the global economy [11].

Emerging market risks have declined, led by a modest recovery in commodity prices and improved external financial conditions, fueling a pickup in capital flows. The economic outlook has improved for the recession-hit economies of Brazil and Russia, while supportive external conditions are providing an opportunity for a smooth deleveraging of firms in many emerging market economies. Market and liquidity risks are still elevated in an environment of extended positioning across major asset classes (Fig. 1).

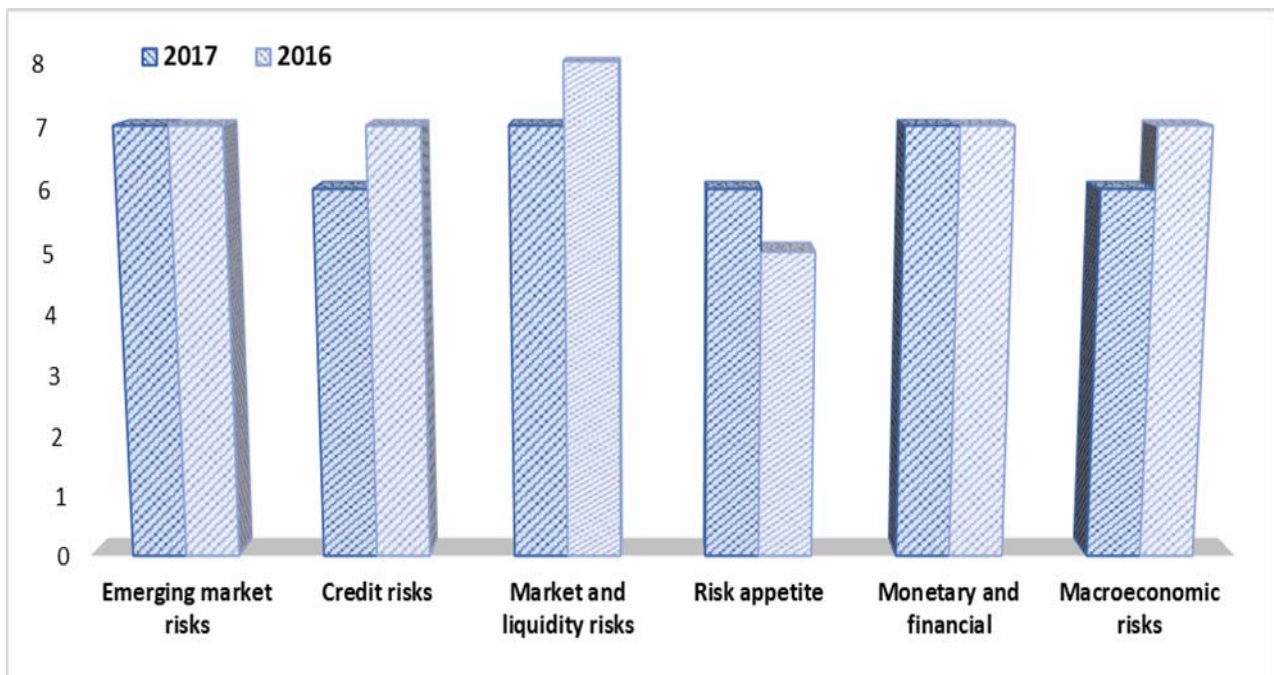


Figure 1. Global Financial Stability: Risks and Conditions  
 Source: compiled by the author based on [11, pp. 18-19]

In any country, investors have to be concerned about changes in the political climate or in the way that society is organized. Even changes that make most people better off may leave a few behind, and sometimes those left behind are investors. Many emerging markets began their economic improvement because of a major political change. Such profound changes create risk, and many nations in Eastern Europe have had economic and social upheaval on the way to economic stability. In many emerging markets, corruption is a fact of business. In some cases, it's rooted in cultural differences, where people receive tips for services that wouldn't be rewarded anywhere else. In other cases, corruption is rampant because the people have dealt with ineffective institutions for years and have had to figure out ways to work around them. And in still other cases, the problem is nothing more than basic human nature combined with lax law enforcement. In most emerging markets, you use a currency other than your own. That means that your investment returns are affected by changes in the value of both your currency and the emerging-market currency. It's not always easy to buy and sell securities in emerging markets [12].

Emerging market currencies would come under pressure as capital flows reverse, limiting space for monetary policy to ease and keeping long-term interest rates high. Such an environment would reduce firms' debt-servicing capacity and could prompt institutional investors to undertake a more forceful and sustained shift away from emerging market economies (Fig. 2). Such an outcome could also amplify asset price volatility induced by retail investors. Capital flow reversals were driven mainly by herd behavior on the part of retail investors, while continued buying by institutional investors helped offset some of the downward pressure on emerging market economy asset prices. A sustained reversal of capital inflows would put pressure on countries with high external financing requirements and/or low reserve adequacy. If protectionist pressures increase and start to affect global trade, emerging market economies closely integrated into global trade and capital markets will face lower external revenues and rising risk premiums. The combination of declining global trade and growth would increase corporate vulnerability, especially for those with high leverage and large foreign exchange mismatches. The resulting higher corporate risk premiums and borrowing costs will increase financial stability risks in these economies.

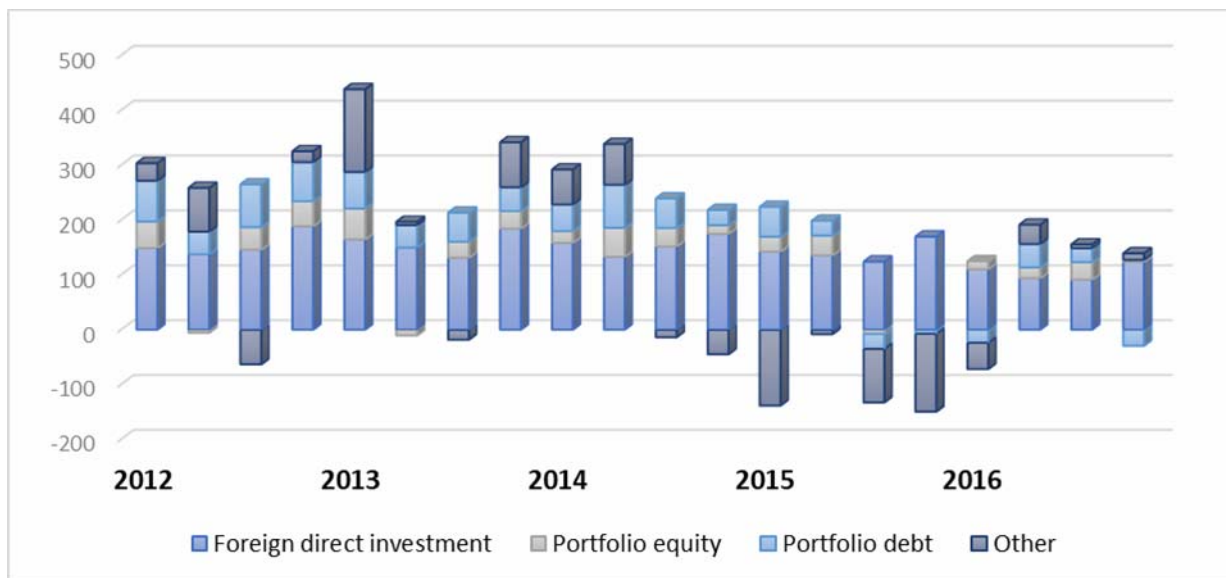


Figure 2. Capital Flows to Emerging Market Economies, (billions of dollars)  
Source: compiled by the author based on [11, pp. 32-33]

The past year has seen major political events trigger increased uncertainty about the direction of policies and the prospects for reform. Brazil was downgraded by Fitch in May 2016, Turkey was downgraded by Standard & Poor's in July 2016 and put on review for a downgrade by Moody's and Fitch. In all these cases, political uncertainty was cited as a major factor. In some cases, these developments have had an immediate impact on sovereign ratings or have triggered bouts of market volatility. On a positive note, recent elections in Peru and policy measures in Argentina have been received favorably by investors, reflecting prospects for further reforms and political stability in the region, while India continues to benefit from a stable political environment. Increased financial linkages between emerging market and advanced economies have increased the risk of spillovers between the two (Fig. 3) and have left some countries particularly exposed to political risks from abroad [13].

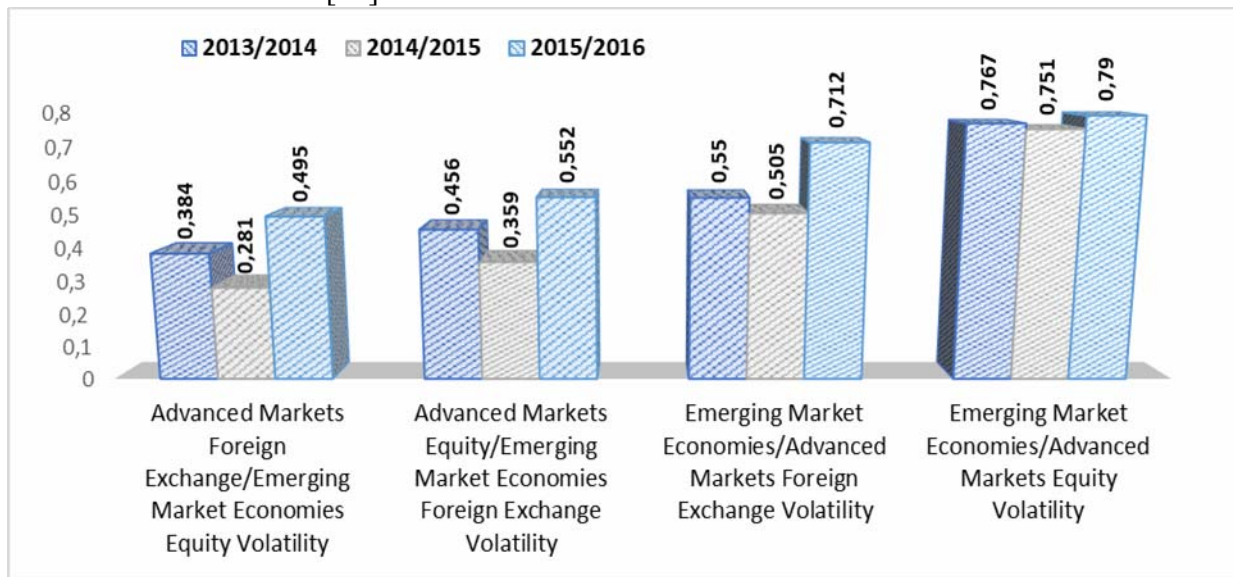


Figure 3. Correlation between Emerging Market Economy and Advanced Economy Volatilities  
Source: compiled by the author based on [13, pp. 48-49]

The global financial system has been strengthened since the crisis, and the political shock was absorbed by markets: despite the large adjustment in prices, markets managed high volumes well, without significant disruption, and no major disorderly events surfaced; new firewalls in the euro area, including the European Central Bank's asset purchase programs and other backstops, supported smooth market adjustment and prevented contagion; flows into emerging markets were

resilient and have increased since the referendum. Heightened policy uncertainty could worsen the investment climate for many emerging market economies, with an impact on medium-term growth potential. There is also elevated event risk that large emerging markets could lose their investment grade ratings, potentially triggering forced selling of hard-currency debt by foreign investors (Fig. 4).

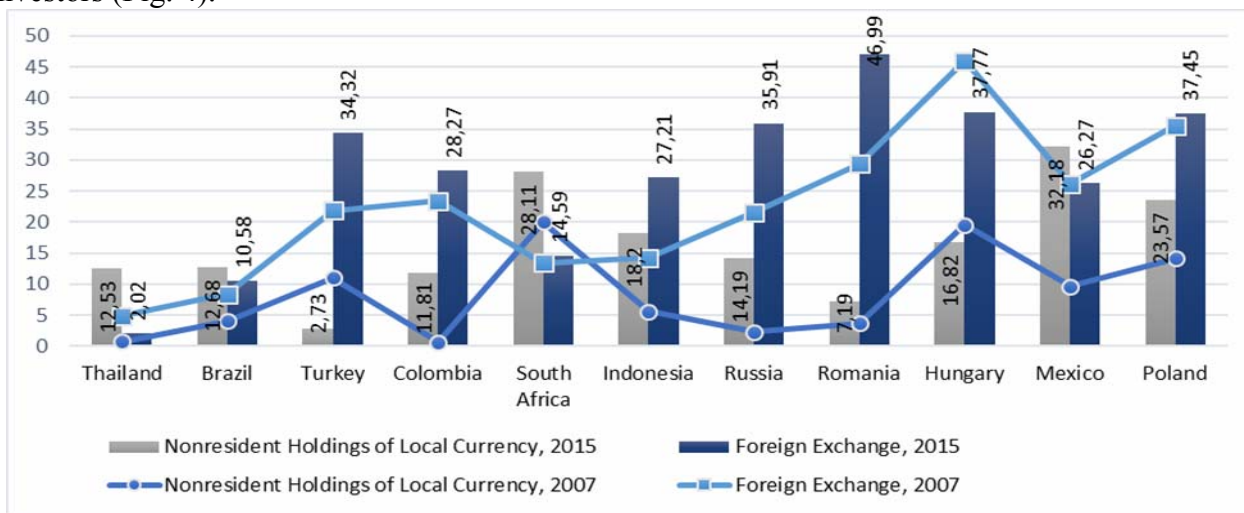


Figure 4. Government Debt Breakdown in Foreign Currency and Nonresident Holdings of Local Currency, (Percent of total)  
Source: compiled by the author based on [13, pp. 48-49]

Continued subdued growth prospects and lingering vulnerabilities in many countries underscore the need for more progress along a number of fronts. Although many countries wisely deployed macroeconomic policy buffers and allowed currency flexibility to cushion the impact of slower growth and lower commodity prices, some may be running out of room to maneuver. The turn of the credit cycle and weaker corporate balance sheets will continue to raise pressure on banks despite adequate levels of profitability and capitalization across most systems. Therefore, emerging markets should take advantage of supportive external conditions to enhance their resilience by addressing corporate and banking sector weaknesses. Governments might want to regulate and supervise financial systems to ensure that the financial sector is managing risk well. Governments might want to avoid large asset-liability mismatches, like unhedged foreign exchange borrowings invested in non-tradable sectors and short-term assets for long-term investments, which can leave banks vulnerable to exchange rate depreciations and to interest rate surges.

However, financial and credit imperatives of alterglobalization the emerging markets outline that global form of decision-making creates numerous specific problems. The disadvantages of financial globalization include availability of crises, shocks, risks, external risks and nonliquidity. Alterglobalization gradually forms a new ideal as a challenge and idealize the convergence model, based on the articulation of differences instead of homogenization (fig. 5). The modern alternative global movement is aimed at saving the process of financial globalization but redirected a way as to minimize the radicalization of existing current problems [14]. The alterglobal model should be based on new principles of functioning the world financial system and should be ground on the principles of partnership and protection.



Figure 5. Financial and Credit Imperatives of Alterglobalization the Emerging Markets  
Source: compiled by the author based on [14]

Financial and credit imperatives of alterglobalization the emerging markets reforms to macroprudential and supervisory frameworks should be accelerated to ensure timely and effective responses to these challenges. Enhanced supervision of banks will be needed, requiring better coordination among institutions and central banks in some countries. Ensuring continued access to international financial services – strengthened regulatory and supervisory regimes, including by ensuring effective implementation of standards to combat money laundering and the financing of terrorism, would enhance capacity and transparency and help lower risk perceptions in some emerging market and developing economies [15].

**Conclusions.** Financial and credit imperatives of alterglobalization the emerging markets require that model of the world economy must absorb all the positive qualities inherent in financial globalization and at the same time offer solutions of current problems and gaps. Countries can benefit from financial alterglobalization and countries should take advantage of it. Financial responsible liberalization can have positive effects on the financial system. At the same time, the evidence does not suggest that financial volatility increases after financial liberalization.

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Стаття надійшла до редакції 19.09.2017

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*Received 19.09.2017*

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