

# GLOBALIZATION PROCESS CHALLENGES IN THE SECURITIES MARKET UNDER CONDITIONS OF UKRAINE'S EUROPEAN INTEGRATION

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*The article analyses the processes of globalization challenges for Ukraine's securities market and its economic development in general. The issues are considered which attract investment assets by developing the stock market implementing Ukraine's aspirations for European integration. Ways to improve the usage of securities market mechanisms in the investment policy of Ukraine are defined.*

## Introduction

The global transformation of all the spheres of the human society's activities is an important feature of the contemporaneity. The global community is turning into a functionally interconnected integral system. The national stock markets of the world are increasingly internationalized and the capital flows to the countries and regions where its turn-over increases the most. This also concerns the turn-over of capital as securities.

Ukraine's securities market gradually acquires positive trends. The number of operations on the First Stock Trading System (FSTS) increases every year; Ukrainian shares and bonds enter the international market; normative bounds of mechanisms to raise funds by means of securities are extended. Thus, the topicality of the domestic securities market integration into the global economic scope cannot be contradicted. That is why great interest is provoked by the analysis of the influence of securities market globalization on the investment process and possibilities of developing investment strategies using the international diversification of risks.

The concept of "diversification of investment in the global market" is still diverted from the realia of the Ukrainian stock market and, thus, requires particular consideration regarding mutual influence of the global and national markets. It is worth mentioning that the real sector globalization is aimed at maximization of using resources of each region and thereby may result in averaging profitability of economic elements which can be conventionally divided into two constituents: averaging profitability of transnational corporations in the global market and averaging profitability of transnational corporations and "non-global" enterprises in the national markets. The mechanism of this averaging becomes obvious while correlating the theory of the stock market information efficiency and the real economy, where the driving force of this mechanism is made up by competitiveness together with inevitable extinction of weak elements and takeover of promising ones.

Among the Ukrainian authors who study the issues of investing into shares, the following are worth mentioning: S.Z.Moshenskyy[3], K.A.Zabarnyy, S.V.Koverga, I.S.Protsyk, M.V.Soroka and others.

According to the portfolio theory, while completing portfolio investors should diversify their investments by allocating funds to several blocks of securities. The portfolio investment approach suggests that the management is performed by the whole of securities as a single unit. However, many investors buy and sell certain securities without applying the portfolio investment considering this to be the best method to earn money.

To answer this question it is necessary to identify how to estimate the financial result of conducting market operations.

The financial result of investing into securities can be:

- the profit gained through current payments during the whole investing period (interest and dividend payments);
- the profits / losses due to exchange rate difference (it can be gained by the investor once regardless of investment period duration).[2]

The financial globalization is accompanied by erosion of administrative and geographical barriers on the way of financial flow movement and the increasing volume of operations with securities. This has been encouraged by the liberalization of the national financial markets during the 80-es of the 20<sup>th</sup> century, the latest technologies and innovations in the financial sphere, increasing importance of financial establishments in the economy as well as changes in the pattern of securities supply and demand.

The process of financial globalization has opened new ways for capital flow resulting in the formation of the international financial markets.

The international financial market is formed by a complex system of national and international financial instruments and institutions. This market is able to establish financial assets with various characteristics ranging from short-term debt instruments to ‘eternal’ bonded loans and shares. Thus, it is able to satisfy any requirements of borrowers and offer investors different kinds of financial contribution.

Taking into account the nature of fund raising, the international securities market is made of two major constituents. These are the debt securities market (the loan capital market) and the ownership right market.

These markets are different according to the type of financial rights. The international debt securities market involves the market of international bonds and the market of medium-term notes as well as securities of the monetary market. The instruments of the loan capital market assure debt relationships between the debtor (a security issuer) and the creditor (an investor).

The international ownership title (rights) market is represented by international shares and other rights of ownership which are the derivative instruments of shares such as share depositary receipts. The instruments of this market assure property relations and confirm the right for joint ownership of the security issuing corporation.

The securities market brings internal (or true) characteristics of securities to the level of real market price indices. Since nowadays Ukraine is not among the leading industrial countries, globalization of the real centre in the general form is not advantageous for Ukraine and should be restrained until the complete improvement in the economic development. This thesis should be considered by the national investor. However, mostly it refers to the national security issuers who lay claim to be the global ones.

Worldwide, the securities market is one of the most effective instruments of attracting investments. The developed securities market contributes to increasing economic development and production efficiency as well as to extended terms of investing [1].

Considering the matter discussed above, it appears important to study the issues of interconnection between the securities market globalization and European integration processes which are taking place in Ukraine and depict them in scientific literature.

The purpose of the research is to distinguish peculiarities of the position of countries with markets which are being formed and to define perspectives of their participation in the global securities market.

The object of the research involves countries with the market which is being formed under conditions of globalization.

The subject of the research includes the whole of economic relations which appear in the process of interaction between the countries with the market which is being formed and the global securities market.

## Research analysis

Ukraine’s economy gradually integrates with the international financial markets and the consequences of globalization process are becoming more tangible for the Ukrainian financial

system. Globalization of the world economy, unification of national economies on the basis of GATT/WTO, EU countries' economic tendencies towards the European Union consolidated by a single monetary unit, potential mutual profitability of free trading are important factors of economic integration and development of trade between Ukraine and the EU. The Partnership and Cooperation Agreement is the basic document which outlines the principles of Ukraine's economic integration into the EU [5].

Financial globalization is a process of integration of the international and national markets into the single world financial market. The international investing interaction develops in two ways: outflow of capital abroad and attracting foreign capital to the country in the form of real, financial investments and investment credits.

The securities market globalization operates in two directions: introducing every security issuer's papers to any desirable market regardless of their 'globalization' level and providing conditions to every investor to invest in any security issuer's papers.

This phenomenon is to and arouses enduring interest of the national economic subjects. Thus, Ukraine's participation in the processes of securities market globalization is necessary. However, the conclusions made earlier should be considered, i.e. to the extent that will not enhance the real sector globalization. Therefore, the following factors of the environmental influence on the investing strategy formation are to be considered:

- securities market globalization makes methods of enhancing portfolio reliability available by using weakly dependent and negatively dependent papers;
- securities market globalization increases liquidity of the national market;
- the issue of the influence of 'free competition' of the internal securities in the global market as well as the influence of global security papers in the national market on the country's economic development (to the extent to which the influence affects the investor's interest)

Each of these issues requires a detailed account:

1. Globalization (and further averaging) of economic indices of security papers is first of all expressed in characteristics of securities of international companies which make latent diversification of prospective analogous indices of subsections real; it occurs at the level of international production specialization and cooperation.

Thus, average profitability of similar papers has lower risks and this can be explained by the lack of total dependence, for example, from a certain political situation. Combining in one portfolio analogous papers of TNC and a small company belonging to the same sphere seems in general to be doubtful and requires particularly thorough investigation of this company's activities and fund indices. At the same time there is a possibility of diversifying regarding economic branches and investment tools in the global market (inasmuch as transnational corporations with interbranch diversification of production have not seized all the economic space yet).

2. Traditional methods of diversification (concerning branches, regions etc.), on the one hand, can be the basis for searching investment objects and further inspection by estimating correlative dependence. On the other hand, it can be the basis of fundamental inspection of minimal dependences found by through estimation.

3. The global market is much more important being the source of liquidity without which portfolio investment exists only nominally. Introducing Ukrainian security issuers into the global market with the help of depository receipts solves foremost issues of primary distribution. Moreover, this encourages rapprochement of the Ukrainian market and foreign investors. Attracting global participants to the national market is to increase its liquidity. Apart from this, the possibility to control direct investors is always greater on one's own territory.

The securities market has always been an indicator of the state's financial and economic well-being: a sharp fall of stock-exchange quotation may serve as a sign of general financial crisis in the country. On the other hand, any pickup influences the capacity of financial operations immediately.

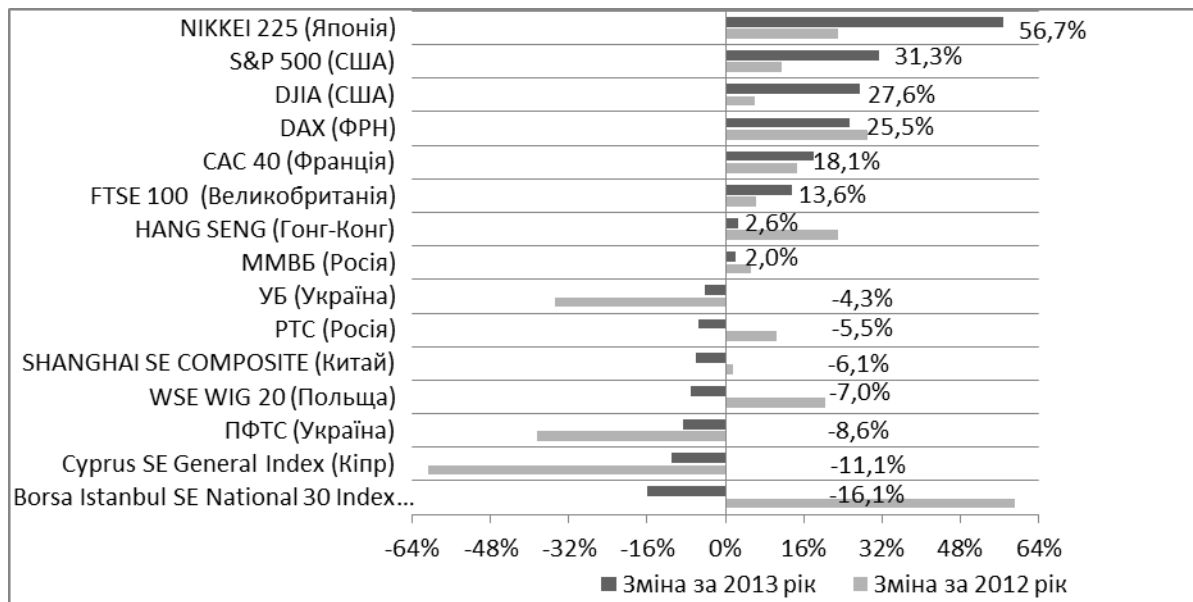


Figure 1. Dynamics of stock-exchange indices of the national markets, 2012-2013.(According to Bloomberg agency and stock-exchange)

Nowadays Ukraine's financial market represents a dynamically growing financial sector, great institution investors, an active bond market, well-developed over-the-counter market of currency derivatives. In the international stock market, capital flows constantly interweave following the general tendency of the world economy globalization and internationalization of the world economy links. Almost all the states with developed market economy (perhaps, apart from Switzerland) have securities markets whose main part is made up by the market of state financial instruments. These are the state securities which are the pillars of the global stock market and the main instrument of any financial market [6].

Compared to 2013, during January-June, 2014, the volume of stock-exchange contracts with securities increased by 16,96% (or 31,28 billion hryvnas) (January-June, 2013, – 184,66 billion hryvnas).

The largest volume of trade by financial instruments during the period was recognized with:

- state bonds of Ukraine – 186,31 billion hryvnas (86,28% of the general volume of stock-exchange contracts for trade organizers in January-June, 2014)
- enterprise bonds – 13,72 billion hryvnas (of the general volume of stock-exchange contracts for trade organizers in January-June, 2014) (Table1).

Table 1.

Volume of stock-exchange contracts with securities on trade organizers (divided according to financial instruments) during January-June, 2014, billion hryvnas.

Trade organizer	Shares	Enterprise bonds	State bonds of Ukraine	Bonds of local loan	Investing certificate	Derivatives	Mortgage bonds	Option certificates	Total*
January	2003,46	2707,48	37428,99	2,22	272,3	1108,82	0,27	0,00	<b>43 523,54</b>
February	676,47	1 463,85	984,87	3,37	48,76	1 040,02	0,26	1,91	<b>45 219,53</b>
March	1 078,41	1 692,93	086,07	16,22	888,70	1 033,72	0,36	3,59	<b>21 799,99</b>
April	2 087,22	1 992,36	769,96	4,54	263,53	966,30	0,99	4,50	<b>21 089,38</b>
May	1 377,07	1 660,41	759,01	2,61	93,32	749,02	0,23	1,52	<b>47 643,17</b>
June	1 084,21	4 205,67	285,12	6,80	310,05	760,77	8,41	0,00	<b>36 661,03</b>
<b>Total</b>	<b>8 306,84</b>	<b>13 722,71</b>	<b>314,01</b>	<b>35,76</b>	<b>1 876,65</b>	<b>5 658,64</b>	<b>10,52</b>	<b>11,51</b>	<b>215 936,64</b>

Inductively expanding the situation in the Ukrainian stock market to that of the global level, one can conceive of a limited number of highly correlated TNC security papers and a great number of papers of much lower levels poorly interconnected and having high liquidity. This is the quality which second-rank securities lack to use the real diversification. It can be assumed that drawing the liquidity of the Ukrainian market to the level of the global markets will provide a similar possibility within internal papers.

Practically, under other equal conditions the investor should consider the closest investment objects (within certain area and business circles) to be important. The reasons for such advantages are as follows:

- the level of information efficiency of the market does not allow expecting immediate simultaneous information spread in space. The subjective economic picture which investors can bear upon in their forecast can be made of using the context of mass divergent information in everyday life; this corresponds to tracing the objects from one’s environment;
- the greatest opportunities for searching the objects underestimated by the market can also be found in the national economy where investors are better informed about the available enterprises than about foreign ones;
- elements of direct investing in portfolio strategies should be advantageously used within the country’s area which is conditioned by the common legal field of the investor and security issuer; this kind of strategies prevails nowadays;
- ability to follow the security issuer’s financial and economic activities ‘alive’ is of great importance as well; an ‘involvement factor’ means additional difficulty to calculate the objective function, usefulness of the chosen object for the investor;
- investing in one’s national economy under conditions of general lagging behind in economic development can be considered as attracting less foreign capital to participate in the national enterprising to restrict possible pressure on the state’s politics and as safety measures against possible negative influence of the open market;
- in the national market it is likely to be proposed global securities or the most liquid ones with the aim of diversification for investors as well as the most risky instruments to attract extra funds.

One of the trends which allows seeing positive shift in this direction is assets increase in the market of Institutions of Common Investment (ICI) despite its decreasing rates in 2013 from +24% to +13%. The total value of ICI assets in management increased from 157 201 to 177 523 million hryvnas during the year 2013 [6].

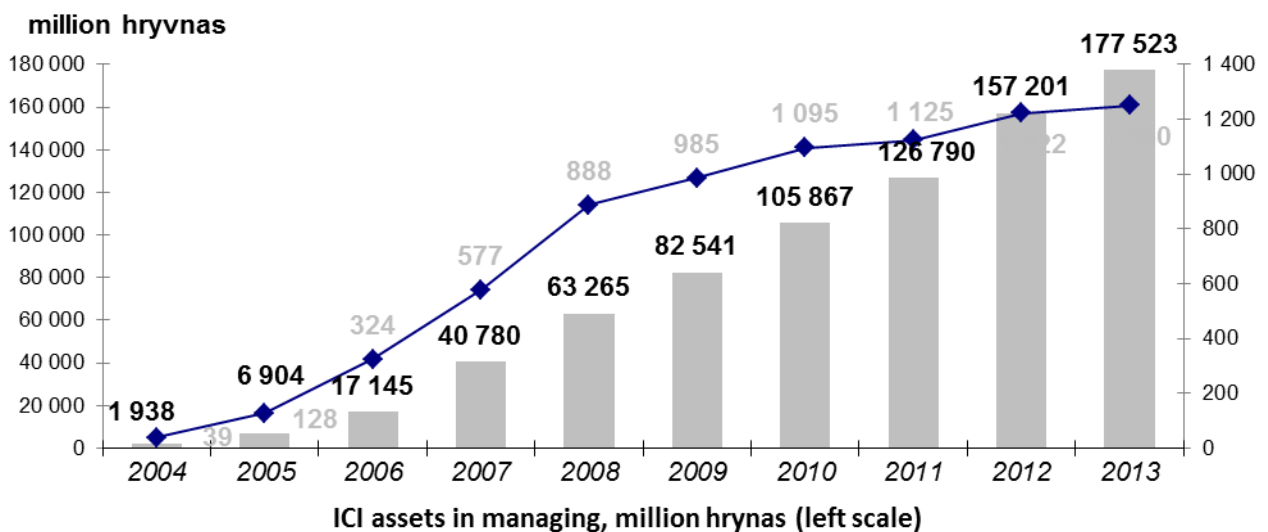


Figure 2. Dynamics of the market of ICI assets management, 2004-2013.

## Conclusions

Summing up the evaluating specifics of the hypothesis of the effective European market in Ukraine, we can point out the following: the domestic stock market suffers from low sales, lack of transparency and accountability as well as investors' inexperience. These factors hinder trade processes causing misbalance and breaking-off in trading which in turn contribute to non-linearity of the price formation process in the stock market [3].

The main prospects for further development of the securities market nowadays are:

- increasing orderliness and efforts of the state control
- market internationalization and globalization as well as interaction with other capital markets
- implementation of complete legislative and other regulatory framework of the fund market functioning with the norms of the European Union.

Nowadays Ukraine stands in the way of further securities market development which takes into account both Ukrainian historical traditions and the experience of the countries with developed market economy. The main purpose of the securities market development is to contribute to effective economic development, advancing financial stability and economic growth on the basis of revitalization of all the market economy subjects' functioning, first of all, the population. Despite the problems and disproportions, Ukraine's fund market has high potential and sufficient prospects of rapid development. It is the most important part of the financial market although not mature enough.

It is obvious that Ukraine's integration strategy is to be based on creating inner assumptions to gain the European Union membership rather than on declarations of intentions to enter the European political structures. The principle task of Ukraine at the present stage is approval of European values and standards in politics, economics, and social sphere. This is the guaranty of social stability and steady development of our state [4].

Moreover, the following may become essential premium steps to advance practical results in the sphere of Ukraine's integration:

- economic diplomacy's support of establishing consortiums and alliances of Ukrainian enterprises with powerful companies of EU countries to draw mechanisms of derivative financial instruments;
- sharing information on investment needs and possibilities of Ukrainian agricultural production, providing informational and legal support for attracting investments from the EU countries to Ukrainian agriculture;
- introducing the price formation monitoring in the framework of transnational companies to prevent tax evasion on the territory of Ukraine;
- introducing contemporary forms of international common financing of strategic investing projects, primarily, in the field of energy, information and transportation infrastructure;
- developing the system of mutual investment protection and counteraction to unfair competition both from partner countries and third party countries.

Thus, there are outstanding prospects for scientific research regarding practical ways of developing economic relations between Ukraine and the European Union, primarily in the investment sphere and securities market which will contribute to improving competitive advantages of the Ukraine economy and its adaptation to effective competition in the European market.

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