MODERN ASPECTS OF MONETARY GLOBALIZATION

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Abstract: *Monetary globalization is a specific form of financial globalization within overall process of economic integration. At the same time, it is a superlative manifestation of trends in internationalization of foreign exchange relations. Its main aspect is the continued development of international currency market. Monetary globalization is linked to contradictory processes, such as currency monopoly and currency polycentrism. The first is related to global domination of a single currency. The second - to emergence and global use of more freely usable currencies. Similarly, the process of currency regionalization is remarkable. Besides, it is important to create a single global currency issued by a world level financial body. All these aspects of the development of monetary globalization are reflected in this article.*

Key words: *currency, monetary globalization, monetary regionalism, foreign exchange market*
JEL Classifications: *F31, F36, F65.*

1. Introduction

Financial globalization is a consequence and a component part of overall process of economic integration. Much of its elements have emerged as a result of financial sector development, based on increase in the volume of free financial means and their distribution among countries, emergence of new financial instruments, creation of collective currencies.

At the same time, financial globalization is the highest stage of financial markets internationalization in all its forms in order to ensure the needs of foreign exchange-financial relations development.

Analysts in the field of financial markets have noted that the underlying financial globalization is interaction of following phenomena (FinResult, 2017):

- Technical progress, which allows the realization of international financial transactions in real time and significant reduction of transport and communication expense;
- Increased competition, on the one hand, between financial institutions on financial markets, and elsewhere - between financial markets itself as a result of important development of information and telecommunication technologies;
- Restructuring financial institutions through mergers and acquisitions as a result of increased competition between them;
- Widespread internationalization of economic activity by strengthening transnational character of corporate activity;
- Strengthening regional integration spaces;
- Weakening the control of realization of international transactions related to capital stock exchange movement both in industrialized countries and other groups of countries;
- Macroeconomic stabilization and reforms in a number of countries with a transition economy, which created a favorable climate for foreign investors;
- Privatization in many developing countries, which has contributed to emergence of new commercial loan instruments;
- Fundamental widening of financial leverage principle (increasing volume of funds lent for investment purposes) and development of asset securitization processes in industrialized countries.

Financial globalization has been manifested through strengthening of links between international financial centers has constituted a financial revolution, which has three basic aspects (FinResult, 2017*)*:

- *Global presence of international financial institutions.* Of major importance was the formation of international financial institutions system headed by International Monetary Fund, International Bank for Reconstruction and Development, regional financial institutions;
- *International financial integration.* United States, United Kingdom and Japan have essentially weakened control over capital movement. United Kingdom raised this control in 1979 and in 1986 there were reforms in the stock market. In US in 1980s and in 1986 liberalization of domestic financial markets began in Japan. As a result, there has been a significant widening of financial markets of these countries, amplification of mutual penetration and merging of national financial capital, which have started to move freely from domestic markets worldwide and vice versa;
- *Rapid development of financial innovations.* International financial integration has prompted profound qualitative changes in financial technologies. A large number of new financial instruments has emerged. Accelerating the flow of capital flows also takes place due to implementation of new technologies in the field of telecommunications.

As basic forms of financial globalization are:

- *Monetary globalization* is an expression of deepening of foreign exchange relations internationalization (Trutneva, 2017).
- *Banking globalization* is the stage in which banking services have spread throughout the world, becoming universal (Savu, 2006). As a result of banking globalization, nature and forms of competition on financial market change. Banks are forced to compete simultaneously on several segments of financial market, not only among themselves but also with other financial institutions: insurance companies, investment funds, non-state pension funds and other financial companies (Davlatov, 2015). Banking globalization represents the highest level of international banking development, which is reflected in the implementation of commercial banks' transactions with foreign partners and global financial markets. International banking activity has developed with development of world trade, international activity of non-financial institutions.
- *Investment globalization* can be defined as a process of substantially increasing the proportion of capital investment in the world, which is owned by non-residents. (Giem) Investment globalization usually refers to the process of integrating financial markets of different countries in the world into one (Arestis and Basu, 2003). It is the superlative stage of internationalization of financial markets in all forms in order to ensure needs of foreign exchange-financial relations development.

2. General theoretical review of globalization

Monetary globalization is a specific form of financial globalization, as well as its main support, which is the superlative degree of foreign exchange relations internationalization related to functioning of currencies in the world economy and institutional organization of these relations in accordance with principles of international monetary system. The combination of functional and institutional approaches gives the opportunity to discover deeper the essence of development of foreign exchange globalization (Krasavina, 2012).

The evolution of monetary globalization is related to impact of following trends (Trutneva, 2017; Nehaev, 2000; Shishkov, 2004):

- ➢ Development of international foreign exchange relations related to new form of labor division, which can be called international division of production process, which changes the image of world economy;
- ➢ Globalization of goods, services, labor resources, capital markets as a result of integrating national markets into world;
- ➢ Implementation of new technologies and standards of interstate resditribution of foreign exchange flows with use of electronic banking and the Internet;
- ➢ Development of institutional aspects of foreign exchange globalization, manifested in the tendency of adapting existing institutions of foreign and economic regulation to conditions of globalization.

The main premise of monetary globalization, as a form of financial globalization, is the contradiction between internationalization of own reproduction process and preservation of national specificity (Krasavina, 2012).

The direct cause of monetary globalization is, on the one hand, the contradiction between the degree of amplification of internationalization of foreign exchange relations and their organization in the form of international monetary system, and, on the other hand, the preservation of national peculiarities of international foreign exchange relations and monetary system.

Monetary globalization goes far beyond rhythms of globalization in the sphere of material production. This process is amplified by virtualization of foreign exchange operations with the use of modern information technologies, standardization of foreign exchange operations, increased volume of speculative operations.

Given the fact that foreign exchange relations serve the microeconomic links, this determines *many levels of monetary globalization* that assist internationalization of breeding process.

Monetary globalization has the tendency to widen, because foreign exchange relations mediate the increase in volume of international commerce with goods and services and, in particular, international capital movement, including the fictitious.

Analysis of tendencies oriented to polycentrism and currency regionalism allows to conclude that they oppose monetary globalization *in functional aspect*, ie in sphere of relations related to functioning of currencies in international circuit.

Financial globalization has a higher degree of institutional development in the form of organization of foreign exchange relations governed by principles of international monetary system (Krasavina, 2012).

After the cancellation of Gold Standard System, the role of international currencies is fulfilled by a number of national currencies, basic areas of their use under the current conditions are following (Struk, 2012): official currency reserves, commercial contracts, foreign exchange operations, private financial assets, primarily in the form of loan instruments and bank loans.

It is considered that national currency is becoming international when it begins to fulfill one or more money functions outside the jurisdiction of issuing State.

Depending on level of internationalization, the following currencies can be highlighted (Buterina, 2003):

● *Key Currency*, which performs a series of significant money functions across the country;

● *Main Currency* or *Intermediate Currency*, which is used in international trading and foreign exchange transactions, for which it is not for each of parties;

● *Dominant currency*, which performs in international circuit most of money functions in a much higher volume than other key currencies.

3. Globalization and dynamics of foreign exchange market

The development of international currency market has become the foundation of financial globalization, but the progress of last one has the impact on former, that at the moment some specialists talk about financial globalization.

Under the influence of economic and foreign exchange, functionalities of international foreign exchange market have been formed: increasing market capacity, diversifying foreign exchange trading instruments (Krasavina, 2012).

The dynamics of daily volume of transactions on international foreign exchange market is shown in Figure no. 1.

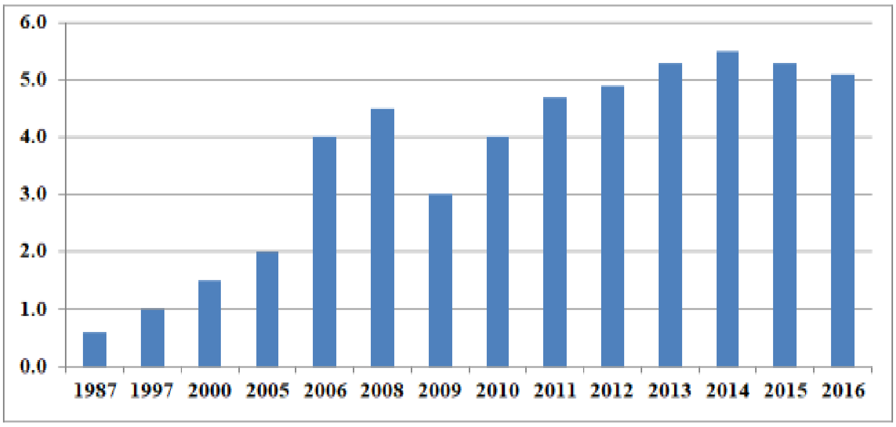

Figure no. 1. Dynamics of the daily volume of transactions in the international forex market (trillion US dollars)

Sourse: Fetiniuc and Luchian, 2014.

This figure shows that since 2009 there is a continuous increase of total volume of daily transactions on international foreign exchange market from 3.0 trillion USD to 5.5 trillion. USD in 2014. And in 2015 and 2016 this volume dropped to , respectively 5.3 trillion USD and 5.1 trillion USD.

In the perspective of 2019, this indicator is expected to grow by 7.8 trillion USD. (Finance Magnates, 2017).

The dynamics of structural changes on international forex market in terms of applied instruments is presented in Figure no. 2.

According to estimates by some experts, by 2016 the spot spot market reached 1.7 trillion USD, increasing over 2001 by 1.3 trillion USD or about 4,4 times. The swap foreign exchange market will reach 2.4 trillion USD, rising by 1.7 trillion USD over 2001 or 3.6 times. The OTC spot exchange market will reach level 1 trill. USD, increasing compared to 2001 by 0.8 trillion USD or 5.1 times

4. Monetary polycentrism and regionalism

Monetary polycentrism is expressed through the use of several competing currencies as world currency. The transition after World War II from World Monetary Monopoly to monetary polycentrism policing began to be promoted as a result of formation of three world financial centers - United States of America, Western Europe and Japan - from the late 1960s (Studme.org., 2017).

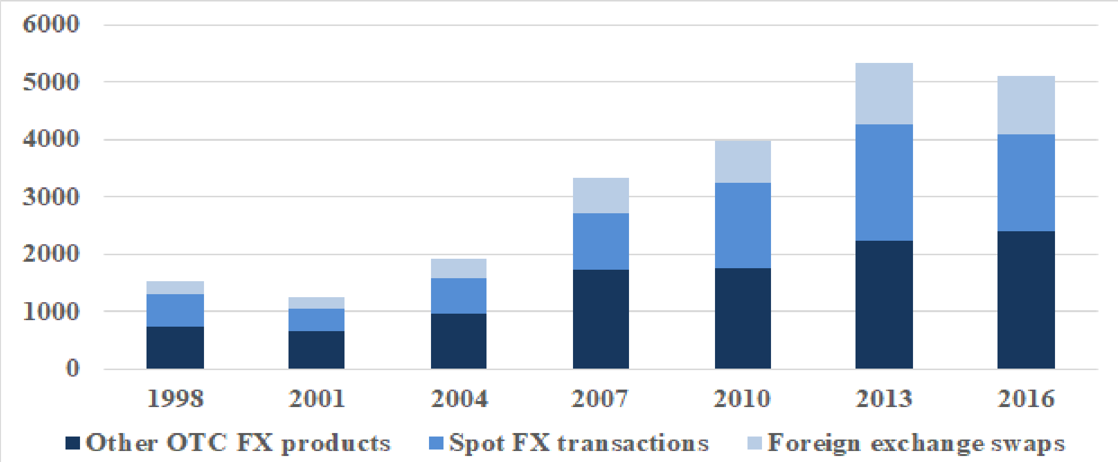

Figure no. 2. Dynamics and structural prospects of FX market for during the period 1998-2016

Source: Lmax, 2013.

For example, when the Jamaica Monetary System (1976-1978) was created, International Monetary Fund (IMF) initially included 16 currencies in the list of freely usable currencies and four currencies now - US Dollar, Euro, British Pound and Yen.

The further development of a multi-polar world is manifested by the trend of traditional center's share (from 40% in 2009 to 28% in 2030) and the increase in share of rapidly developing countries in the global economy (eg China and India up to 25% in 2020 and 33% in 2030) (Studme.org., 2017).

On this basis strengthens the trend of internationalization of national currencies use, which are not included by IMF in the list of freely used currencies. The financial and economic crisis of 2007-2009 has influenced the development of a new trend for reciprocal use of national currencies in international settlements, which are not freely convertible on the basis of central bank agreements (eg Russia with China, Brazil in the year 2011) and decisions adopted at BRICS meetings.

Monetary polycentrism has developed in connection with triggering of regionalization process in international foreign exchange relations. This trend can be noticed in application of regional currencies in economic and regional associations (Krasavina, 2011).

An additional factor for use of several competing national currencies as world currencies was the change in the ratio of forces between international economic and financial centers.

During the 18th and 19th centuries dominated international foreign exchange relations, being the base reserve currency. Then, after the end of First World War, formation began and then there was a strengthening of a new financial and economic center in USA, which led to the trend of moving from monopoly to currency polycentrism. Thereafter, the transition to US dollar-based monetary monopoly followed and then again the changeover to foreign exchange polycentrism (Krasavina, 2011; Shishkov, 2004; Trutneva, 2017).

Towards the end of the 20th century the trend of gradual reduction of US Dollar's role as dominant international currency and intensification of competition from other currencies was formed. This long-term trend has been reflected by following (Struk, 2012):

- Gradual reduction of US Dollar weight in international foreign exchange reserves;
- Increase of pound sterling, Swiss franc, Norwegian Crown, Australian Dollar, New Zealand Dollar in world currency;
- Reducing the amount of trading pairs with US Dollar, Euro and Yen (USD/EUR, USD/YEN, EUR/YEN);
- Reducing the weight of US Dollar in the structure of international bank loans and in the volume of international banking assets, as well as amount of annual net issuance (excluding the amount of depreciation) of international borrowing instruments and total amount of non-repayable debt related to international borrowing instruments.

But the international financial crisis of 2007-2009 again increased the attractiveness of US Dollar for investors, especially as a means of investing in short-term assets and preserving liquidity. Some countries have had to depreciate their national currencies against the US Dollar.

At present, the reflection of foreign exchange policing can be seen in international currency unit - Special Drawing Rights (SDR) foreign exchange basket on which Jamaica International Monetary System is based.

Currently in this currency basket have been included Euro, US Dollar, Yen, British pound and from 1 October 2016 - Chinese Yiuan (IMF, 2016).

Monetary polycentrism has begun to develop in connection with the emergence of regionalization in international foreign exchange relations. This trend can be noticed in the application of regional currencies in regional and economic communities.

Monetary regionalism, of course, remains the result of monetary globalization in terms of its proportions, through which its specificity is manifested, but the in-depth examination shows that it is based on the economic integration in region that exceeds the internationalization of foreign exchange relations (Krasavina, 2011).

Monetary regionalization means different trends and forms of foreign exchange integration of countries in a particular region of the world with a view to forming a common currency area, introducing a unique currency unit and promoting unique monetary and lending policy to limit the negative impact of global trends in economy on global currency markets.

The tendency of currency space regionalization becomes irreversible. Searching for mechanisms to protect national economies within a geographic space becomes the trend of global development.

The most notable was the introduction of EURO during the years 1999-2002, which has gained historical significance throughout European space. Currently, this is the official currency of 19 countries in 27 member states of European Union. In a relatively short period of time, EURO became the second most important currency in the international financial circuit.

However, since 2010, EURO area has been characterized by distinct financial crisis phenomena as a result of many problems of European Monetary System and European Union's economic system

*It is interesting to note the draft introduction of Euro-Asia Economic Union, which includes following countries: Belarus, Kazakhstan and Russia, Armenia and Kyrgyzstan. This idea has been reflected in political statements on Euro-Asian economic integration in 2011 (*Camonitor, 2017*).*

Recently Euro-Asiatic Development Bank has proposed the creation of a regional settlement currency (Camonitor, 2017).

It is also worth mentioning the introduction of Islamic Gold Dinar (sometimes called Islamic Dinar or Golden Dinar) - a gold coin - made of 4.25 grams of 22 carat gold, which is actually a reconstruction of golden dinar, which at the time was the leading currency in Islamic world. Currently it is used by Malaysia to make settlements with Brunei, Iran, Bangladesh, Yemen, Maldives and other Muslim countries. All attempts to use Islamic Golden Dinar among OPEC countries collided with active resistance of IMF.

In the context of great importance is AMERO.

The idea of the AMERO currency emerged in 2005 at the meeting in Texas between presidents George W. Bush, Vicente Fox and Canadian Prime Minister Paul Martin. In 2007, the initiative was redacted at Quebec meeting.

Since 2006, we have been talking about the creation of single currency in ASEAN (Asia-Pacific Cooperation Organization), China, Japan and South Korea.

By 2028, the introduction of AFRO - the single currency of African Union, is expected. At present, Western African Monetary Union, African Union Central African Union and South African Customs Union.

Since 2010, there is Unique System of Mutual Regional Settlements within Bolivarian Alliance of People of America (Alliance Bolivarian para los Pueblos by Nuestra América), which brought together 11 Latin American and Caribbean countries on basis of SUCRE.

So far, there is talk of a possible single currency for Union of South American countries (Unión de Naciones Suramericanas) (EER, 2017).

5. The problem of world currency creation

At the G20 summit in April 2009, Russia called for a supranational reserve currency as part of a global financial system reform. G20 also suggested that IMF (or a G20 ad-hoc working group) conduct specific studies to review the following options (Zhong, 2016):

- Extend (diversify) the list of currencies used as a reserve, based on agreed measures to promote the development of major regional financial centers. In this context, the possibility of establishing specific regional mechanisms to help reduce the volatility of exchange rates of these reserve currencies should be considered.
- Introducing a supranational reserve currency to be issued by international financial institutions as well as a review of feasibility and need for measures to ensure that SDRs are recognized as an over-reserve currency by entire world community.

On March 24, 2009, Zhou Xiaochuan, chairman of People's Bank of China, called for "the creative reform of existing international monetary system towards an international reserve currency," considering that "would significantly reduce risks of a future crisis and enhance crisis management. He suggested that IMF's SDR could serve as a super sovereign reserve currency that could not be easily influenced by policies of individual countries (News BBC, 2017).

On 30 March 2009, Venezuelan President Hugo Chavez proposed the creation of a petro-currency on Second Summit in Qatar. It would be backed by huge oil reserves of oil producing countries (USA Today, 2009).

An alternative definition of a global or global currency refers to a hypothetical currency or a *supercurrency*, such as proposed TERRA or DEY (acronym for Euro Dollar Euro) issued and maintained by a global central bank used for all transactions worldwide, irrespective of entities nationality (individuals, corporations, governments or other organizations) involved in transaction. There is currently no such official currency.

Advocates of this idea (especially Keynes) of global currency claim that such a currency would not suffer from inflation, which, in extreme cases, had disastrous effects on economy. In addition, many claim that a single world currency would make international business more efficient and encourage foreign direct investment.

There are many different variations of this idea, including the possibility for it to be managed by a global central bank that will define its own monetary standard or comply with the gold standard (Gold Eagle, 2017).

A limited alternative would be a global reserve currency issued by the International Monetary Fund as an evolution of the existing SDR and used as reserve assets by all national and regional central banks (News Max, 2009).

As another world currency, it was proposed to use the conceptual currency to support transaction between countries. The basic idea is to use the trade balance to cancel the currency actually needed for trading (Zhong, 2016).

In addition to idea of a single world currency, some evidence suggests that more global currencies can evolve in the world, changing within a single market system. The growth of global digital coins owned by companies or private groups suggests that more global currencies can offer wider trading formats as they gain wider power and acceptance. (Fortune, 2010).

Some sources consider Bitcoin as a future global currency (Mindwork, 2017). It is a decentralized electronic payment system and a digital opensource coin created in 2009 by Satoshi Nakamoto. Bitcoin was created to ensure investment protection and free business finance, without resorting to financial institutions and beyond any constraints and regulations. Bitcoin name also refers to opensource program for using these coins as well as to the peer-to-peer network (peer-to-peer) that it forms (Mindwork, 2017). But at the same time, some experts see Bitcoin as a new financial bubble.

6. Conclusions

Monetary globalization is, on the one hand, the form of the superlative development of the foreign exchange relations and, on the other hand, it is a specific form of financial globalization, becoming, in fact, its catalytic factor.

An important feature of this is the continuous development of international currency market both in terms of quantity and quality.

Monetary globalization is closely linked to transformation of International Monetary System by disengagement from currency monopoly initially based on British pound, then on US Dollar, and shift to foreign exchange polycentrism, in the foreign exchange circuit, freely exchangeable currencies and other regional currencies with significant currency.

An important challenge of foreign exchange globalization is the development of a mandate currency issued by an international financial institution empowered..

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