

## СВІТОВЕ ГОСПОДАРСТВО ТА ЕКОНОМІКА ЗАРУБІЖНИХ КРАЇН

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### REGIONAL FINANCIAL MECHANISMS AS A COMPONENT OF THE GLOBAL FINANCIAL SAFETY NET

*The preconditions of establishment and the tasks of the regional financial mechanisms are pointed out; their place in the global financial safety net and in anti-crisis regulation of regional development is determined in the article. The specific features of functioning of the most influential regional financial initiatives are examined and their comparative analysis is provided. Financial instruments used by regional financial mechanisms while performing their tasks are considered. The advantages of regional financial mechanisms foundation and directions of their activities coordination with other components of the global financial safety net are defined.*

**Key words:** *regional financial mechanisms (initiatives), regional integration, global financial safety net, swap agreement, international financial institutions.*

An important precondition for the efficient development of inter-regional economic interaction is a stable economic state of regions developing this cooperation. The global financial crisis of 2008-2009 and its consequences have shown that serious threats to stable economic development of countries, their regional associations and the world in whole are financial imbalances. Moreover, given the increasing likelihood of appearance and extent of financial threats, as well as the global nature of the factors that cause the development of crises, their adjustment is often beyond the capabilities of national financial policies. Transformation of financial stability objectives into the common problem of countries and regions required greater coordination between national regulatory institutions in this area, which has embodied in the formation of a wide system of international financial institutions.

However, despite the existence of sufficiently developed network of international financial institutions (IMF, World Bank Group, Bank for International Settlements, the Basel Committee, G-20, etc.), just global mechanisms are insufficient to solve specific financial and economic problems of regions. Intensification of regional integration processes is observed not only in trade but also in the financial sector and requires establishment of multilateral financial mechanisms of stabilization at the regional level. All these items determine the relevance of the research topic.

The functioning of some regional financial mechanisms (RFMs), the history of their formation and results of their activities are studied primarily by specialists of international financial institutions [3-5]. Alongside it, there is a lack of a comprehensive approach to the role of regional financial mechanisms in the global financial architecture and the benefits obtained from their implementation by member states.

The scientific paper is aimed at defining the preconditions of regional financial mechanisms establishment; studying the RFMs specific features and comparing the most influential regional financial initiatives; determining the benefits of regional financial mechanisms creation and directions of their activities coordination with other components of the global financial safety net.

One of the reasons for the development of financial mechanisms at the regional level was the dissatisfaction of many countries on the results of international financial institutions activities. First of all, these institutions generally offer fairly standard mechanisms for countries to resolve financial conflicts and crises without taking into account appropriate regional profile. In addition, nowadays the international financial institutions have increasing difficulties while coping with their tasks. Regrouping of forces between the world economic centers and the free flow of capital from one country to another based on the use of new communication technologies can destabilize the global, regional and national financial markets, as far as the regulation of such capital flows is very complicated. And finally, these institutions are often unable to finance countries suffering from crisis in full volume, especially as the accumulation of capital of these institutions is a long and complex process. Therefore, an alternative direction of efficient solution of the financial problems that are specific to a particular region, prevention of regional financial crises and achievement of stable financial development is creation of regional financial mechanisms.

In the scientific sources regional financial mechanisms are also called regional financial initiatives [6] or «safety nets» [4]. Creation of regional financial initiatives is associated with the desire of regional integration associations to have their own flexible instruments of crisis management. Usually regional financial mechanisms carry out the tasks of the participating countries' balance of payments and budget support and the crisis consequences overcoming. High speed of development and good performance of some RFMs led to a significant increase in their weight in the global financial architecture and global financial safety net. Therefore, the current global financial safety net obtains the form of a four-level structure that includes: 1) national reserves; 2) bilateral swaps; 3) regional financial mechanisms; 4) the IMF.

The reasons for RFM establishment in each case varied considerably, ranging from dissatisfaction with the functioning of global financial architecture and international financial institutions to the need to involve significant financial resources at the regional level.

Today such financial mechanisms operate in almost all regions of the world, in particular the following regional initiatives are considered to be the most developed ones:

- Arab Monetary Fund (AMF) (Algeria, Bahrain, Djibouti, Egypt, Jordan, Iraq, Yemen, Qatar, Comoros, Kuwait, Lebanon, Libya, Mauritania, Morocco, UAE, Oman, The State of Palestine, Saudi Arabia, Syria, Somalia, Sudan, Tunisia);
- The Chiang Mai Initiative Multilateralization (CMIM) (Brunei, Vietnam, Hong Kong, Indonesia, Cambodia, Republic of China, Laos, Malaysia, Myanmar, Singapore, Thailand, Philippines, South Korea, Japan);
- The European Stability Mechanism (ESM) (Eurozone countries);
- Fondo Latinoamericano de Reservas (FLAR) (Bolivia, Venezuela, Colombia, Costa Rica, Peru, Uruguay, Ecuador);
- North American Framework Agreement (NAFA) (Canada, Mexico, United States);
- South Asian Association for Regional Cooperation (SAARC) (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka);
- Contingent Reserve Arrangement of the BRICS (CRA) (Brazil, Russia, India, China, South Africa);
- The Eurasian Fund for Stabilization and Development (EFSD) (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan).

The oldest regional financial mechanisms that operate today were established about 40 years ago by Arab (Arab Monetary Fund) and Latin American countries (Fondo Latinoamericano de Reservas). The youngest RFMs are created by European countries (The European Stability Mechanism) and BRICS countries (Contingent Reserve Arrangement). Dealing with approximately the same problems, modern RFMs nevertheless differ significantly in terms of peculiarities of the participating countries cooperation and used tools,

as it is shown in Table 1.

The tools of interaction between participants of the RFMs may range from simple financing facilities in the form of loans, grants, financial assistance and bilateral swap agreements to the creation of a multilateral swaps system.

*Table 1*

**Regional financial initiatives**

Regional financial initiatives	Year of foundation, the number of member states	Main tasks	Essence of the mechanism and its financial instruments
Arab Monetary Fund	1976 (22)	The member countries payments adjustment and harmonization; the fight against payment restrictions between the members of the Fund; the improvement of monetary cooperation; promoting the development of Arab financial markets; the development of trade relations within the Arab League.	Main facilities: 1) financing the state budget deficit of the participating countries; 2) the reservation of funds for the sectoral reforms.
Fondo Latinoamericano de Reservas	1978 (7)	Maintaining the balance of payments of the participating countries by providing loans and/or loan guarantees; improving conditions for international reserves investment by member countries; promoting the harmonization of exchange rates, monetary and financial policies of the Member States.	Multilateral swap mechanism: 1) management of part of the foreign reserves of the participating countries; 2) encouraging the introduction of conditional credit lines to limit the susceptibility of developing economies to financial crises.
South Asian Association for Regional Cooperation	1985 (8)	Ensuring cooperation between member states in the social and economic sphere.	The system of bilateral swap agreements.
North American Framework Agreement	1994 (3)	Development of the financial aspects of the integration of Member States by means of making parallel financial agreement to the North American Free Trade Agreement	The trilateral swap agreement.
The Chiang Mai Initiative Multilateralization	2009 (14)	Maintaining countries' foreign reserves and facilitating the work of other multilateral financial mechanisms and institutions such as the IMF	The system of multilateral swaps.
The Eurasian Fund for Stabilization and Development (before 2015 – EurAsEC Anti-Crisis Fund)	2009 (6)	Assistance to Member States to ensure the long-term economic and financial stability and development of their economic integration.	Main facilities: 1) financial loans; 2) investment loans; 3) grants of EFSD net profit share for financing government programs in the social sphere.
The European Stability Mechanism	2012 (19)	Providing financial support to the Eurozone countries in case of financial difficulties.	Main facilities: 1) stabilization loan in the framework of macroeconomic adaptation program (sovereign loan); 2) bank recapitalization program; 3) preventive financial assistance; 4) primary market support; 5) secondary market support.

Contingent Reserve Arrangement of the BRICS	2014 (5)	Preventing and overcoming short-term balance of payments crises by arranging the currency swaps between the central banks of the Member States.	The system of bilateral swap agreements.
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**Note.** Compiled by the author based on [1-4]

In terms of number of participating countries existing regional financial mechanisms also vary considerably. The most numerous are now the Arab Monetary Fund and the European Stability Mechanism, the smallest initiative by number of the participants is the North American Framework Agreement.

The size of the countries forming regional financial mechanisms can also differ. For instance, the Fondo Latinoamericano de Reservas (Latin American Reserve Fund) is a tight little community, which includes seven small and medium-sized economies that are connected by strong socio-cultural and economic ties and a wide range of common economic interests. In addition to creating FLAR these countries for the past 60 years managed to implement clearing mechanisms for intraregional settlements and to establish two banks for development.

Moreover, even members of one regional financial initiative may differ in the size of the countries. In particular, among 14 countries that form The Chiang Mai Initiative, the share of China, Hong Kong and Japan accounts for 64% of the financial contributions to the ASEAN + 3, reflecting the significant weight of their economies. Given the size of these countries they act mainly as donors, not the borrowers. Meanwhile, the share of their quotas emphasizes the important function of regional financial mechanisms as a means of managing regional secondary effects and settling consequence of the problems arising outside the region. Using capabilities of the regional financial mechanism allows to balance internal regional trade and investment flows disproportion that immersed as a result of problems in the small and medium-sized countries, and therefore to achieve stability of regional development.

Another advantage that countries receive from the creation of RFM is enlargement of the opportunities for them to access cheaper financing. For instance, the Latin American Reserve Fund has a higher credit rating in comparison with individual Member States, so that it can attract funds on financial markets at lower prices and distribute the resources received in accordance with regional needs and priorities.

In the process of RFMs operating their tasks and functions often overlap with the activities of international financial institutions, particularly the IMF. In order to improve global financial safety net it is necessary to achieve a clearer harmonization of the IMF and the RFMs activities and the distribution of powers between them. Taking into account the relatively small size of the financial resources available in regional financial mechanisms, it is advisable for them to act before crisis development or in its early stages, when the cost of anti-crisis measures implementation is lower. Implementation of the IMF program may need more time and should be used in terms of inefficiency of measures provided by regional mechanisms.

In addition, the RFMs should focus on maintaining relatively small countries that do not feel a constant need for finance and which economic crises will have no noticeable effect on the economy of the region or the world economy as a whole. On the other hand, the IMF is able to work with large countries, where the implementation of anti-crisis measures is more expensive and the financial imbalances can significantly affect the global financial architecture.

Thus, the optimum direction of strengthening global financial safety net is further development of its regional component in the form of regional financial initiatives and intensification of interaction between global and regional financial mechanisms. Existing

RFMs have already proven their importance in terms of their role in the promotion of integration cooperation in the regions as well as from the perspective of their contribution to anti-crisis settlement of countries' financial imbalances.

Taking into account the intensive development of regional integration processes, particularly in the financial sector, most likely, further consolidation of regional financial mechanisms and growth of their role in the global financial architecture can be expected in the future. Prospects of creation of new regional financial initiatives in the world and directions of existing regional financial mechanisms modification can be the subject of further research in this respect.

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## **РЕГІОНАЛЬНІ ФІНАНСОВІ МЕХАНІЗМИ ЯК КОМПОНЕНТ ГЛОБАЛЬНОЇ МЕРЕЖІ ФІНАНСОВОЇ БЕЗПЕКИ**

*У статті встановлено передумови створення, завдання діяльності регіональних фінансових механізмів та визначено їх місце у глобальній мережі фінансової безпеки і у антикризовому регулюванні регіонального розвитку. Досліджено специфіку функціонування та здійснено порівняння найбільш впливових сучасних регіональних фінансових ініціатив. Розглянуто фінансові інструменти, що використовують регіональні фінансові механізми при виконанні поставлених перед ними завдань. Визначено переваги створення регіональних фінансових механізмів та напрями узгодження їх діяльності з іншими складовими глобальної мережі фінансової безпеки.*

**Ключові слова:** регіональні фінансові механізми (ініціативи), регіональна інтеграція, глобальна мережа фінансової безпеки, своп-угода, міжнародні фінансово-кредитні установи.

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## **РОЗВИТОК МІЖРЕГІОНАЛЬНОГО СПІВРОБІТНИЦТВА МІЖ УКРАЇНОЮ ТА ПОЛЬЩЕЮ**

*У статті розглянуто різні аспекти міжрегіонального співробітництва України та Польщі. Визначено, що головною метою міжрегіонального співробітництва є спільні дії учасників з приводу розвитку багатосторонньої, гармонійної співпраці між територіальними громадами, мінімум двох регіонів, що не обов'язково мають спільні кордони. Україна сьогодні залучена до багатостороннього міжрегіонального співробітництва у тому числі транскордонного. Досліджено розвиток українсько-польського міжрегіонального співробітництва у декількох площинах.*

**Ключові слова:** міжрегіональне співробітництво, зовнішньоторговельне співробітництво, інвестиційне співробітництво.

Поглиблення європейської інтеграції зумовлює формування цілей регіональної інтеграції в Україні відповідно до кожного рівня на якому відбувається її реалізація: внутрішньорегіонального, міжрегіонального, а також міждержавного. Слід підкреслити, що роль держави у формуванні та реалізації стратегії регіонального розвитку України з огляду на постійне посилення впливів інтеграційних процесів повинна зростати. В новій геополітичній ситуації, що склалася останнім часом в світі, для реалізації стратегії ефективного розвитку Україна повинна спиратися на активну позицію регіонів. Розширення функцій регіонів в реалізації процесів міжнародної інтеграції може дати позитивні результати за умови оптимізації економічних зв'язків