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# WORLD MONETARY CENTRES AT THE STAGE OF GLOBAL FINANCIAL INSTABILITY: RISKS, CHALLENGES AND PERSPECTIVES

The paper analyzes origins, challenges and risks, associated with global financial transformations and the aggravation of the national currencies competition, in order to improve the understanding of the changes, taking place in this sphere, and to determine prospects for the development of the world financial system. It is substantiated that, taking into account the actions of global fundamental factors (populational, civilizational, technological, allocative and financial) in the long term, the financial situation on the planet will remain unstable.

Based on the application of the developed concept of the economic and monetary potential, it is grounded that in the medium term the world is likely to be generally divided into (if you ignore the British pound and the Japanese yen) the unstable predominant areas of US dollar (relatively stable), euro (decreasing), and RMB (increasing). The Russian ruble will remain on the world periphery and the potential growth of its influence will only be of a regional character. In general, the world will move to a multipolar financial architecture, the formation of which is connected with the "warming up" of new hotbeds of financial strains.

Nevertheless, the US dollar will still remain the world's leading currency for a long time (at least until the 2030s), due to the high political, military and economic influence of the USA, the relatively balanced monetary flows sources, the orientation of the economy on the large internal market, rather than on volatile external markets, as well as taking into account the "path dependence", in this case – the benefits of using the US dollar from the minimizing transaction costs standpoint.

The paper also substantiates, that in the medium-term agenda, despite the fact that the leading central banks managed to pacify the global crisis of 2007-2008, to improve the prospects for the developed economies and to begin the processes of normalizing the monetary policy, there remain the following questions of: distorted financial asset values and high risks in the non-financial sector, which is being restructured on cyber-physical technologies; persistently low interest rates in many developed countries; overheated credit and securities markets; high levels of global and national debts; targeted use of national currencies in order to achieve unilateral trading advantages, new challenges, related to the restructuring of the financial intermediation sector under the influence of fintech, etc. This is exactly the modern "financial normality", under which turbulent processes of shaping the new political and economic structure of the world will take place in the forthcoming years.

*Keywords:* global financial instability; monetary policy; currencies struggle; new "financial normality".
JEL codes: E52, E58.

Rather than declining, according to the International Monetary Fund (IMF), global financial risks are only increasing in the medium term, which, combined with the transformation of the global industrial structure and aggravating political contradictions, makes countries and markets more vulnerable to external and internal shocks [1]. Moreover, the situation can be exacerbated in view of recent events involving accusations against a number of world's leading countries of using their national currencies in order to achieve unilateral trade advantages [2].

The global financial instability must have become chronic. At first, during the Scandinavian banking crisis in the early 1990s it was seen as an accident, later on during the Asian financial crisis in 1997-1998 it showed as a symptom, and finally it became a dangerous disease in time of the financial crisis of 2007-2008 in North America, that shortly developed into global recession. In terms of the slow global economic growth (less than 3% in 2014-2016) the current outrunning of the credit growth in the US, EU and Japan, as well as in a number of developing countries, aimed at maintaining the consumer demand, can cause yet another financial turmoil at any time. According to the experts from McKinsey&Company, "Seven years after the bursting of a global credit bubble resulted in the worst financial crisis since the Great Depression, debt continues to grow. In fact, rather than reducing indebtedness, or deleveraging, all major economies today have higher levels of borrowing relative to GDP than they did in 2007. Global debt in these years has grown by $57 trillion, raising the ratio of debt to GDP by 17 percentage points. That poses new risks to financial stability and may undermine global economic growth" [3].

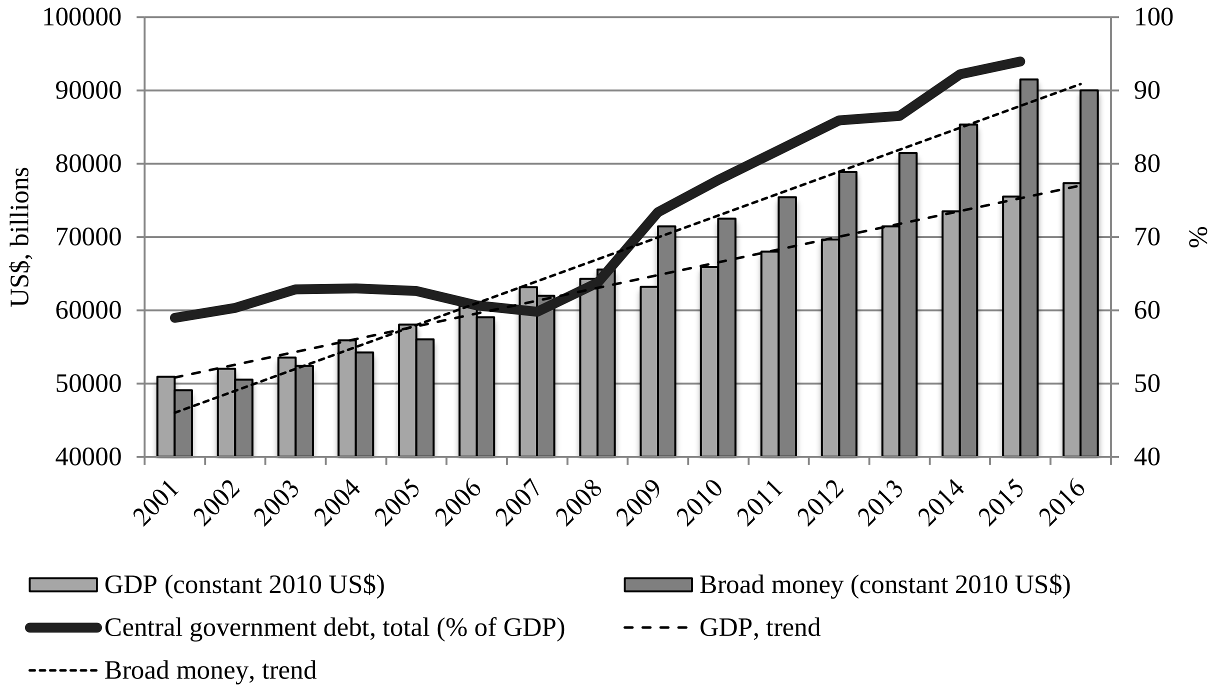
It is becoming yet more obvious, that recurrent financial crises are not a random problem, emerged under unfortunate occurrences, but is the intrinsic property of the modern world at current stage of its development.

The root of this lies in the following fundamental factors of global instability: populational factor – limitations in human development with the growth of population and the depletion of natural resources, necessary for its sustainable reproduction [4, p. 45]; civilizational factor – an uneven global demographic dynamics, decreasing potential of Western civilization and increasing potential of non-Western civilizations (the Chinese, Hindu, Islamic civilizations) [5, pp. 46-60]; technological factor – a change of dominant technological modes with the transition to the production, based on the cyber-physical systems and blending of enabling technologies, blurring the boundaries between physical, digital and biological spheres [6]; allocative factor – shifting global production capacities to developing countries, which led to fundamental shifts in savings and investment [7, pp. xi-xii]; financial factor – rapid development of global financial markets and a dramatic increase in the mobility of international capital flows [4, pp. 46-47].

The abovementioned factors are, obviously, of different time, field and power of influence, and their impact is ambiguous, but in a complex and taking into account the growing gap between global production growth rates and money supply, they form, as the experts note, such a situation of a "new normal" [8; 9], in which there is no chance for the situation in the global finance to be alleviated in medium term [1].

In order to find possible solutions to this set of problems it is necessary to continue the special study of the new financial normality phenomenon, given the particular significance of the relationships in the real and monetary spheres. To this end, the paper presents the analysis of the origins, challenges and risks, associated with the global financial instability and the national currencies struggle, aimed at improving the understanding of the changes, taking place in the global financial system in the face of new technological revolution.

Over the recent years, despite the slowdown in the world GDP growth, the money supply and central governments debts have been increasing rapidly (Fig. 1).




Source: The World Bank, World Development Indicators

*Fig.1 Comparative dynamics of the global economy, money supply growths and central government debt*

In reality, we should prepare for new manifestations of global financial instability, and to find appropriate responses to emerging circumstances of the world, regional (regions of the world), and national economies development.

Cash and liquidity (highly liquid assets) are, metaphorically speaking, the blood of the economic system. And like human blood examination helps to identify the disease correctly, an analysis of cash and those monetary arrangements of economic development, applied by the world's major players, is an important step on the way to the correct conclusion about the state of the issue, the essence and ways of solving emerging problems in the global economy, where the civilizations clash, countries fight for power and limited resources, financial bubbles appear and collapse, sending the waves of financial instability all over the world.

Nowadays there are several influential centres, which generate cash and liquidity flows of different capacity and quality – these are the leading countries of the West and East, but in this paper we deal only with those, which, in our opinion, are of greater interest from the economic diagnostics standpoint. Those are the leaders of global West – the USA (the dollar area) and the EU (the euro area), global East – China (RMB area), and also the huge Eurasian country– Russia (the ruble area).

Now the leaders of the global west – the US and the EU – are the centres of global capitalism as well as the world's leading monetary centres. It is the West where main international financial institutions were established, such as IMF and the International Bank for Reconstruction and Development (IBRD, the World Bank) [10]. According to the Society for Worldwide Interbank Financial Telecommunications (SWIFT) the activity share of the US Dollar ($), which is the global most used currency, exceeded 40%, and that of the Euro (€) account for about 30%, that is in total over 70% of global transactions (by costs). The main source of cash and liquidity of these economies is capital in the sense that the middle place in money-commodity-money (M-C-M) chain, which determines natural growth limits of the fiat money supply[1], is mostly taken by capital-intensive products [11, p. 40].

The leading country on the global East – China – is a rapidly developing monetary centre, the growing power of which is based on its leadership in global production of material goods. The RMB (¥) activity share is relatively small and corresponds to nearly 2% (December 2016) and therefore takes the 6th place in the world. However, for example, in operating the documentary credit transactions, which are widely used in Asian trade financing, China has already taken the 2d place after the USA. The main Chinese source of cash and liquidity is labour, because the middle place in M-C-M chain, which determines natural growth limits of the money supply, is mostly taken by labour-intensive products [11, p. 40]. It's not surprising, as long as China is the world labour force leader (more than 800 million people).

And finally, Russia – the link between East and West – is a country of the size of a continent (over 17 billion square km) and has the largest territory on Earth. The Russian Ruble (₽) is not listed among the main currencies, as it operates less than 0.5% of world payments. Nevertheless, the Russian monetary arrangement analysis is of great interest, at least for two reasons.

Firstly, the political and economic reason, that is the growing global influence of Russia. The Russian Federation managed to recover after the USSR had collapsed, to save and upgrade the substantial military force, which is now ranked the second place globally [12]. Russia is among the top 5 of world emerging economies – the BRICS group, positioning itself as an alternative centre of power, including a monetary one[2].

And secondly, the natural resources: Russia is enormously rich in mineral resources, especially in hydrocarbons – highly

[1] On the one hand, it is important to emphasize that there is no direct functional link between real and monetary variables, but, on the other hand, they cannot be considered independently. In philosophical terms, there is more of an essential coordination between them, the indissociability, parameters of which vary depending on the circumstances, time and place, and path dependence. And, moreover, the great importance is given to the restrictions put on a relation sign, i.e. the apparent condition of sustainable economic systems development is such dynamics, in which the monetary variables growth is accompanied by increasing (not decreasing) real variables.

[2] In July 2014 the BRICS countries signed the agreement for setting up the BRICS New Development Bank, which was designed to be an alternative to the World Bank and the IMF [13].

marketable goods of strategic importance for the modern economy. Thus, the main Russian source of cash and liquidity is natural resources, because the middle place in M-C-M chain, which determines natural growth limits of the money supply, is mostly taken by resource-intensive products [11, p. 40].

Traditionally, the largest part of Russian hydrocarbons export goes to the EU countries. Recently, however, things start to change. In May 2014, the Russian PJS Gazprom and China National Petroleum Corporation (CNPC) have signed a 30-year contract for supply of up to 38 billion m3 of the Russian gas to China per year. During the lifetime of this contract over 1 trillion m3 of gas is to be delivered to China which means to be the largest Gazprom deal [14]. Also, intense cooperation is developing in other areas.

Given the vast resources of these countries, eventually new global coalition can challenge the global West, including monetary sphere. As noted by the USA experts, "the Russia-China Alliance – we call it the new Axis – is already extraordinary powerful, as it is evident not only from the new economic and trade agreements and military cooperation, but also from the spheres of nuclear proliferation and cyber warfare. Both together and separately Russia and China seek to undermine social, economical and political foundations of the democratic societies and our unions in a way that is yet to be fully comprehended" [15]. However, China and the Russian Federation themselves believe, that their relations are at the best stage in the whole history [16]. All this, in turn, has a profound and multilateral influence on the global economic processes in general and the trends in the new financial reality evolution in particular.

In political and economic terms, the modern world, for many reasons, has become multipolar, and now the United States and the West in general are not the world's only centres of power. According to Patrick J. Buchanan[1], "Toward the end of the presidency of George H.W. Bush, America stood alone at the top of the world – the sole superpower… Consider now the world our next president will inherit. North Korea, now a nuclear power ruled by a 30-something megalomaniac, is fitting ballistic missiles with nuclear warheads. China has emerged as the great power in Asia, entered claims to all seas around her, and is building naval and air forces to bring an end to a U.S. dominance of the western Pacific dating to 1945. Vladimir Putin is modernizing Russian missiles, sending ships and planes into NATO waters and air space, and supporting secessionists in Eastern Ukraine. The great work of Nixon and Reagan – to split China from Russia in the "Heartland" of Halford Mackinder's "World Island", then to make partners of both – has been undone. China and Russia are closer to each other and more antagonistic toward us than at any time since the Cold War" [17].

However, as for the monetary system, it still remains western-polar, and seems to be stuck in the Bretton Woods system, the western rules-based world order – underpinned by the IMF and the World Bank, with the US dollar in its heart – that emerged after World War II and institutionalized America's geopolitical supremacy [18]. As already mentioned, the major western currencies – the US dollar and the euro – account for the majority of all international payments in the world (at cost). The US dollar and the euro are the leading global reserve currencies – more than 80% of global foreign exchange reserve assets are denominated in them [19]. At the same time, ac-

[1] Patrick Joseph Buchanan (born 1938) is the well-known American politician and political commentator, worked as the special assistant to R. Nixon, as the adviser to G. Ford, and served as Reagan White House Communications Director.

cording to the World Bank, the combined share of the US and the EU engagements in industry, which is the engine of innovative development of the world economy, is now about 30%.

Currently, this monetary world order does not work properly. According to J. Stiglitz, Nobel Memorial Prize laureate in Economics, "Right now, the world suffers from insufficient aggregate demand. Financial markets have proven unequal to the task of recycling savings from places where incomes exceed consumption to places where investment is needed. When being the Chairman of the US Federal Reserve, Ben Bernanke mistakenly described the problem as a “global saving glut”. But in a world with such huge infrastructure needs, the problem is not a surplus of savings or a deficiency of good investment opportunities. The problem is a financial system that has excelled at enabling market manipulation, speculation, and insider trading, but has failed at its core task: intermediating savings and investment on a global scale" [20].

To overcome the consequences of the global financial crisis, to maintain demand and to prevent deflation, the US monetary authorities (and then the EU and Japan) launched new innovative liquidity injection and the money cost reduction for their countries programme. At this time, the US Federal Reserve System’s extensive discretionary actions expanded beyond merely controlling the money stock, so this practically became "… a gigantic, financial central planner" [21, p. 486].

Such monetary policy, on the one part, allowed breaking the unfavourable economic trends: for instance, after the financial crisis of 2007-2008 the USA started creating new jobs, reduced unemployment and raised consumption rate, investment, R&D spending [22]. According to the World Bank’s data, the average economic growth rates in the USA in 2010-2016 were over 2%. In 2014 the EU countries (member states of euro area) also reached the positive growth rates.

Yet, on the other part, it creates new challenges.

The thing is that the value of money is information of fundamental importance for the market economy that regulates business processes, primarily – investments. The planned large-scale money depreciation leads to an artificial rise in the value of assets (low interest rates increase the return on shares, corporate bonds, real estate and other assets, pushing the value), encourages enterprises into critical debts, reduces the borrowers' quality and distorts economic data for investors. All this has long-term negative consequences and increases the possibility of other financial bubble occurrences. In such situation investment flows can be directed to projects which normally would not be considered as attractive, or to dealing for stock prices and speculations. But industry sector with a moderate return for capital employed, which is a built-in innovation generator in the economy, wins little from this. Another reason for that is that financial capital, boosted by the quantitative and credit-easing policy, can choose where to invest, while avoiding excessively risky compared to the expected return investments, when production capital, which depends on the previous path of development, has to seek for technical solutions and financial resources within narrowly defined frames [23, p. 105].

It should also be taken into account, that monetary and other measures of overcoming the recession, taken by the governments of many developed countries, exhausted their supplies of anti-crisis policy tools, because the interest rates of the central banks are of nearly zero value, and the public debt and budget deficits in many countries have not decreased, but increased, reaching the alarming proportions. As noted in The Economist (2015 "The Bank of England's base rate sits at 0.5%. Records dating back to the 17th century show that, before 2009, it had never fallen below 2%; and futures prices suggest that in early 2018 it will still be only around 1.5%. That is healthy compared with the euro area and Japan, where rates in 2018 are expected to remain stuck near zero. When central banks face their next recession, in other words, they risk having almost no room to boost their economies by cutting interest rates. That would make the next downturn even harder to escape" [24].

Finally, it is important to emphasize, that due to the peculiarities of the current monetary order such actions of the US Federal Reserve System have global impact: "Printing dollars at home means higher inflation in China, higher food prices in Egypt and stock bubbles in Brazil. Printing money means that U.S. debt is devalued so foreign creditors get paid back in cheaper dollars. The devaluation means higher unemployment in developing economies as their exports become more expensive for Americans. The resulting inflation also means higher prices for inputs needed in developing economies like copper, corn, oil and wheat. Foreign countries have begun to fight back against U.S.-caused inflation through subsidies, tariffs and capital controls; the currency war is expanding fast" [25, p. 9].

In general, all this testifies to the fact, that globally the major financial intermediaries appeared to be "short-sighted" and lacking professionalism. They learned well how to solve the current problems of monetary regulation of national economies (from time to time puffing both local and global financial bubbles). Regarding the global real investment financing – in this respect the situation is much worse. This is point one.

Point two is that in the existing world order the new world centres of political and economic power (above all China, the economic and monetary potential[1] of which is growing at a higher rate – Fig. 2) are limited in their international monetary power (Fig. 3).

It appears that in this regard they are dependent on the external forces and the impacting external economic environment, and are unable to control the global situation in accordance to their increased potentials, but each time are forced to seek ways of calming the new emerging from the outside "tsunami waves" of financial and economic instability.

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[1] Economic and monetary potential is an indicator for characterizing the commodity-cash flow capacity of the country, a kind of working capital, which takes into account only the turnover. The latter varies in different countries, because along with the broad money it uses the GDP, resulting from the annual money circulation.

Therefore, the following formula is offered:

$$P_i = (G_i M_i)^{0,5},$$

where $G_i$ is the GDP (the value of final goods produced and sold during the year) of the country $i$;

$M_i$ is the broad money (M2), which served the production and sale of these products in the country $i$ over the year.

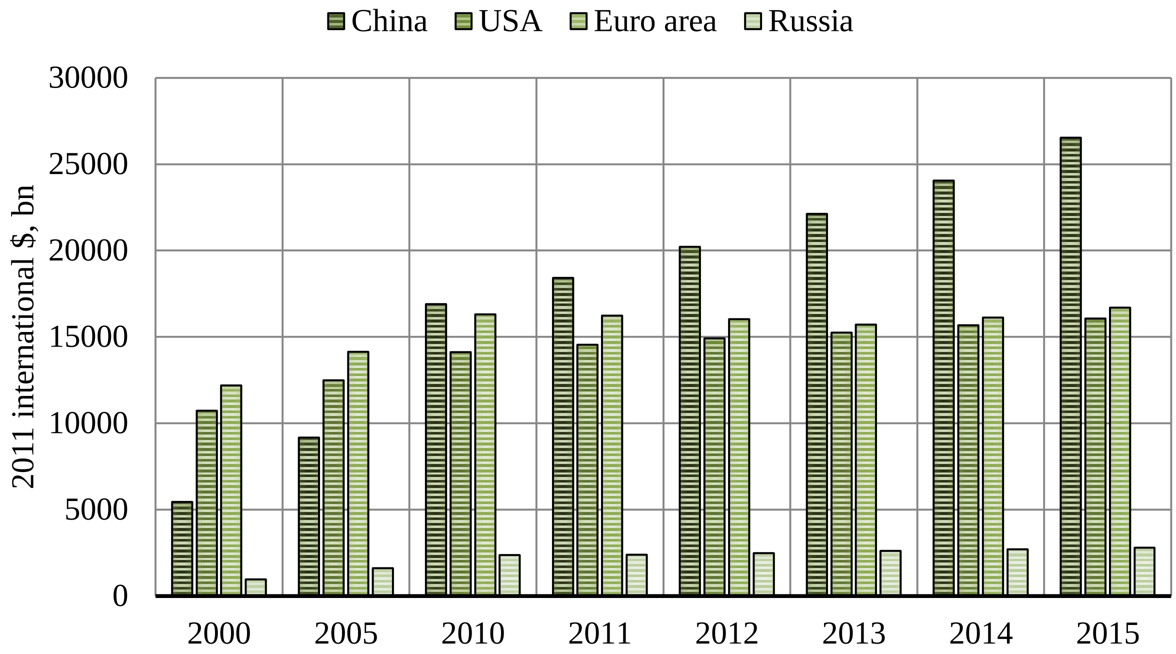
International payments only use the $x_i$ part of the broad money, let it be called $M_{xi} = M_i x_i$. Circulating $M_{xi}$ serves a certain amount of $k_i$ of the total annual value *W* of the international payments sum of

$$M_{xi} v_i = W k_i,$$

where $v_i$ is the broad money circulation speed (circles number) in the country *i*.

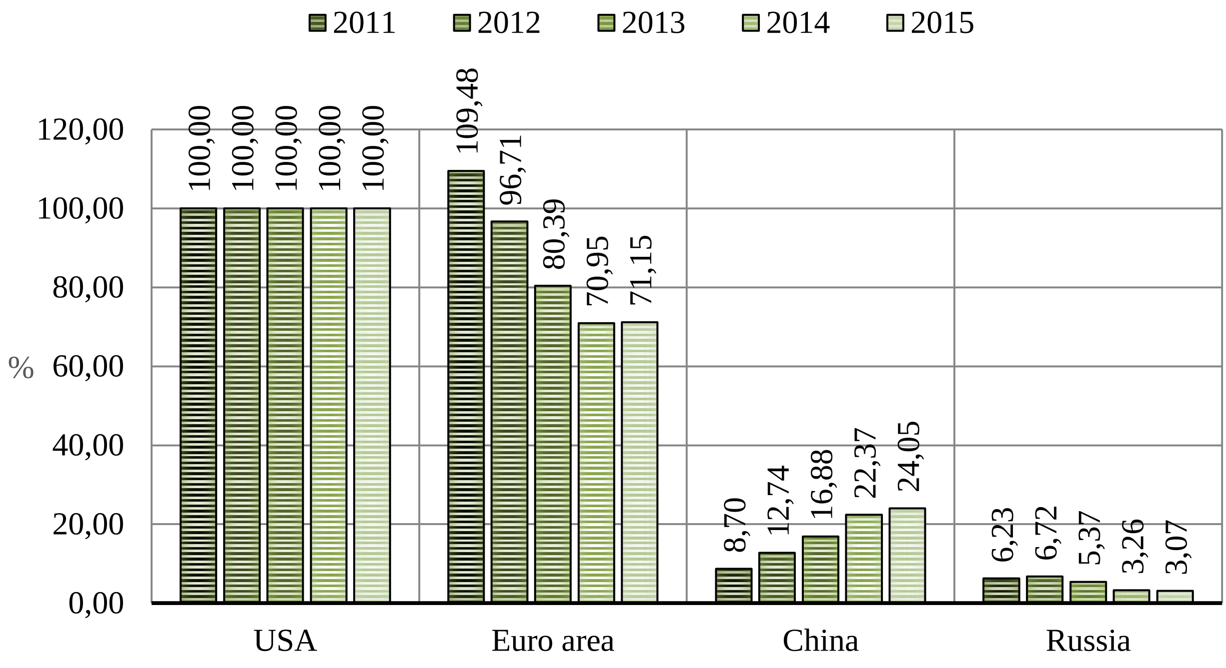
Then the realized potential, taking into account that the currency of the country serves only a part of international turnover, is accounted for $\widehat{P}_i = (G_i W k_i)^{0,5}$, and the comparative economic and monetary potential of the country *a* to the country *b*, considering different levels of international payments involvement is accounted for

$$\widehat{P}_{a/b} = (G_a W k_a)^{0,5} (G_b W k_b)^{-0,5} =$$
$$= (G_a k_a)^{0,5} (G_b k_b)^{-0,5}.$$




Source: calculated on data from The World Bank, World Development Indicators

*Fig.2. The absolute economic and monetary potential of different world monetary centres (the root of the GDP to M2)*




Source: calculated on data from The World Bank, World Development Indicators; SWIFT Annual Review.

*Fig.3. The comparative economic and monetary potential of different world monetary centres, having regard to the currencies' participation in the international settlements*

But the new world centres have been already disagreed with this global state of affairs and will hardly support it voluntarily in the future. Practically it means the currency competition.

The example is the major world commodity-money "USA-China" link.

In the globalized world the production capacities are mostly placed in countries with the lowest costs, trained labour force, access to raw materials and modern technologies (that is now the case in China). In these conditions, the policy of the leading global power centre, which is also the leading global liquidity centre (the US Federal Reserve System), imposes the constraints on the policies of all other power centres, and the consequences are often hard to predict. For example, the "helicopter drop of money"[1] that is the "quantitative easing", used by leading developed countries by repurchasing government obligations on the secondary market (from banks), and the "credit easing" by repurchasing at certain segments of markets the commercial papers, corporate bonds and asset-backed securities, may lead to bringing the inflation to its normal, conduce the reshoring and instigate the issuers' performance, as well as to a deflation and further stagnation of country's industry, only if mass production of commodities is stuck in offshore.

The reasons why it can stay there are as follows:

(1) Inertia. The relocation of production is associated with the costly (including transactional costs) leaving of one production location and entering the other. The productive capital "is basically tied to concrete products, both by installed equipment with specific operational capabilities and by linkages in network of suppliers, customers or distributors in particular geographic locations" [23, p. 105]. So, taking the full costs into account, the relocation process is not so easy to implement, even if the task is set by politicians[2];

(2) Despite the increase in costs in the offshore, a safety margin in the form of lower wage costs (at global competitive prices for equipment, raw materials and their method of connection – technology) can be quite big. For example, the Chinese wages increase, even double, which however would not make it equal to the American level, but with the availability of low-wage labour force would create additional incentives for all the new layers of workers in unproductive areas, to involve in more productive and lucrative sphere of industrial manufacturing, thereby heating up the economy through investments in mass labour force relocation and allocation (which is the case in China, where only over 3 years (2011-2013) more concrete on the new buildings had been spent, than in the United States over the whole 20$^{th}$ century [27])[3];

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[1] The metaphor by M. Friedman, characterizing the peculiar monetary policy of combating the deflation, which was used in one of his speeches by the former US Federal Reserve System's chairman B. Bernanke, for which he was dubbed the Helicopter Ben [21].

[2] The typical example is from the USA. In 2012, during the meeting with the heads of the US leading technology companies, Barack Obama asked Steve Jobs, if it was possible to transfer the Apple production back to America. Jobs responded that it was impossible and those jobs would not be coming back ("Why can't that work come home? Mr. Obama asked. Mr. Jobs's reply was unambiguous. "Those jobs aren't coming back," he said"). The main reason for that is the modern USA infrastructure and labour force does not meet Apple's needs, and this situation cannot be changed in a quick way [26].

[3] It should be noted, however, that China's capabilities in this regard also are limited. Countries, with most population living in rural areas, really can steadily develop their economies for years at the expense of the rural workers and low salary rate, as the Nobel Prize winner in economics – A. Lewis – substantiated in the mid-1950s. But China, according to some experts, is showing signs that the economic processes reached the so-called Lewis turning point, when the labour force sources are running short and wages are growing rapidly. At least in 2005-2010 the increase in the number of the migrant workers from the countryside was at 4%, while in 2014 it amounted to only 1.3% [28].

(3) Compensating costs reduction on account of the scientific and technological advance: if technological order (techno-economic paradigm) is in deployment phase in the country, then the enhancements, hindering the imported inflationary costs growth, and/or significantly improving the quality of goods and services can be introduced with relatively low investments and a small-time lag. It should be borne in mind that the location of the generator of such innovations is turned towards the production location: science is gradually drawn to the industry, which forms a symbiosis of research and production. It happened so in the early 20$^{th}$ century, when the R&D moved from Europe to the former "workshop of the world", the United States, and so it happens at the beginning of the 21$^{st}$ century, when the R&D is gradually moving to the current "workshop of the world" – the East and South-East Asia.

In such circumstances, the newly issued currency goes into the hands of the sellers of offshore-originated products and through the adjustable floating RMB rates (which, according to the government, is of the China national interests) becomes the national currency injection, heating up its (China's) economy.

In order to sterilize the money inflows, keeping the inflation within normal range and preventing its conversion into an uncontrollable spiral, the offshore government can use three main options:

(1) to hoard capital into international liquidity, usually presented in form of debt securities issued by foreign governments (especially the US Treasury securities) and in gold [29];

(2) to invest outside China in the projects of critical importance for the national security (the production and supply of raw materials, the creation of new transport corridors for incoming and outgoing goods flows, etc.[1]);

(3) to invest money in the accelerated development of the national economy, involving the production processes (including the production of export goods, which bring increased proceeds in the domestic currency), in new layers of human and physical resources, creating new production facilities and infrastructure for them.

The results of these processes are as follows:

- the inflation export from the country of issue to the offshore production country;
- the inflationary heating-up of the offshore production, coming amid increasing import expenditures, which usually operates for the benefit of the competitive advantages of the issuing country; but, in the case of a particular set of circumstances (an X-case), the offshore production country may even reduce the product's selling price, for example, due to excess investment in the production facilities and infrastructure (which had taken place in China in the aftermath of the global financial crisis of 2007–2008) and/or due to increasing inno-

[1] For example, among such projects is the construction of the Nicaraguan *Canal*, about 300 km in length, the estimated cost of which is $50 billion. With this rival to the Panama Canal, Beijing expects to give a boost to the world shipping, which would stimulate the Chinese economic growth. The 5300-km railroad through Brazilian and Peruvian Amazon is expected to be the next megaproject, financed by China. Another project is the "One Belt, One Road" which should connect 65 countries with a combined population of 4.4 billion people. The railway is expected to begin in Xian, the West of China, where the ancient Silk Road began, and passing through the whole Central Asia, the Middle East, Russia, ending in Western Europe. Rich in mineral resources and raw materials, Africa still remains in the sphere of China's interest. For instance, in April 2015 the state-owned China Railway Construction Corporation (CRCC) signed a $3.5 billion contract in Nigeria and a $1.9 billion in Zimbabwe, in addition to the $12 billion contract to construct a railway through the state CRCC just signed in November 2014 [30].

vation productivity through accelerated development of the "production-science-production’" symbiotic system;

- growth of the public debt of the country of issue, that is, essentially, the transformation of central bank bills in the government bills, which are passed into the hands of external contractors, which get their hands on the levers of political and economic influence[1];
- an X-case – the offshore production country deflation export in form of new flows of bottom-of-the-line products, entering the country of issue [32; 33; 34].

Thus, in a globalized world an attempt to improve national finances in times of financial crisis with ‘money helicopters’ can in the end result in some national economy warming-up, and/or in the paradoxical offshore production development, the growing welfare of those employed there and offshore economy as a whole; in the growing trade balance deficit of the country of issue, which consumes on account of public debt, to repay which it can become necessary to sell out fixed assets, or to default, or to lose political and economic power (which is the most likely option).

It turns out that a lot of things critically depend not on money and monetary policy *per se*, but on the production location and the material development capabilities. But to let such production develop, it is first necessary to have one. Figuratively speaking, to let a tree grow, expanding its living space, firstly it must be planted and "established". There is always a problem, and, in practice, very few manage to solve it. But China and some other countries of the East and South-East Asia, still managed to do it. First, there appeared some free-trade zones in China, which grown up under a warm foreign investment "rain", which had fallen on the fertile ground of stable political institutions, thousands year old Confucian traditions and cheap labour force, and which now are gradually transforming into "self-fertile" symbiotic systems of research and manufacture: by the volume of financing the Chinese R&D is steadily catching up with the US R&D, surpassing all other countries of the world, and by the number of publications in scientific journals, China has already ranked second globally [35]. Although, of course, in this regard, it is still far from being well and a lot of steps remain to be done: despite the growing financing, improved training of scientific and technical personnel and modern scientific equipment, Chinese scientists have not yet succeeded in making Nobel Prize-worthy scientific breakthroughs, science and production remain disjointed and only a few research findings are brought to the level of innovative industrial technologies and products, and Chinese enterprises, with few exceptions, are still heavily dependent on foreign sources of key technologies [36].

Anyway, current global money helicopter is mainly controlled by one pilot, and the pilot (the US Federal Reserve System) is obviously acting for the interests of a single country, above all, for the interests of the USA, thereby, creating challenges and problems for many other countries. So, there is a fundamental contradiction between new rising power centres, which are of great strength economically and monetarily, but still do not have global monetary authority, and previously-established centres of power, which use their global monetary authority in their own interests because of momentum (but not as effective as before). Therefore, for example, China does not want to sit soaking wet in the foreign monetary rains, and aims to give weigh to the national cur-

[1] Many economists believe that the US dependence on foreign savings exposes the US economy to certain risks, and some also claim that the cheap capital inflows contributed to the property market financial bubble and the subsequent global financial crisis, which began in 2008 [31].

rency (Yuan) in terms of global monetary system. The same also applies to other new centres of power.

This paper investigates the current situation, problems and prospects of the development of the world powerful monetary centres: the US with dollar, the EU with euro, China with Yuan and Russia with Ruble (though there still exist such traditional centres as the UK with Pound, Japan with Yen, as well as the developing Hindu, Muslim and Latin American countries). At the same time, as noted above, with a certain degree of conditionality we can claim that in the US and EU fiat liquidity flows mostly rely upon capital-intensive productions (capital), when in China – upon labour-intensive productions (labour), and in Russia – upon resource-intensive productions (natural resources) [11, p. 40].

Every type of monetary flow in dynamics has its shortcomings: the capital-relying one (industrial and financial) has problems, related to the possible financial capital separation from the material production and the emergence of financial bubbles; the labour-relying one has problems, related to approaching the Lewis turning point; the natural-resource-relying one has problems, related to the prices volatility under technological advances and other factors.

Obviously, to ensure greater stability and liquidity for fiat monetary flows it is better to rely on a balanced set of sources (the available internal or external), that allows to overcome these problems easier and gives these flows the fundamental stability.

In this respect, the USA are in the best position: generally, all three sources are available – capital, labour and natural resources, although it is more of the financial capital (mainly equity-type of capital), than production capital, which, in fact, can result in financial bubbles and a weakening of confidence in US dollar and furthermore, the labour structure is gradually changed, bringing hard to predict, but likely negative consequences for the economy and monetary flows.

This is happening due to the dechristianization processes in the US (as, however, and in the EU countries), the disintegration of society into conflicting ethnic, confessional and other groups [37], the increasing number of Hispanic and Afro-American families, in the structure of the US population, the median income of which is traditionally lower than that of white, non-Hispanic families, and the higher unemployment [38]. By 2050, current non-white minorities (any race other than non-Hispanic, single-race Whites) will become the majority, and the proportion of the Hispanics can dramatically increase from the current 15% to 30% [39].

The situation is a little bit worse in China, which stands among the world leaders in terms of labour force, many of which has sufficient knowledge and skills to participate in the modern industry, and have amassed a capital powerful enough – both financial (as opposed to the US to a greater extent the bank capital, instead of the equity capital) and production, including many contemporary industrial technology, but are in relatively poor situation concerning its own natural resources.

And the situation is even worse in the EU, the member states of which are traditionally in possession of a significant capital, capable of generating innovation, again mostly the financial capital (and, in contrast to the US, mainly bank-type) than production capital, but have well known problems with natural and labour resources (including those related to the growing number of non-assimilated Islamic population [40]), and especially Russia, which has abundant natural resources, but obviously has its chronic problems, both labour issues (difficult demographic situation, the shortage of skilled engineering and working professionals), and capital issues.

The EU-Russia and China-Russia alliances are the speculative rivals to the US dollar. The first is unlikely to be realized in the current reality, including prevailing geopolitical trends and existing social and cultural differences. The potential of the second alliance is growing, but it is also not clear yet how it will be implemented. Russia with its natural resources and central location in the Mackinder's Heartland [41] is likely to maintain, if it is a success, good political relations and economic ties with both the West and the East.

Nevertheless, the improving access even to the part of natural resources and the extending transportation and logistics, scientific-technical and military cooperation with Russia [42] would stabilize Chinese economy and the RMB a great deal, so that over time they will be able to challenge the current monetary order.

The steps in this direction have already been made, e.g. the construction of new oil and gas pipelines, the cooperation between two countries in the fields of space and aviation, the participation of Chinese capital in investing into the Russian Federation [16], newly created international banks (Asian Infrastructure Investment Bank, the BRICS New Development Bank) with the participation of China, the Russian Federation, and others.

However, it is clear, that all this is unlikely to happen soon, especially since the USA and China are in the political and economic clinch, when in the case China sells large amount of the US Treasury securities, owned by them, the cost of the remaining will decrease dramatically, and any negative shocks to the US economy will lead to a drop-in demand for Chinese exports, with all the resulting negative socio-economic and political consequences [31].

Given the evident undesirability of such shock transformations, in the next decade the US dollar is likely to have no serious rivals, although, the euro continues to weaken (due to the lag of EU economy growth rate behind the world rate, natural resources issues and the increasing demographic, ethnic and sectarian tensions), the weight of the Ruble in the future may expand gradually through the Eurasian Economic Union (EEU) potential realization and the expansion of trade with China, but it will remain on global fringes, while RMB weight will continue to grow more quickly and in greater scale, provided that current trends (Fig. 2) last and China manages to maintain the political stability and to use natural resources and transit potential of other countries (including Russia – through the new Silk Road Economic Belt, as well as the countries of Africa and Latin America), and as its production capacity will be transformed into a strengthening of the monetary authorities in international economic relations.

The Chinese monetary system is already becoming yet more and more globalized: more than 50% of non-Chinese companies use RMB for payments outside greater China: in Singapore (74%); South Korea (59%); the euro zone (58%); the UK (57%), and North America (54%) [43, p. 7]. The companies, such as Daimler in Germany, Ford and General Motors in the US, have stated the RMB is now their second most-used currency [44].

Moreover, in October 2016, the RMB was added to the IMF basket of reserve currencies, and its share in the Special Drawing Rights (SDRs) currency basket was 10,92% (this is the third position, the US dollar had about 40%, and the euro's share had declined from 37,4% to 30,93%) [45].

On the one hand, the inclusion of the RMB in the SDR basket secures the process of its internationalization and leads to a further growth in demand for assets denominated in Chinese currency, from public and private investors. But on the other hand, all this is connected with the risks of impeding control over the exchange rate of the RMB, increasing its value and capital outflows, with all the complex consequences arising for the Chinese and global economy.

**Conclusions**

In the upcoming decades, the world is likely to be generally divided into (if you ignore the British pound and the Japanese yen) the unstable predominant areas of US dollar (relatively stable), Euro (decreasing), and RMB (increasing). So, apparently, in the next few years, the RMB will not be displacing the US dollar, but the US dollar and RMB will gradually replace the euro. The Russian rubble, as previously mentioned, will remain on the world periphery and the potential growth of its influence (including in connection with the predicted retention of Russia's positions in the top 10 of the world's leading economies for the long term [46]) will only be of a regional character.

US dollar will still remain the world's leading currency for a long time (at least until the 30s of the 21st century, to which the National Intelligence Council's forecast extends [47]), due to the high political, military and economic influence of the USA, the relatively balanced monetary flows' sources, the orientation of the economy on large internal market, rather than on volatile external markets, as well as taking into account the "path dependence" (in this case – the benefits of using the US dollar from the minimizing transaction costs standpoint[1]).

The high US national debt undoubtedly creates great risks to the US economy, but in the relative weakness of the economies of the euro zone and Japan, and strong demand for the reliable financial assets and the accumulation of foreign exchange reserves from the developing countries, this factor may play more to the maintenance of the US dollar leading role in the global financial system, than to its weakening.

The sphere and strength of the euro influence will continue to decline as Europe does not have a balanced source of monetary flows and is too weak politically and militarily, economically heterogeneous and institutionally divided to reliably attract them from outside and be effective at a global level.

With regard to the prospects for Chinese currency unit, striving for a fair representation in the global financial system, the sphere and power of the RMB influence, despite the obvious growth contradictions and difficulties (associated with the excessive debts of enterprises, large scale of shadow banking, stock market development, etc.), will increase[2]. Objectively, this is determined by the fact that China is already the second world economy and consistently expands its access to new technologies and the world's natural resources, in addition to the existing human and financial resources, as through the creation of new global transport corridors. At the same time, the RMB rates of potential realization as a world currency will depend on the China's successful policy in terms of the capital account liberalization, the greater exchange rate flexibility and financial market development, and, of course, the country's political stability and the efficiency of the country's economy.

However, everything indicates that the world will not remain monetary West-polar,

[1] The more popular one currency is, the more useful it is to those, holding it. And even if there is an incentive for someone to switch to the other less popular currency, they must first convince many other agents to switch to it before such a transition has a direct economic sense. These "switching costs" are one of the reasons why, for example, the pound is still widely used for international settlements, although the United Kingdom has long lost its leading position in the world [48].

[2] On the increasing role of RMB monetary power can be judged in how the Chinese decision to devaluate the RMB by several percent in August 2015 caused considerable reaction in the world, resulting in about $5 trillion loss for the global stock markets [49].

and not purely due to monetary, but to the fundamental political and economic reasons, since Western Christian world gradually retreats under the increasing pressure from the renewing themselves East and South, the growing Confucian, Hindu and Muslim civilizations.

In this regard, taking into account the fundamental factors of global instability (populational, civilizational, technological, allocative and financial), it can be expected that in the long term the global financial situation on the planet will not become more stable. In the medium-term agenda, despite the fact that the leading central banks managed to pacify the global crisis of 2007-2008, to improve the prospects for the developed economies and to move to curtailing the measures of the unconventional monetary policy (the US Federal Reserve) [50], there remain questions of: distorted financial asset values and high risks in the non-financial sector, which is being restructured on cyber-physical technologies; persistently low interest rates in many developed countries; overheated credit and securities markets; high levels of global and national debts; targeted use of national currencies in order to achieve unilateral trading advantages, new challenges related to the restructuring of the financial intermediation sector under the influence of fintech, which requires further special studies, etc. This is exactly the modern "financial normality" under which turbulent processes of shaping the new political and economic structure of the world will take place in the upcoming years.

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## ВСЕСВІТНІ ГРОШОВО-КРЕДИТНІ ЦЕНТРИ НА ЕТАПІ ГЛОБАЛЬНОЇ ФІНАНСОВОЇ НЕСТАБІЛЬНОСТІ: РИЗИКИ, ПРОБЛЕМИ І ПЕРСПЕКТИВИ

На основі застосування розробленого методичного підходу до оцінки економіко-монетарного потенціалу визначено ключові тренди сегментації світової фінансової архітектури. У середньостроковій перспективі (якщо абстрагуватися від британського фунта і японської ієни) вона буде представлена нестійкими зонами переважного впливу долара США – відносно стабільною, євро – що скорочуватиметься і юаня – що зростатиме. Російський рубль залишиться на світовій периферії, а очікуване посилення його впливу матиме переважно регіональний характер. Також визначено ключові ризики і виклики, що складають нинішню "фінансову нормальність", в умовах якої в майбутні роки буде формуватися нова політико-економічна структура світу.

*Ключові слова:* глобальна фінансова нестабільність, грошово-кредитна політика, боротьба валют, нова "фінансова нормальність".
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## ВСЕМИРНЫЕ ДЕНЕЖНО-КРЕДИТНЫЕ ЦЕНТРЫ НА ЭТАПЕ ГЛОБАЛЬНОЙ ФИНАНСОВОЙ НЕСТАБИЛЬНОСТИ: РИСКИ, ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ

На основе применения разработанного методического подхода к оценке экономико-монетарного потенциала определены ключевые тренды сегментации мировой финансовой архитектуры. В среднесрочной перспективе (если абстрагироваться от британского фунта и японской иены) она будет представлена неустойчивыми зонами преимущественного влияния доллара США – относительно стабильной, евро – сокращающейся и юаня – растущей. Российский рубль останется на мировой периферии, а ожидаемый рост его влияния будет иметь преимущественно региональный характер. Также определены ключевые риски и вызовы, составляющие нынешнюю "финансовую нормальность", в условиях которой в предстоящие годы будет формироваться новая политико-экономическая структура мира.

*Ключевые слова:* глобальная финансовая нестабильность, денежно-кредитная политика, борьба валют, новая финансовая нормальность.

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