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PROCESS OF FINANCIAL GLOBALIZATION AND ITS IMPACT ON BALANCE OF PAYMENTS

Abstract

The paper examines the impact produced by the financial globalization on creation and keeping of external imbalances. First of all, it concerns the liberalization of capital movements. Attention is drawn to the fact that external imbalances in these conditions have become a permanent phenomenon.

Key words:

Globalization, capital movement, balance of payments.

JEL: F60, F65.

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Problem statement. In recent years, globalization has become such a size that does not seem to have any realm of public relations, which would not be covered by this process. But one of the most affected or covered (depending on the attitude to this phenomenon) by globalization of the social and economic life refers, of course, the financial system. And even more: high levels of financial relations internationalization are considered to be not only the result of globalization, but they themselves are seen as instruments of globalization processes. That is, the financial system and the financial relationships serve as both objects and subjects of globalization.

However, under the influence of globalization processes financial imbalances become a constant phenomenon, which the forms of manifestation are:

- monetary and price disparity, and payment imbalances;
- external debt and unbalanced international liquidity;
- imbalances in global savings and investments;
- global fiscal gap, etc[1].

All these changes are reflected in the balance of payments, which is a key concept and tool of International Economics that systematizes and allows analyzing the relationship of the country with the outside world. Actually by studying the balance of payments it is possible to understand current macroeconomic problems not only in terms of the internal state of the country, but also in terms of multiple relations of the country with the international economy as a whole, and that provides a comprehensive analysis taking into account all aspects of national economic security. Balance of payments data reflect not only the development of foreign trade and its impact on production, employment and consumption, but also allow to track the process of attracting foreign investment and investing abroad, emerging and servicing the external debt, and more. Thus, the whole set of international economic relations of any country and the world community is reflected in its balance of payments.

Analysis of Main Researches and Publications. In economic theory, the concept of «balance of payments» was first used in the middle of the 17th century, when in 1767 James Stewart published «Inquiry into the Principles of Political Economy». At that, initially the concept of balance of payments implied only trade balance and the associated movement of gold.

[1] N. Kravchuk. Divergence of Global Development. Modern Paradigm for Creation of Geofinancial Environment. – Kyiv: Znannia, 2012. – P. 302.

The first official publication of the balance of payments was made in 1923 by the Ministry of Commerce in the United States. All operations of that balance were divided into three groups, namely: current capital and transactions in gold and silver. A major contribution to the development of the balance of payments methodology was made by the League of Nations, who in 1924 published balance of payments in series of countries, setting off the international comparison of its indices. In addition, the League of Nations in 1947 published the scheme of the balance of payments that had been developed by its experts. In 1943 American economist Larry D. constructed the US balance of payments for 1919–1939, and that work became the basis for the construction of balance of payments in the United States after the World War II. In 1947, the UNO published the balance of payments scheme developed by the League of Nations. Further, the International Monetary Fund continued the development of the methodology for constructing the balance of payments

Balance of payments problems were carefully studied by such famous foreign scientists as L. Abalkin, S. Borisov, S., M. Bruno, J Williamson, R. Dornbusch, B. Eichengreen, R. Clarida, L. Krasavina, P. Krugman, A. Makin, R. Mundell, J. Sachs, V. Shenaiev, M. Usoskin, and others.

National experts (T. Halchynska, A. Halchynskyi, A. Heiets, Z. Lutsyshyn, V. Lytvytskyi, O. Savchenko, and more) mostly consider some aspects related to the regulation of balance of payments (primarily, Ukraine 's balance of payments), and the complex analysis of balance of payments problems drew attention of only a few national experts (including A. Stavytskyi, V. Khomiak, O. Cherniak, V. Shevchuk).

The purpose of the paper is to analyze the development of globalization processes in modern global economy and determine their impact on the creation and keeping the external imbalances in order to understand the importance of constant external settlements imbalances for the modern economic system.

The main results of the study. The current phase of globalization is characterized by the emergence of a multipolar financial world: i.e. with the financial centers located virtually on all continents, active performance of transnational corporations and banks, and huge financial flows that do not know any limits both in time and in space (within our planet, of course). The analysis of financial flows shows that ***the huge balance of payments deficit of the United States, is funded by the rest of the world*** (the EU countries hold approximately «zero balance» in this process), largely on account of the developing countries, and those who export oil, and also of those with really emerging markets. Total amount of the U.S. debt (so called public debt, that is, the government debt instrument in relation to debenture holders of government bonds outside the public institutions – both internal and external) exceeds 16 trillion dollars, or 74% of the country's GDP.

However, in terms of GDP share the U.S. debt at the end of 2012 took the 35th place in the world, notably trading off the debt of Japan (219% of GDP), Italy (126%), France (89%), the UK (88%) and others[2]. It is symptomatic that among the principle creditors of the United States except Japan, Switzerland and some other countries of Western Europe, are China (1.2 trillion dollars*.), OPEC countries (0.3 trillion dollars), Brazil (0.3 trillion dollars) and other countries with emerging markets.

But in addition the foreign direct investments also in their economies also grew. And the crisis of 1998 had virtually no impact on the volume of foreign direct investments to the developing countries. Although the crisis of 2008–2009 resulted in a significant (10–15%) reduction in FDI, but still remained its rather high level at about 500 billion dollars, and the succeeding trend to grow was restored. Thus, in 2011 the volume of FDI received by the developing countries reached a new record high of 684 billion dollars[3]. In other words, capital flows also became multipolar (multiple-vector). We can see the same respectively the movement of goods and services. So far, the only movement of labor is directed mainly towards the more developed countries (U.S. and EU).

A measure of national control over the international capital movement is an attempt to protect against the risks associated with fluctuations in international capital flows. The control over capital is of particular importance in the context of a fixed exchange rate. Encouraging of such a regime can be complicated by a situation when there are unlimited capital flows available. This is one of the reasons why even the industrialized countries for a long time held the regime of control over the funds on capital account. In a country with a weak banking system permission to freely invest abroad can accelerate the outflow of domestic savings and jeopardize the viability of the banking system. Short-term capital inflows can be quickly turned in the opposite direction in case of emerging unfavorable economic conditions, thereby increasing the negative macroeconomic effects. Some developing countries use the system of capital control to strengthen its structure towards a growing share of more stable forms, such as FDI. Some countries also used the selective control of capital flows to facilitate the transition from short- to long-term inflows. (In case of Chile, where through introduction of indirect taxes on capital inflows the desired changes took place in less than a year).

On the other hand, the liberalization of the capital account can provide a more efficient global allocation of capital by channeling flows from industrialized

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[2] V. Supian. USA in World Economy: Projects for Keeping Leadership // USA-Canada: Economy, Politics, Culture. – №7. – 2013. – P.14

* Together with Taiwan (over 0.2 trln. dol.) and Hong-Kong (about 0.2 trln. dol.) the Chinese are crediting the American Government practically the same amount as its main creditor -the FRS (1.6 trln. dol. at the end of 2012.)

[3] World Investment Report 2012. Towads a New Generation of Investment Policies. N.Y. and Geneva 2012, p. 3 // Access: http://unctad.org/en/PublicationsLibrary/wir2012embargoed_en.pdf.

countries to poorer economies of developing countries, thus creating the conditions for accelerating economic growth, reducing unemployment and improving living standards in these countries. At the same time, it provides a higher return on savings in the industrialized world.

Free access to the capital markets also allows the countries somehow to «insure» themselves against economic problems, neutralizing the volatility of its national income volume.

In general, **the country's preparedness to liberalize control over capital movement shows its preparedness to pursue a sound macroeconomic policy and its adaptation to the conditions of today's global economy, which provides for a high level of cooperation.**

To some extent, the transition to liberalization of the movement of capital account funds is constrained in the conditions of so-called Taylo–Obstfeld trilemma (or «Inconsistent Trinity»), which states that «the selected macroeconomic mode can include only two elements of «inconsistent trinity», namely, 1) full freedom of cross-border capital flows, 2) fixed exchange rate, and 3) an independent monetary policy oriented at the achievement of domestic economic goals. If the movement of capital is prohibited, the exchange rate can break away from the influence of foreign interest rates and thus provide an independent monetary policy. A floating exchange rate agrees the free movement of international capital with the effectiveness of monetary policy. However, monetary policy is powerless to achieve domestic economic goals, if the exchange rate is fixed, and the movement of capital is free, as far as under such circumstances the intervention for supporting the national currency cause the capital movement in a direction that eliminates the monetary policy»[4].

For some reasons, many countries preferred the priority of monetary policy (fight against inflation) and control over the exchange rate (resistance against devaluation, and in some cases against excessive appreciation rate of domestic currency). However, the gradual easing of inflationary threats and recognition of normality for «free floating» currencies significantly extended the possibilities to cancel the control over capital movements.

In addition, after the liberalization of international trade has gained the status of economic «mainstream», the **IMF switched to support the policy of control liberalization over capital movement.** In particular, at the annual Hong Kong meeting in September 1997, the Board of Governors of the Fund approved the plan under which the liberalization of capital movements had to be a major goal of the IMF.

[4] Obstfeld M., Taylor A. M. The Great Depression as a Watershed: International Capital Mobility Over the Long Run. NBER Working Paper Series, Working Paper 5960-NBER, Cambridge, March 1997, p. 2. Access: http//www.nber.org/papers/w5960.pdf. new_window=1.

Thus, in recent decades there **a trend has been observed towards gradual liberalization of capital movements, both within the countries, and in international relations.** This trend has been particularly noticeable in the European countries with emerging markets. However, this is incidental to such system-important countries like India and China. The transition to liberalization reflects the recognition by many countries the benefits of international flows of capital (under appropriate conditions for their use). It is logical that international capital flows play an increasingly important role in regulating the balance of payments.

In particular, capital controls, introduced in Russia after the 1998 crisis did not happen to be an effective means of influence. Therefore, in the years of 2004–06 there was a re-liberalization, but high oil prices and pro-cyclical policy led to excessive capital inflows and overheating of the economy, and that resulted in a «sudden stop»[**] within 2008–09.

Table 1

Countries that Made Liberalization of Capital Movements in 1995–2010

<table>
<tr>
<td>Azerbaijan
Algeria
Afghanistan
Bulgaria
Bosnia</td>
<td>Botswana
Burundi
Armenia
Guyana
Haiti</td>
<td>Ghana
Honduras
Dominica
Israel
Iraq</td>
<td>Jordan
Cape Verde
Cambodia
Cyprus
Korea</td>
<td>(South)
Mauritania
Malta
Nigeria
Papua New Guinea
Russia</td>
<td>Romania
Samoa
Sao Tome and Principle
Swaziland
Seychelles</td>
<td>Senegal
St. Kils and Neville
Slovakia
Slovenia
Uganda</td>
<td>Hungary
Chile</td>
</tr>
</table>

Source: Liberalizing Capital Flows and Managing Outflows. IMF Background Paper, March 16, 2012, p. 9.

[**] The term a «sudden stop» is derived from the phrase of famous American economist R. Dornbush (used in his several collective articles on world debt crisis), «It is not speed that kills, it is the sudden stop». «Sudden stop» of external financing (investment or loan) is considered a simultaneous reduction in capital inflows amounting to at least double «the standard deviation», which is determined by the statistics through the scatter of obtained values of observed values around their average value, which is calculated as the square root of deviations of the sample values «Sudden stops» are usually accompanied by a sharp decline in output, private spending and lending to the private sector, as well as depreciation of real exchange rate. The reasons for this phenomenon may be due to the global turmoil, ever more onerous interest rates on the debt of heavily indebted countries (so-called «debt intolerance» – or because of the actions of speculators in their anticipation of changes in the fixed exchange rate.

That time, unlike 1998, the liberal regime for capital movements was preserved, and the authorities did not restore the capital controls. Instead, the Central Bank of Russian Federation used much of its official reserves as a buffer to smooth out the depreciation of rouble and to offer the private sector a certain period of time to avoid and cover the currency risks. But while the Central Bank's intervention in the foreign exchange market helped to reduce the impact of the crisis, the financial sector was still burdened with a large volume of non-performing loans.

At the same time, **a growing economy with a high level of financial openness was more affected by the recent crisis,** especially when the openness concerned the inter- bank (mediatory) capital flows, which mainly were conditioned by hedging needs of foreign exchange risks for their corporate clients. And that, according to IMF experts, enhances the vulnerability of the country's economy[5]. In particular, the introduction of capital controls in Iceland can be explained by that fact. The Central Bank of Iceland introduced the actual limitation of capital transactions still in the first phase of 2007–08 crisis, thus eventually ended the 15-year-long policy of liberalization. In November 2008 (after the collapse of the three largest commercial banks) the exchange control was officially restored, which ultimately allowed stabilizing the Icelandic krone and preventing the devastation of foreign exchange reserves of the state. In July 2013 the government announced its intention to cancel the foreign exchange control.

The markets use to negatively perceive any recoveries of the restrictions having been canceled before, **and the effectiveness of recovered restrictions significantly reduces.** This response significantly increases the responsibility in making decisions to liberalize capital controls.

In general, ***the flows of capital in the current environment are of a structural nature, i.e. the countries- active participants in markets are characterized by both exports and imports of capital*** depending on the needs and capabilities of individual industries, different periods and geopolitical trends.

As for FDI, its amount provided to developing countries reached 3% of GDP of the latter, and is channeled primarily to those of them, which are noted with economic growth, increase in corporate profits and improvement of the investment climate. Once again, these phenomena are both the consequences of investment inflows, and the factors that contribute to their involvement. That is, in a certain sense, the foreign direct investments self-restore the terms of their development in some economies. Having realized this, more and more countries with emerging markets join the global movement of capital: while in the late nineties 10 biggest beneficiaries among these countries accounted for 75% of FDI, in 2005 – this figure made 65%. Approximately this ratio is now at the same level. But if China (including Hong Kong and Macau) are excluded from these calcula-

[5] Liberalizing Capital Flows and Managing Outflows. IMF Background Paper, March 16, 2012, p. 16.

tions, the share of the top ten beneficiaries will be reduced to 54%, indicating a rather high level of diversification of foreign direct investments.

And the tendency increased to capital movements' growth within the same group of the developing countries («South-South»): while in 1995 it amounted to $15 billion dollars, in 2005 – it made $50 billion, and in 2011 this figure reached about 120 billion dollars. According to expert estimates about 60% of all investments originating from the countries with emerging markets are channeled to the markets of other developing countries. Moreover, the majority of these funds are so-called «greenfields investment», ie the investments that create new businesses and industries, as opposed to the investment operations concerning acquisitions and merging of existing companies (M & A), which is more peculiar for investments from the developed countries[6]. Big investors among these countries were Russian Federation and Hungary (investments mainly channeled to Eastern Europe and Central Asia), China (to Latin America) and South African Republic (to Africa). Attention is drawn to the fact that these investing countries are both among the ten countries that account for almost 70 percent of revenue from international bond market. Thus, they create a certain transit or «buffer» zone, assuming the risks of the least developed (in a market sense) countries, continuing the tradition of *sub-imperialism,* and positioning themselves as the «first wave» of applicants to join the so-called «golden billion»*. However, while in the process of its development at some particular stage the globalization is inevitable to reach a state of Pareto efficiency, it can not be asserted that the changes do not adversely affect the economic situation of individual countries («*rogue globalization*»), who are trying to resist the objective processes instead using global trends for restructuring and improving the efficiency of their own economies.

The causes of the last two world economic crises and the development of events in the global market suggest that in the new globalized economic system a key role is played not by production, but by a financial sector, and the cause of crises is not overproduction of goods, but of money. «Modern economy has made a huge step towards what economists in the past called «fictitious capital» and now – «financial bubbles»[7]. (In this connection a fairly common opinion became widespread about the emergence of «global financizm»). Imbalance model of the global economy has found its expression in deficit trade balances of the developed countries and, consequently, high surplus of current account in the developing countries. The economic crisis of recent years is largely caused by

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[6] Ibid., p. 172.
Lall.R. World Bank: South-South
* Since this term belongs to the Russian political consultants and is not widely used in the international economic discourse, it should be explained that the «golden billion» means a population of industrially developed countries, without regard to their social structure, and the presence of large groups of high-income countries with emerging markets and, therefore, the term is rather more ideological than economic.
[7] N. Kravchuk. Cite work, p. 423.

the problems stemming from the financial sector and rooted in the imbalance caused by hypertrophied role of this segment of the economy in the developed countries. In this regard, at a certain stage of technological structure there begins to occur over-accumulation of capital: the accumulated cash assets can not be invested in the expansion of production and trade, not resulting in the fall of a rate of return. As a result, there occurs a significant proliferation of the stock markets and transactions with derivative financial instruments of speculative nature which generate rapid, chaotic movement of «hot money». World capital surplus flows from trade and production sector to financial sector and, accordingly, from the developing countries (needing additional capital for the development of their real sectors of the economy) to industrialized countries. In the new globalized economic system the main role is played not by production, but by a financial sector. And, accordingly, «the crisis of over-financing» replaced «the crisis of overproduction»[8].

One of the innovations of the present stage of the global economic development can be considered a so-called «fiscal devaluation» under which the improvement of the balance of payments is achieved through deficit reduction. That is, in fact, under the absence of the devaluation its consequences are simulated, which produce direct effects on external flows.

For the first time the idea of fiscal devaluation was proposed far in 1931 by J. M. Keynes, but since then practically it has not been used. The current «fashion» for that tool was introduced in 2007 by Germany, when many countries in order to combat the fiscal crisis began to cut VAT, Germany on the contrary increased it (3 percentage points), while they reduced payroll tax (2.3 p.p. etc.). In other words, «the essence of fiscal reform is to raise the VAT rate and simultaneously reduce the amount of social contributions»[9].

There are two types of fiscal devaluation, namely price and salary.

Reduction of the budget deficit is transformed into the corresponding improvement in the current account balance both directly through reducing of domestic absorption, and indirectly via price factor, that is, lower price level makes export cheaper and facilitates competition with import, thus improving the current account balance. The mechanism for improving the current account balance via wages consists in the fact that reduction of employment in the public sector leads to an increase in labor supply in the labor market and thus it leads to a general decrease in wages. Accordingly, cheapening of manufactured products, especially in labor intensive production, leads to an increase in exports and substitution of imports[10].

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[8] For details see O. Sharov. The Crisis of World Economic System Paradigm (Monetary and Foreign Exchange Aspects) // Economic Journal – XXI, № 1-2 (1), 2013, pp. 49–52.
[9] O. Itshoki, G. Gopinath, E. Fargie «Fiscal Devaluation as a Method of National Economic Remedy» // Financial Market in Ukraine, 36, 2013, p. 3.
[10] V. Shevchuk Cited paper, p. 7.

In 2008–2009 the example of successful fiscal devaluation were Estonia, Latvia, Lithuania and Bulgaria, who managed to maintain a fixed exchange rate. The IMF experts who were negotiated to provide Latvia credit assistance insisted on lat devaluation. However, Latvia decided to use the example of Iceland, which after the transition to the «floating» of its currency within six months was able to stop the decline in production, to revive trade and stabilize the unemployment rate. However, the Latvian government chose to maintain the stability of its currency. The devaluation of the lat, not only postponed the coveted prospect of joining the Euro-zone, but also depreciated savings of Latvians, which seemed to be much bigger loss than the difficulties of fiscal consolidation. In addition, abandonment of the fixed exchange rate could create a kind of regional «domino effect» and lead to a sharp depreciation of the currencies of other CEE countries (Lithuania, Estonia and Bulgaria), also «linked» to the euro, as well caused a common currency instability in the EU, and deterioration in the banking system of the European continent[11].

The countries of Euro-zone also had to use a fiscal devaluation because they faced the «internal crisis of payment balance», that is, foreign economic imbalances in terms of formal single market and currency. «Since the functions of National *(Central* Banks were delegated to the European Central Bank, the introduction of single currency led to the establishment of actually fixed exchange rate regime. As far as the Central Banks of the «Euro-zone» countries lost the possibility to conduct their own monetary policy and, therefore, carry out foreign exchange intervention, the fixed exchange rate between these countries was provided due to unlimited loans through the online payment system of «Target-2» (TARGET – Trans – European Automated Real-time Gross settlements Express Transfer) by changes in the amount of net liabilities of the National Central Bank in relation to other participants of Euro-system. At the same time as the experts say, «continuous attempts to solve the problem of accumulated imbalances through fiscal measures so far did not produce the desired result»[12].

A fundamental modernization of the global monetary system, which took place during the last century in the form of gold demonetization, goes on playing the principle role. This significantly changed the activities of Central Banks in monetary field. Thus, the issuing banks create the national money on dollar basis coming to them as deficit payments of the United States and channeling the money to obligation holders on the part of the U.S. contractors, at the same time re-investing the majority of the received dollars from the U.S. financial market. In this way, as once noted a famous French scientist Professor J.Rueff «the United States had not have to make payments any longer respectively that portion of its payments deficit with other countries. It was in a purely financial plane, as if there

[11] V. Shevchuk. Application of Fiscal Policy Instruments for Keeping the Payment Balance in «Dependent» Economy // Collection of Scientific Papers. Economic Series, Issue 37, Lviv Commercial Academy, 2011, p. 8.
[12] S. Nikolaichuk, V. Khomiak, Cited paper, p. 28.

was no deficit at all. The gold exchange standard made in such a way a revolution in the world finance, and originated a secret of deficit without tears. That arrangement allowed the countries, who emitted the currency of international prestige to give with no withdrawal, to credit with no lending, to acquire with no payment»[13].

The change-over to the gold-exchange standard led to the following three principal consequences:

- first, the balance of payments deficit has ceased to affect the aggregate purchasing power (which automatically occurred under a gold standard because of physical transfer overseas of money commodity, that is gold);
- second, under such a system each account deficit of the country that issues the «accounting currency» leads to doubling of the global lending base, and thus, when capital is returned to the countries from which it came (in order of settlement of balance of payments), there occurs the likelihood of a credit boom in «deficit» countries without a recession in the «surplus» countries;
- third, the new system leads to erroneous nature of the credit structure that is due to double mortgage for the majority of gold reserves of the country issuing a reserve currency[14].

Gradually Kingston monetary system began to be enriched with new characteristic differences. In addition to changing the nature of the exchange rate, a significant contrast to the Bretton–Woods becomes the liberalization of capital movements. Trade, as an engine of development, has long ago given way to economic sectors such as services, «knowledge economy», and investments. And after exchange rates had been unpegged from the «golden anchor», they also unpeg the «commodity» one: so, the exchange rates are no longer formed in foreign trade. Deviation from the line of purchasing power parity (PPP) has become so great and long-term that it is impossible to speak of PPP as a foundation of currency exchange rate relationships. The increase of world foreign exchange market by 1–2 orders (up to almost 3.5 trillion dollars a day) in the last quarter of the past century has reduced the proportion of transactions that are focused on servicing of trade agreements to 2 percent. Under financial markets globalization, the formation of exchange rates and currency flows begins to obey other regulations conditioned by the optimization of saving and increase of the accumulated capital amount. That is why there is observed a synthesis of money markets, loans and investments, which are very closely intertwined not only functionally, but also institutionally.

[13] J. Rueff. The Monetary Sin of the West-N.Y., N.Y: Macmillan Company, 1972, p. 23.
[14] Ibid., pp. 24–28.

In addition to sectoral, functional and institutional there were added also *technological changes* in the world monetary system. The interdependence of money markets has considerably increased with the development of communication and information processing. The emergence of national payment systems that operate in real time (*Real Time Gross Settlement – RTGS*), and later – their connection actually with the international financial snare (such as the EU – system TARGET) – also seriously affected functioning of the global monetary system. For now the rules of currency regulation and control must take into account the possible impact of operations not only on the national economy.Accordingly, it should be taken into account also the effect of transactions that occur in geographically distant markets. Actually this relationship was demonstrated by the crisis of 1997–98, which probably quicker than the «bird flu» spread from the South- Eastern Europe to Latin America and Russia.

Finally, the current system exists in **fundamentally different political conditions** caused by the collapse of communist system, by the creation and positioning of new states, and increased competition between the U.S. and Europe.

In the 1960s, the United States was the foundation of the world economy, while Europe and Japan – its periphery, and many developing countries were not yet fully integrated into the international economic system. To some extent this also referred to the countries with administrative (socialist) economies. So far the economy of the United States still remains a «core», which continues to evolve not by general rules, but due to its special place in the global economic system. Yet further development and extension of globalization has led to a new periphery represented by a number of emerging markets of Asia and Latin America. Thus, the current «periphery» is much larger and more heterogeneous. In particular, even in the 1960s, the Western Europe was at a higher level of its actions and the overall integration coordination than the Asian countries are today, and that directly affects their ability to «collective response» to the challenges initiated by the «core» of the global economy. As for other industrialized countries (say, OECD member countries) and, above all, the European Union, they create a sort of «core shell» with its «inner» and «outer membranes» (respectively, the «old» and «the new» member states), or, as B. Eichengreen calls them the «third bloc» which has neither opportunities for catching up (like the emerging markets have), nor privileges of the countries with reserve currencies After all, «the United States can continue increasing the deficit in the current account, because the emerging markets of Asia and Latin America are happy to accumulate dollars. There is no single reason why the dollar has been falling further until there is no need to settle the balance of payments»[15].

[15] Eichengreen B. Global Imbalances and the Lesson of Bretton Woods // National Bureau of Economic Research, Cambridge, May 2004, Working Paper 10497, p. 2.

With regard to the former «second world» – i. e. post-socialist countries, they are divided between the periphery (Vietnam, Armenia, Kyrgyzstan, Tajikistan, Uzbekistan, etc.) and the «core shell» (the member states and the EU candidate countries), and some of them (China, Russia, Ukraine, etc.) – have become a kind of «ribosome» (if to continue this «cell allegory»), being in close contact with both the core and the «cytoplasm» (periphery).

At the same time, it is the EU countries that significantly changed the situation in the monetary and financial relations, having created a collective euro currency, which can be seen (albeit with some warnings) as a real alternative to the dollar in future. This greatly depends on the willingness of central banks to continue keeping a large part of their foreign exchange reserves in the U.S. currency. If fifty years ago (during the appearance of «Triffin dilemma») that willingness to some extent was caused by at least formal responsibility for converting the dollar into gold, and official support of price for «yellow metal», but now the prospects for supporting «external value» of dollar is conditioned specifically by political interests, and that makes all the international monetary system less predictable and stable. The overall situation is exacerbated by the liberalization of controls over international capital, which makes it difficult (or even impossible) to monitor and influence on private capital transfers, that significantly affect exchange rates (including speculative attacks). However, recently Central Banks and other FSAs (organs of financial control) try to fix this situation somehow (in particular, by establishing control over questionable transactions and capital flows through offshore jurisdictions), but requiring tremendous efforts and funds. On the other hand, the liberalization of the domestic capital movements also significantly changed the economic environment: now keeping a low exchange rate and high interest rates does not guarantee the inflow of investments in the manufacturing sector of traded goods. A real alternative becomes the capital inflows, say, in a real estate sector, which may lead to speculative price increases and the emergence of «financial bubble».

At the same time, attention is drawn to the fact that for many years (at least half a century after the emergence of a «Triffin dilemma») **the real situation develops in some other scenario** (than it would be expected – and had been expected ! based on classical concepts). Attempts to explain these differences led to emergence of three models, which are called «the new economy», «the dark matter» and «the savvy investor»[16].

The ***new economy view*** is that the standard analysis underestimates the real appetite of foreign investors for the accumulation of the USA financial liabilities. Rapid growth of labor productivity and high corporate profitability in the U.S. continue to make the investment in its economy attractive (which can allow a cur-

[16] See: Eichengreen B. Global Imbalances: The New Economy, the Dark Matter, the Savvy Investor, and the Standard Analysis // University of California, Berkeley, March 2006, p. 15.

rent account deficit even at 7 percent of GDP). At that, it is clear that foreign investors will hold a significant share of the U.S. assets, which may create some discomfort for the government and business circles. One more problem of that approach is the fact that labor productivity in China (which is the largest single source of funding for the current deficit) grows even faster, so the logic of this view is, that the investments can very quickly come to an end and change their targeting. Also, as a matter of fact, net financing of the U.S. deficit is provided not so much by private investors, but by many central banks (which says more about the political rather than economic reasons for such a behavior. Finally, this interpretation suggests that the rate of return on foreign investment in the United States must be higher compared with the U.S. investments abroad (which is not true). In this case, the logic of «the new economic» theory can be rescued only by hope of foreign investors to gradually rise in their U.S. assets. Nevertheless, this perspective looks rather controversial.

However, some economists[17] are questioning the mere U.S. accumulation of significant debts, because net revenue from investment remains positive. It is noteworthy that the U.S. export by at least three positions is undervalued (or unmeasured at all). This includes services to provide international liquidity (seignior age), informal insurance services (insurance capital) and services for the dissemination of knowledge (knowledge service), which include, above all, organizational skills and recognized brands. These de facto export positions arise in the use of non- residents of the three financial instruments, respectively: the U.S. currency, the U.S. Treasury bonds and foreign direct investment of the U.S. corporations. Thus, the **«dark matter»,** which is statistically inappreciable balances financial flows. In other words, hypothetically it can be considered that unpaid earnings of non-residents for obtaining the mentioned services is approximately equal to the current account deficit or, at least, significantly reduces the size of the deficit, the presence of which is consistent with the standard approach to the analysis of the balance of payments.

However, some experts[18] believe that the existence of the «dark matter» makes foreign investors invest in the U.S. assets, hoping to increase income from these investments in the future (due to the presence of the «hidden» benefits), and thus it may confirm the model of the «new economy». But it also calls into question the fundamental model of the «dark matter» as far as the future (expected) increase in income from the U.S. assets, in fact means balancing the financial flows and «disappearance» of the «dark matter»

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[17] See: Husmann Ricardo, Sturzenegger F. «Dark Matter Makes the U.S. Deficit Disappear» // Financial Times, December 8, 2005, p. A15.
[18] Eichengreen B.Op.cit., p. 6.
*It should be noted that at the moment some known economists negate the existence of the «dark matter» In particular, see Buiter W. Dark Matter or Cold Fusion? – Global Economic Paper no. 136, London: Goldman Sachs (Jan. 16, 2006).

The third alternative model tries to remove this contradiction explaining that the U.S. can service a large external debt without serious discomfort until the U.S. foreign assets provide a much higher yield than the U.S. external liabilities, just because the U.S. investors are smarter or savvier as compared to their foreign competitors**.** In particular, John Kitchen indicates that (abstracting from the crisis and pre-crisis years), the difference in yield of these types of investments is more than 5 percent[19].According to B. Eichengreen this model comes in contradiction with the «new economic» approach, which is based on the assumption that the investment in the U.S. debt instruments bring foreign investors higher returns compared with the investments in their own economies. Meanwhile, in reality, such a contradiction may not exist as far as higher income from the investments of foreign investors in the U.S, can not exceed the income of the American investors.

Thus, all the above models allow coming to a conclusion on the absence of the need to settle the global imbalances. It is possible that there are in fact at the same time the factors (in different degrees and different foreign investors), on which the attention is accentuated both in a model of the «new economy» and in the model of the «dark matter» Slightly more doubt arises the model of the savvy investor, since the concept itself is based on statistics that exclude the crisis and pre-crisis years, which in the present conditions are not the exception at all, that we could not take into account.

The mentioned above allows us to conclude that in the present conditions the external imbalances (i. e. a situation when one group of countries has persistent surpluses, and another – persistent deficits) do not cause either need for their immediate liquidation, nor they cause the devastating financial crises, as in their nature they are a reflection of financial flows, typical for a modern model of the global economy within the framework of which the United States provide the global economy with the required liquidity, and the group of countries with high export revenues (China above all) – provide domestic savings needed to finance global investments. Consequently, **the balances of payments gradually cease to play the role that they played in the conditions of individual sovereign markets.**

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[19] Eichengreen B. Op. cit., p. 11.