APPROACHES TO THE INTERNATIONAL CAPITAL FLOWS IN THE GLOBALIZED ECONOMY

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Abstract
The problem addressed by this paper concerns issues related to the international capital flows in the current context of the globalized economy. In this respect, we focused, at first, on approaches of conceptual boundaries nature, and then we treated a series of aspects of evolutive nature, causes and effects of the international capital flows, as well as the major institutions through which such flows are carried out. At the same time, our analysis has paid particular attention to the globalization phenomenon of capital markets.

Keywords: *economy, globalization, international flows, capital markets.*

JEL Classification: *F23, F60, G15, M21.*

1. Introduction

Capital, in all its forms, is probably the economic resource with the highest degree of mobility in the economic context of the new millenium. Capital flows are now common presence both on international circuits, and on national, inter-sectoral and intra-sectoral routes **[12].** Not only the volume of capital flows and their movement speed are in a constant ascendency, but also the ease with which they metamorphose, depending on the characteristics of the host environment and on the interest and profit of the holder. If in the past the capital flow was seen only as a way of financing the current account, nowadays, the international distribution of capital determines increasingly more the currency circulation and the international

interest rates which, in turn, influence the evolution and structure of International trade **[2].**

International capital transactions involve the sale and purchase of assets or loans between residents in different countries. These transactions may consist mainly of:

- ✓ *International investments,* respectively foreign direct investments indefinite term and portfolio investment short and long term;
- ✓ *Various term loans,* or bank and non bank loans, debt securities.

From the point of view of a country's *Balance of payments,* the transactions constituing the components of the international capital flows are included in *the capital account*. The main economic actors involved in the case of international capital flows and coming from international lending are the creditor (the exporter of capital– the one that lends) and the debtor (the importer of capital– the one that borrows). In order to generate the international capital flows, the exporter of capital must have an amount of capital available, capital resulting either from the export of goods and services for which the counter value is collected, or from the capital reserves the exporter has made **[6].** Considering the aspects presented in the case of the international capital flows, as an exporter, investitor or creditor, only those economic actors that have a surplus of resources can participate, and these economic actors are usually, but not exclusively, in the developed countries.

2. Evolution, manifestations, causes and effects of international capital flows

In its evolution, the financial globalization has seen manifestations specific to the level of development of every historical period identified, respectively: the early Modern period, the classic Gold-Standard period, the Bretton Woods stage and the contemporary era **[8].**

The first systematic and significant international capital flows date from the second half of the nineteenth century when several governments and railway companies have issued bonds with fixed interest mainly on the UK capital market, as well as on the capital markets in France and Germany. Later on, in the late nineteenth century, direct foreign investments, especially the ones coming from the USA, started to compete in terms of value with these portfolio investments, and thus the international capital flows exceeded the commercial one in terms of importance, which coincided with the time when capitalism became a worldwide economic system. After the end of the First World War which caused a discontinuity in the evolution of these flows, the combination of direct foreign investments and portfolio investments has evolved positively, being directed

especially from the USA to Europe. The Great Recession of the 1930s has reduced foreign investments significantly, their place being taken by speculative capital movements seeking to exploit developments in exchange rates. Ten years after the end of World War II, the international capital flows reappear as direct foreign investments and, later on, as international financial markets, the main form being that of variable interest loans, unlike previous periods when fixed-rate bonds had prevailed.

International capital flows have experienced remarkable growth in the period 1960 – 1980, and then they faced a real crisis caused by the inability of many developing countries to cope with debt service.

One of the most important changes in the orientation of the international capital flows is that the USA has become the largest importer of capital in the world. For more than 60 years, the USA has represented the biggest exporter of capital in the world, being the world's largest creditor. Currently, the USA is the world's largest debtor and its foreign debt is higher than all other debtor countries toghether **[1].**

The causes that generate the international capital flows are different depending on the form of their manifestation. For direct foreign investments, the causes are determined by the existence of economic assets such as patents, know-how, commercial and managerial expertise which the entrepreneurs hold and wish to capitalize on markets or sources of production means different from the country of origin. This type of investment, since it implies the binding of technological cycles lasting for years, is not very sensitive to short-term macroeconomic evolutions and, therefore, it isn't susceptible to present a high volatility.

In the case of portfolio investments, the relationship between their evolution and orientation and the macroeconomic situation is direct because all the calculations made by investors are based on the data of this situation.The classic motivation of international portfolio investments is that of achieving efficiency superior to the one obtained in the country of origin. In reality, investors are considering a larger number of variables, some subjective ones, also. On monetary markets, in the long term, the international capital flows are oriented towards countries with a higher rate of interest. In the short term, it is however possible that early changes in exchange rates prevail in decision making on the differences between interest rates, so that the capital flows move to countries with lower interest rates. In comparison with the direct foreign investments which are made, significantly, by transnational corporations, portfolio investments are made by a variety of institutional traders, financial and non-financial companies.

The international capital flows can have positive ***effects*** on the welfare and economic development through several mechanisms:

- *Capital flows embodied in direct investments* allow the receiving countries to modernise and diversify their economy, and investors to achieve higher profits;
- *Capital flows which take the form of portfolio investments* allow investors to diversify and, consequently, to mitigate risks;
- *Capital market domination by fewer actors of great dimensions* whose domestic policies can or cannot compete with the interests of other actors of more modest financial power.

In case that international capital flows finance deficits of the current account, then there can be ***two types of favourable effects*** **[4]:**

- *When the loan is used to finance an investment whose efficiency is higher than the cost represented by the service of the debt;*
- *When granting or requesting loans aim to the modification (postponement, braking or accelerating) of consumption.*

What should be emphasized in connection with the two situations presented above is the character of possibility, not of certainty. For example, a country may make loans for productive investments, but the results are not satisfying in terms of quality or price, or there is a change in demand which no longer allows the volume of transactions expected. In this case, the debt service can became too unbearable and the respective country may face difficulties in paying the debt.

3.The institutions where the operations specific to international capital flows take place

An important role in the development and orientation of international capital flows is attributed to international institutions which differ depending on the nature of operations, respectively investments or loans. They were created over time in order to promote the international financial cooperation, to facilitate the access to financial resources of the less developed countries or of those experiencing temporary internal imbalances, to promote private foreign investments or to stimulate social and economic development of the member countries. With the expansion and deepening of the globalization process on the international financial markets, the role of these international institutions has increased significantly. Nowadays there is a large numbers of such international financial bodies with different financial objectives and mechanisms: the International Monetary Fund, the World Bank Group, the European Bank for Reconstruction and Development, the European Investment Bank or the Bank for International Settlements. Each of these institutions has developed continuously over time, permanently increasing their strength, basically trying to take on an active role in the international finance **[8].**

When it comes to short or long-term portfolio investments, banks or stock exchanges are used. Stock exchanges are markets where securities with variable incomes are negotiated, such as shares or fixed-income securities such as bonds. The most important stock exchange in the world in terms of transactions volume is the New York Stock Exchange (NYSE). Other important stock exchanges are the ones in London, Tokyo, Frankfurt, and Hong Kong. In the case of short-term international capital operations related to the development of exchange differences, currency markets are used. We must emphasize that the international currency market is the largest market in the world, its volume exceeding almost 1.6 trillion per day in 2014 **[10]**, which makes that the current feature of this market be a strong movement towards the Internet, being in this respect supported by all the most important banks in the world.

Regarding the direct foreign investments, we cannot talk about some specific markets, but about case by case operations carried out by investors from another country than the residence one **[5].** When some foreign investment promotion agencies become significant promoters of foreign capital flows to the receiving country, then they can be considered the equivalent of “markets”.

4. Issues related to the globalization of capital markets

The liberalization of international capital flows gradually lead to the disapearance of commercial borders and the erosion of national borders being a way to homogenize the globalized economic space where national souveranity either becomes an outdated notion or acquires new meanings. The risks, the evolutions and the circumstances on the global capital markets trigger reactions and responses at global and national levels. Thus, at global level, there is an interest towards financial innovations such as financial derivates that play a role in risk management, but also as a means of speculative instrument. On the other hand, at national level, risk management requires correct regulations of the banking sector and of capital market, the control of internal corruption, as well as the avoidance of an early liberalization of some capital markets **[11].** In this respect, financial globalization requires governments to adopt national policies and strategies of development that have as objective low and stable inflation rates, which implies a financial discipline, a ferm monetary policy to enable them to avoid the risk of non-refoulment credits **[7].**

Currently, due to the evolution of communications and of on-line transactional techniques, the stock trading takes place practically non-stop. Time differences allow that the activity of stock exchanges take place in the USA when they close in Europe, while stock exchange activity restarts in

Europe when it closes in Asia. Thus, the actions of large corporations that are listed on several exchanges simultaneously can be traded continuously.

With globalization and modern communications, not only investments can run non-stop, but also banking operations. Many transnational banks, which have branches in countries on different continents, can offer non-stop banking services.

The globalization of financial markets doesn't mean just covering the entire globe with a network of services, but also integrating these markets on a global scale. In this context, capitals gain unprecedented mobility; their transfer can be made only from the use of electronic technique **[3].** Consequently, the globalization of financial markets has determined a significant growth in the volume of transactions that exceeded the international trade in goods and services. If in the past the financial transactions were largely correlated and determined by commercial trades, nowadays between the two types of flows there has been a decoupling.

In the global financial market, the capital flows originate both in private and state companies, as well as in international organizations. These organizations may come from the system of the United Nations Organization, respectively, the International Monetary Fund and the World Bank or they can be cooperation bodies or of interstate economic integration such as the European Union or the North american Free Trade Agreement. Of course that, if in the case of international organizations, the capital flows generated have a smaller weight and are carried out on the basis of well-defined and relatively slow mechanisms, the flows generated by private companies have both a larger weight and a greater mobility.

5. Conclusions

The globalization of financial services, the internalization of capital and the rise of money to the rank of means of communication have changed the balance of power in the modern global economy for the financial activities that own and control the system's functions.

The mobility of capital, the deregulation and financial innovations are the challenges and concerns of most governments and central banks in the civilized countries in establishing the monetary and macroeconomic policies, in managing the decision-making tools such as exchange rates or interest rates as inflation targeting levers, adjusting the current account deficit and risk timing/mitigating since it is known that the scale and dimensions of the global financial system attract effects specific to globalization.

In the new economy, the banking and financial environments are among the most exposed to the shocks triggered by the information propagation speed, the financial globalization is a phenomenon with

profound consequences on the mechanism of global economic activity. The financial globalization already has a considerable track record of events registered during its evolution.

The opening of national financial markets, their deregulation, the development of new financial tools, the expansion of banks and of other international financial institutions, the involvment of foreign financial institutions on domestic markets as well as the involvment of domestic financial institutions on global financial markets have facilitated the intensification of international capital flows, and thus creating a functional global financial system.

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