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**THE IMPACT OF WORLD STOCK MARKETS'
GLOBALIZATION TRENDS ON THE UKRAINE SECURITIES
MARKET**

Abstract. The article analyzes the trends that are happening in the world stock market; the problems that impede the effective integration of the Ukrainian stock market in the global securities market and the ways for its further integration into the global financial space were identified. The urgency of these issues is related with the deepening of global processes on the global stock market and with the need for further development of the securities market of Ukraine and its integration into the global financial space.

Keywords: stock market, globalization, financial integration, market capitalization, sales of shares, portfolio investment, IPO.

Formulas: 0, fig.: 2, tabl.: 2, bibl.: 14

JEL Classification: G10, G14, G15

Introduction. The most important part of both national and global economic systems in modern conditions is the globalization. The growing interdependence between countries, an intensification of international goods exchanges, services and capital are leading to the emergence of new trends in the economical and financial relationship. An increase in the level and pace of financial integration, including the stock markets takes place simultaneously with the process of economic integration. Financial integration of stock markets, according to research, is a complex process in which the stock markets become more closely connected on international level in terms of liberalization processes and scientific progress. The universalization of the various financial institutions, the use of innovation in electronic payment systems and communication system of stock exchanges, expanding the range of financial instruments contributed to the formation and development of the global stock market and the growth of international capital mobility.

In this context, Ukraine can not remain aloof from the world globalization process in the stock market, following the principle of openness of the economy. Therefore, the primary objective in accordance with the Stock Market Development Program of Ukraine for 2015-2017 years, is to encourage the inflow of investments in Ukraine through the integration of the stock markets in the world capital markets and introducing best international standards and practices, which in turn will help to overcome recession which caused economic crisis and achieve financial stability and economic recovery [Project program 2014].

Literature review and the problem statement. In recent years great attention of domestic and foreign researchers has been paid to the study of the theoretical and practical foundations of globalization and integration processes in the financial market, especially the stock market. Particularly noteworthy are the works of foreign scientists G. Alexander, E. Bradley [Bradley 2000], J. Mirkin,

B. Rubtsov [Rubtsov 2011], G. Soros, R. Teweles [Teweles 2000], W. Sharpa. Ukrainian authors, who study the problems of the global stock market and global financial integration are: S. Borinets, O. Vasylyk, O. Mozgowy, J. Zhalilo, I. Lyuty, A. Moroz, I. Krupka, E. Redzyuk [Redzyuk 2011], A. Fedorenko, I. Shkodina [Shkodina 2013], V. Yukhimenko [Yukhimenko 2013].

We must pay tribute to the investigations of domestic and foreign economists made in the theory and practices of the world stock market in terms of global financial integration. But at the same time, it should be noted that a number of theoretical and methodical issues related to the study of globalization trends of the world stock market and of their impact on the integration process of the securities market of Ukraine remain poorly studied. A number of provisions has controversial nature. In this context it is particularly important to study the impact of financial globalization on functioning of Ukrainian stock market.

The purpose of this article is to study the functioning of the modern trends of world stock market, identifying key problems that hinder the effective integration of the domestic stock market. We also offer ways for further integration of Ukraine's stock market into the global financial space.

Research results. The World stock market in the history of its existence experienced both ups and downs. Developing under the influence of financial globalization, which is increasing every year, and is rapidly evolving, this market is becoming larger and is characterized by the new trends.

One of the most important indicators of the global stock market is its capitalization, which is the quintessence of the economic development and the movement of capital. This index reflects the market value of all issued shares of publicly traded companies in the stock market. A number of studies, in particular the analysis of the World Bank shows that the lion's share of the global capitalization (approximately 50%) is provided by four countries - the United States, Japan, China and the United Kingdom (Table. 1).

Analysis of the data table shows that the United States remains the absolute leader in terms of market capitalization compared with other countries. This index was US\$ 18668.3 bn in 2012 (30% an average from the world stock market's total capitalization). The growth of capitalization of the Eastern countries is the main focus of the structural changes in the modern stock world market over the past five years. Thus, the capitalization of the stock market in China has increased by 1.3 times, in India by 2 times in 2012 compared to 2008. In addition, the market capitalization of listed companies in China exceeds US\$ 678 bn the index of the UK stock market, and almost 2-3 times more than in Germany, Canada, Switzerland, in 2012. Thus, our analysis of the world stock market capitalization dynamics showed a general tendency towards a gradual increase in this index for the period 2008-2012.

As for the stock market in Ukraine, according to the classification of «Standard & Poor's», it belongs to the «frontier markets», which are too small, illiquid and are not suitable for efficient investment. Ukraine's stock market capitalization amounted 20.7 billion dollars at the end of 2012. It is one of the largest indicators compared with other countries which are part of frontier markets. According to the results in 2012 Ukraine's stock market capitalization exceeded this index in countries such as Romania (15.9 billion USD), Estonia (2.3 billion USD), Lithuania (3.9 billion USD), and Bulgaria (6.7 billion USD). The Ukrainian market's economic potential is ten times lower compared with the dynamics of the market capitalization of the developing countries (Poland, Russia, Czech Republic and others).

Table 1 - Market capitalization of listed companies 2008-2012, US\$ billion*

Countries	Years				
	2008	2009	2010	2011	2012
Developed markets countries					
USA	11737.6	15077.3	17138.9	15640.7	18668.3
Canada	1002.2	1681.0	2160.2	1906.6	2016.1
the United Kingdom	1852.0	2796.4	3107.0	2903.2	3019.5
Germany	1108.0	1297.6	1429.7	1184.5	1486.3
Switzerland	862.7	1070.7	1229.4	932.2	1079.0
Japan	3220.5	3377.9	4099.6	3540.7	3681.0
Developing markets countries					
China	2793.6	5007.6	4762.8	3389.1	3697.4
India	645.5	1179.2	1615.9	1015.4	1263.3
Czech Republic	48.9	52.7	43.1	38.4	37.2
Poland	90.2	135.3	190.2	138.2	177.7
Russia	397.2	861.4	1004.5	796.4	874.7
Frontier markets countries					
Ukraine	24.4	16.8	39.5	25.6	20.7
Bulgaria	8.9	7.1	7.3	8.3	6.7
Romania	19.9	30.3	32.4	21.2	15.9
Estonia	1.9	2.6	2.3	1.6	2.3
Lithuania	3.6	4.5	5.7	4.1	3.9

Source: compiled by the author under the data [The World Bank 2015]

Studies show that stock market capitalization in developed countries reflects the competitiveness of the national economy which in turn is the main factor determining the level of economic security and financial security. Thus, the stock market of Ukraine is not sufficiently competitive, not only on developed markets but also on those that operate in developing countries.

The ratio of market capitalization of the stock market to GDP is an important quality indicator that reflects the dynamics of GDP growth trends and tendencies of the effective functioning of global stock market. Capitalizing on the level of 40-60% of GDP is typical for most developed stock markets. For example, in the US stock market capitalization amounted to 115.5% in 2012, in the UK - 115.5%, Switzerland - 162%. This indicator in countries where stock markets are rapidly developing, are: in Russia - 43.4% of GDP (2012), in Poland - 35.8% (2012) [The World Bank 2015]. This indicator is insignificant for the stock market of Ukraine and is 11.8%. It reflects both the large gap between stock market capitalization to GDP, and a significant undervaluation of the Ukrainian stock market, compared with the world stock market. The great volatility of the stock market in Ukraine can be seen due to its low level of capitalization. This leads to the financial risk of the stock market and does not facilitate the development of innovative economy. In addition, some researchers believe that the capitalization of the stock market in Ukraine can not be considered objective for the following reasons: the concentration of transactions in the OTC market mainly; the spread of closed joint stock companies; tiny

* Data for the 2013-2014 years [The World Bank 2015] will not bring

proportion of issuers whose shares are included in quotation lists and Non-listing lists of trading; low activity of trading of equity securities, etc. [Neskorodyeva 2013]. There is also the view that the stock market is undervalued and under-capitalized [Shkolnyk 2011].

Scientists and practices associate the positive aspect of globalization on the world stock market with rising volumes of equity trading. This indicates an increase in its liquidity, and at the emergence of new potential investors.

The dynamics of the volume of shares traded as a percentage of GDP in the global stock market was analyzed based on the data from individual countries and shown in Fig. 1.

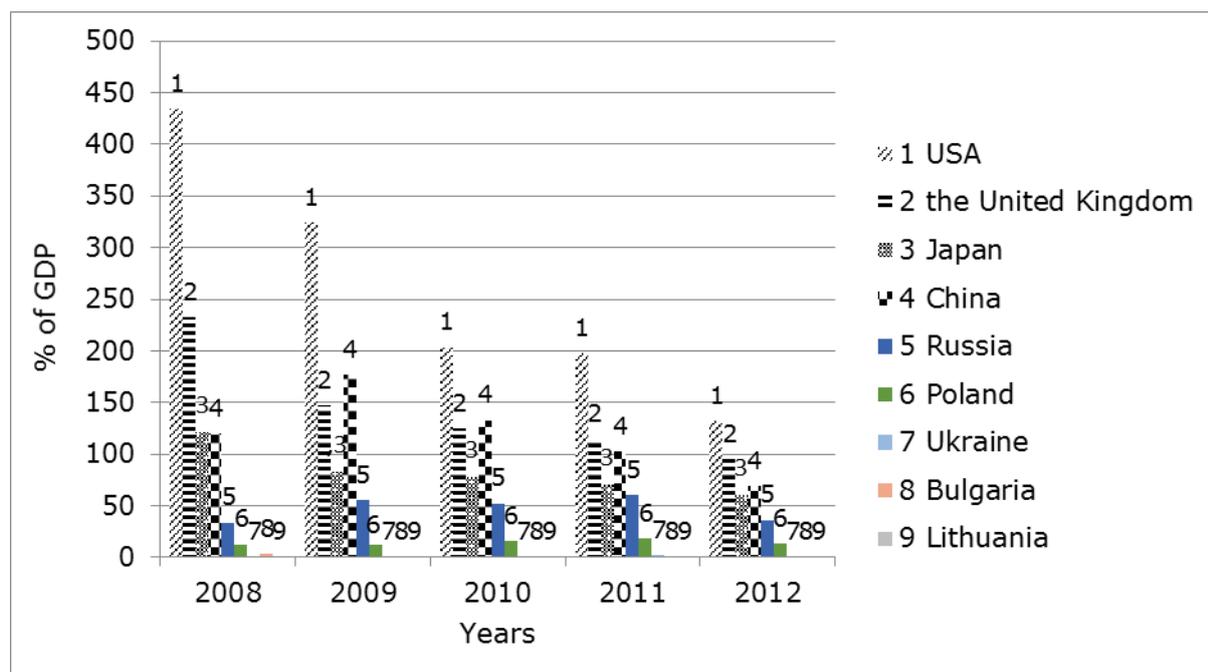


Figure 1 - Sales of shares as a percentage of GDP for 2008-2012

Source: compiled by the author under the data [The world bank 2015]

Analysis of the data presented in Fig. 1 shows that the United States remains the main world leader in terms of volume sales shares relative to GDP. The greatest value of this index was amounted to 434.9% in 2008. Then it was a gradual decrease from 2009 to 2012. The next year the greatest value of this indicator among developing countries was in China (177%). But its decline happened in 2010-2012 and it was 68.9% relative to GDP in 2012. The gradual reduction of shares traded on the world stock market is due primarily to the global financial and economic crisis and its subsequent recession, as well as, debt problems of European countries, including Greece, natural and man-made disasters in Japan. All this contributed to the high volatility of the stock price and reorienting investors to the safest assets. Thus the global stock market had a gradual trend decline in equity trading relative to GDP over 2008-2012.

As for the stock market of Ukraine, the volume of trading in shares of GDP for 2008-2012 amounted to a small part (range 0.7-2.8%) and tended to decrease. The analysis shows that such a situation was not conducive to openness, transparency, market liquidity, capitalization increasing, reduces the possibility of protecting its subjects from violation of their rights and interests. The results of these negative aspects are manifested in the inability to attract domestic and foreign investments in the right size and the favorable terms

needed for state's innovative economic development. The experience of countries with well functioning stock markets shows that their functioning is influenced by the factors such as stability of the political system, social stability, possibility of internal and external conflicts, poverty, unemployment and so on. Studies show that Ukrainian economic and political instability adversely affects the functioning and development of the stock market and its financial security at the present stage. These processes became more complex in 2014-2015, due to the continuation of the financial crisis and aggravation of political and economic situation in the east of Ukraine.

Thus, globalization of financial and investment relations leads to the fact that the problems of a particular country have international influence on other countries. It affects the development of stock markets around the world, directly or indirectly, fragmentary and sometimes structurally.

Analysis of portfolio investment is essential to assess the impact of financial globalization on the Ukrainian stock market (tab. 2). They include net revenue from securities except direct investment and including shares, depository receipts (American or global), and direct purchases of shares on local stock markets by foreign investors [The World Bank 2015].

Table 2 - The volume of portfolio investments for 2010-2014, US\$ billion

Countries	Years				
	2010	2011	2012	2013	2014
Developed markets countries					
USA	179.0	123.4	239.1	- 85.4	169.9
Canada	17.8	21.3	0.9	17.9	23.1
the United Kingdom	- 10,5	- 5.3	- 8.5	49.9	50.1
Germany	4.8	- 5.5	- 1.7	15.1	3.8
Switzerland	- 7.2	7.5	14.6	3.0	3.8
Japan	40.3	5.6	34.9	169.8	33.0
Developing markets countries					
China	31.4	5.3	29.9	32.6	-
India	30.4	- 4.0	22.8	19.9	12.4
Czech Republic	- 0.2	- 0.001	- 0.1	0.1	0.3
Poland	7.5	3.1	3.6	2.6	-
Russia	- 4.9	- 9.8	1.2	- 7.6	- 12.9
Frontier markets countries					
Ukraine	0.3	0.5	0.5	1.2	- 0.4
Bulgaria	0.008	- 0.04	0.004	- 0.02	- 0.08
Romania	0.004	- 0.04	0.4	1.1	-
Estonia	0.04	- 0.1	- 0.2	0.05	- 0.05
Lithuania	0.04	0.008	- 0.05	- 0.01	0.02

Source: compiled by the author under the data [The world bank 2015]

Analysis of the data table shows that significant inflow of portfolio investment took place in many developed countries such as USA, UK, Germany, and Switzerland from 2010 to 2014. However, this situation is not sustainable, because the inflow of investment is replaced by outflow. This leads to a sharp fall in the value of assets in the stock market. US occupies a dominant position to attract investment. At the same time, the outflow of investment in this country

occurred in the amount of 85.4 billion dollars in 2013.

It should be noted that the trend of a slow, gradual growth of transactions with foreign securities is observed in most developed countries. Significant inflow of portfolio investments is typical in China, where this index was US\$ 32.6 billion in 2013. Instead, the reverse process is typical for the Russian securities market, where foreign portfolio capital left the country en masse during the analyzed period. This situation is inherent to many countries with the frontier markets, including Ukraine, where political and economic instability led to a reduction in portfolio investment and the outflow occurred in the amount of US\$ 0.4 billion in 2014. This means that portfolio investors tried to diversify the means of preventing risks to their capital in our country.

Analysis of the formation of international investments portfolio in Ukraine shows that the Ukrainian market is the market of small investment choice compared to the international securities market. Attracting foreign securities in Ukraine is associated with significant problems of normative restrictions and currency regulation. The national issuers go to more attractive stock markets due to the lack of liquidity of the national stock market, lack of capital, excessive requirements for listed financial performance.

Thus, the highly developed countries dominate in the redistribution of capital assets in the global stock market. At the same time the indexes of annual growth rates of total capital flows in the markets of developing countries indicate that they have also become more attractive. There are more inflow of funds from developed countries to developing countries.

The need to develop new instruments to attract investment arises in conditions of the spread of financial globalization. Initial public offering (IPO) is the most common instrument in developed countries. Effectively functioning IPO market in the country, as proved by practice, promotes of its economies' integration in the global economic system; stimulates economic growth through attracting investment; contributes to the structural transformation of economies; is an indicator of business activity; increases capitalization of domestic stock markets. Therefore, analysis of the functioning of the global IPO market is important.

Dynamics of capital raised and numbers of deals in the global IPO market is shown in Fig. 2.

The gradual recovery of the market IPO comes after two years of inactivity in 2008-2009, caused by the global financial crisis and recession. Analysis of the data presented in Fig. 2 shows that the recovery of activity in the global IPO market took place in 2010. The volume of capital raised almost close to the pre-crisis index of US\$ 285 billion. Further development of the global IPO market (2011-2013 gg.) was characterized by falling because of the spread of the debt crisis in European countries and reducing the number of IPO deals in the Asia-Pacific region. Activity in the global IPO market decreased significantly in 2012, the volume of capital raised amounted to US\$ 129 billion, which is 2.2 times less than in 2010. Gradually, the activity level of the global IPO market began to rise in 2013, and 1206 agreements were concluded in this market in 2014, during which US\$ 256.5 billion were involved. Compared with 2013 the number of transactions increased by 35% and their volume rose by 50%.

Thus, rising trend is observed despite of global macroeconomic risks and the debt crisis in the global IPO market. Herewith, the main factors of this process in the global IPO market were the following: low volatility in international stock markets, coupled with high rates of income growth companies; shortage of

capital in terms of an extended period of recovery from the crisis; a significant number of pending listings since the beginning of the crisis; State privatization process; increasing the investors' confidence to shares and risks valuation [Levkivsky 2014].

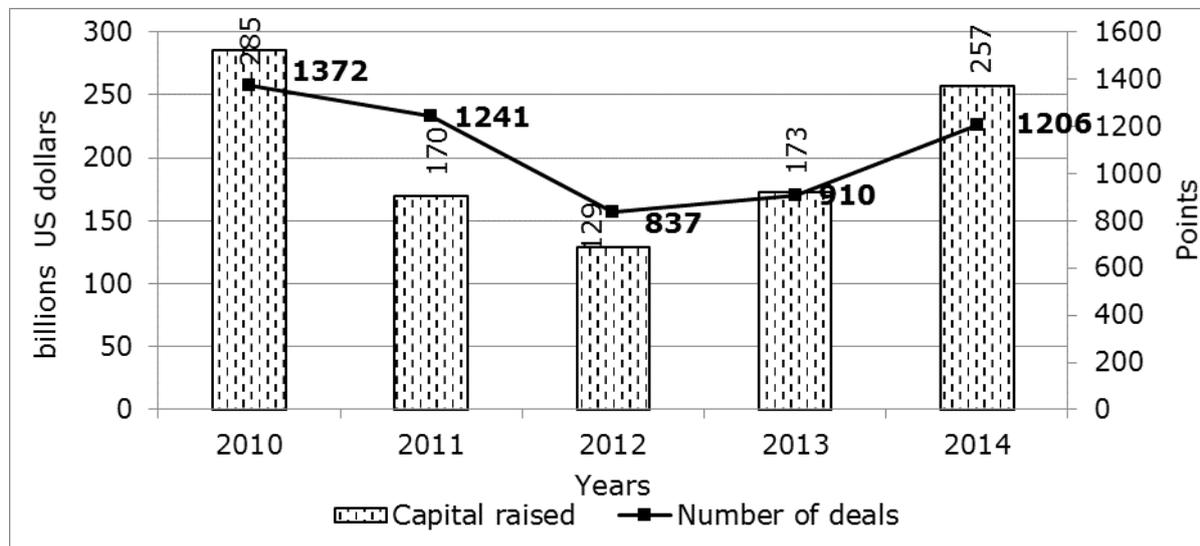


Figure 2 – The volume of capital raised and number of deals in the global IPO market for 2010-2014

Source: compiled by the author according to the [Report of international auditing company Ernts & Yong 2013]; [Report of the international auditing company Ernts & Yong 2014]

The USA was the leader among industrialized countries in 2014 in the global IPO market in terms of capital raised. On US stock markets 288 transactions totaling US\$ 95.2 billion were made. Their number has grown by 27% compared to the year 2013, and the volume of borrowed funds increased by 54%. These figures were the record for the United States over the last ten years. According to experts, the US market remains attractive thanks to a well-developed market infrastructure, the availability of professional analysts and a large number of investors willing to invest in business growth [Savchenko, 2015].

China holds the most significant position in the IPO market among developing countries. This country was not a significant player in the global market in the early 2000s. But in 2014 the Hong Kong stock exchange holds to the leading position in terms of number of IPO transactions. 87 placements were made in the amount of 30 billion dollars.

Ukrainian IPO market is at an early stage of development. The number of Ukrainian companies using this tool to attract financial resources is insignificant. The limiting factors for Ukrainian companies to enter the IPO market are: long preparation, the reluctance of local business to disclose its reporting, poor corporate governance, the low liquidity of the Ukrainian stock market, poor taxation system, insufficient investment attractiveness and the low rating of the investment climate in the country, the lack of state guarantees of the transparency of the investment process and the protection of investors [Savchenko 2015, Levkivsky 2014]. No major placements of Ukrainian companies with using EDI has not happened in 2013-2014.

So the dynamics of Ukrainian stock market does not meet the objective tendencies of development and functioning of the global stock market. We

believe that the implementation of these directions is necessary in order to ensure the continued effective integration of Ukraine in world stock markets:

- implementation of the Ukrainian legislation to international standards is an important condition for ensuring the attractiveness of the national securities market for domestic and foreign investors;
- creating a favorable investment climate by ensuring general stable macroeconomic and political situation and scientifically-based taxation;
- the increase of level capitalization and liquidity the stock market by consolidating of the exchange system based on the experience of the EURONEXT i.e. exchange platform, which brings together five European stock exchanges;
- the increase in initial public offerings of securities on stock exchanges on the base of improvement of regulatory framework IPO, the ensuring protection of property rights, enhance the role of the organized securities market;
- promotion of the rating agencies services, increasing the financial literacy of Ukrainian citizens and the improvement of mechanisms for the protection of investors' rights in order to increase the level of individuals' activity on the stock market;
- creating the conditions for the emergence of strong domestic institutional investors which are able to make long-term investment in the economy through stimulating the development of joint investment institutions, particularly nonstate pension funds;
- ensuring effective regulation and supervision of the stock market, improvement of the activity of self-regulatory organizations and financial monitoring system.

Conclusions. World stock market is in conditions of strengthening financial globalization. It is characterized by both positive and negative trends which affect stock markets all over the world. The stock market of Ukraine has a low level of integration in the global capital market, due to the low market capitalization of the listing companies; insufficient volume of selling shares in relation to GDP; the decline of the portfolio investments; undeveloped market IPO. This requires the development of the national securities market in the direction of global trends on the basis of Ukraine's further integration into the global financial space by creating the favorable investment climate; increasing the level of capitalization and liquidity of the stock market; increasing the initial public offering of securities on the stock exchange; raising the level of activity of individuals and creating conditions for the emergence of strong national institutional investors.

Further research will be devoted to the study and analysis of the impact of financial instability on the functioning of the global stock market.

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