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Trajectories of transformation of international financial architecture in the conditions of a new normality

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Abstract. In this article, we contemplate the consequences of the global crisis, the influence of new world challenges and threats for reforming the world financial architecture, and its subsequent development in a new phase called a new normality. In this work, we discuss the changes in the world financial architecture on all levels, both in respect of transformation of the role and forms of world financial institutions, and in respect of the regulative norms and obligations reflected in a picture drawn by the authors. We showed the growing role of the influence of some countries and groups of countries in the process of transforming the international financial architecture; we confirmed the hypothesis about the growing role of such informal structure as Group 20 (G20). We analyzed the transformational processes and predicted 2-aspect changes in reforming the international financial architecture in the near future.

1. Introduction

During the present stage, a global objective of regulative organs is improving the model economy that would have a long-term potential of dynamic growth and facilitate a steady growth of population's well-being, efficient reproduction and modernization of national economies, improving the competitive advantages and the nation's safety. It became necessary to form efficient mechanisms to regulate and use all the elements of the world financial system, with the highlight on the problems of transforming its external component – the world financial architecture. The purpose of the international financial architecture is developing a new mechanism to control the international community as a whole without limiting the sovereignty of individual states, through the system of international financial institutions. The term "financial architecture" came into use after a speech by the USA president Bill Clinton in New York in the Council on Foreign Relations in September 1998. The USA president used the term in his speech dealing with the financial crisis of 1997-1998. "The largest financial challenge the world has encountered during the last half of the century" – this is how Bill Clinton characterized the recent financial crisis; he suggested that the G7 countries "adapt the international financial architecture for the XXI century [1].

A number of Western scholars, such as E. Giddens, K. Omae, J. Rosenau, J. Thompson, P. Hirst, F. Bergsten, B. Eichegreen devoted their works to studying transformations of the world financial system [2, 3]. The changing world financial architecture was also intensively studied by Russian economists. A scholar named Efremenko indicated the key characteristics of the stages of development of the IMF in 1998-2008: increasing the inter-connection and inter-dependence of national financial systems; activating the liberalization process with simultaneous increase of the role of authorities in ensuring financial stability and safety of national financial systems; the fact that financial crises regularly repeat, with still greater depth and intensity [4].

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The next world financial crisis of 2008-2009 put forward the issue of efficiency of regulating the financial architecture and, beginning in 2009, the world economy entered a principally new phase. This phenomenon that is usually called new normality is expressed in three basic notions [5]:

– a decreased rate of the world economic growth;
– a high volatility in all the commodity and financial markets;
– a decreased efficiency of the traditional state policies, including fiscal and monetary instruments and incentives.

Such financial-economic situation that used to be considered abnormal and a cardinal deviation, is now considered normal.

The purpose of this research is analyzing the transformational processes in the world financial architecture in the post-crisis conditions – the conditions of the new normality.

The tasks of the research:

– to estimate the influence of countries and groups of countries participating in the process of transformation of the world financial architecture;
– confirm the hypothesis about the increased role of developing countries, in particular, the countries of the Group 20.

2. Methods of research

In order to find out how the financial architecture will be reformed in the conditions of a new normality, it is necessary to identify external threats and develop recommendations to eliminate them.

The threats of slowing down the world financial architecture transformation processes [6]:

– presence of the historically accepted continental level of consolidation of nations and countries of the world on the basis of common problems and principles of separating while solving them;
– unresolved disputes on the concepts of XX century that can play a negative role in the international integration sovereign states on the basis of a new world financial architecture;
– downsides of the civilization progress in the developed countries and negative ego-centric manifestations of their clear domination over the developing countries, a large gap between the levels of the economic, political and social-cultural development of the developed and the developing countries;
– dependence of underdeveloped countries and their authorities on the full-scale assistance from better developed states and international organizations, the growing dependence on the political sponsors, creditors and investors.

For the research, we chose a group of developed countries that have the most influence on establishing the world financial architecture – the group G8, later on - G7, by the index of the country's share in the world GDP [7], as well as the share of the world region in the gross amount of the world financial assets [8].

Table 1. The shares of G7 (G8) countries in the world GDP, %.

Country	2009	2016	Growth rate
USA	24.0	24.6	2.50
Japan	8.7	6.5	-25.29
Germany	5.7	4.6	-19.30
UK	3.9	3.5	-10.26
France	4.5	3.3	-26.67
Italy	3.6	2.5	-30.56
Canada	2.3	2.0	-13.04
Russia	2.0	1.7	-15.00

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While analyzing the countries' shares in the world GDP, we can see that the USA owns about a quarter of the world economy (24.6%), which is about $18 trillion, and it is the only country in the indicated group that showed growth as compared to 2009.

Let us look at the world regions and the values characterizing the regions' shares in the world financial assets.

Table 2. Regions' shares in the world financial assets, %.

Region	2010	2015	Growth rate
North America	41.0	44.8	9.27
South America	1.9	1.5	-21.05
Western Europe	31	22.7	-26.77
Eastern Europe	1.5	1.4	-6.67
Asia	25	27.3	9.2
Australia and New Zealand	2.0	2.1	5.00

In 2015, the growth of world financial assets was slightly higher than the growth of economy; during the three previous years, financial assets were growing twice as fast, showing the average value of 9%. Such decrease in the growth rate of financial assets mainly regarded the South America, Europe and Japan. On the contrary, in Asia (without Japan), the financial assets grew by 9.2%. The advanced position of this region as compared to others is becoming more and more manifested. The region that can compete with Asia, namely, Australia and New Zealand, showed the growth rate of 5% during this period. We can clearly see the rise of Asia in the world financial scene.

We can predict transition to a multi-level poly-centric regulating system that can maintain and stabilize the growing global finance that grows faster than the economy of material commodities [9]. As the future scenario for reforming the international financial architecture, there is a new system of financial regulating that has a hierarchical character and is based upon linear, functional, regional and project structures.

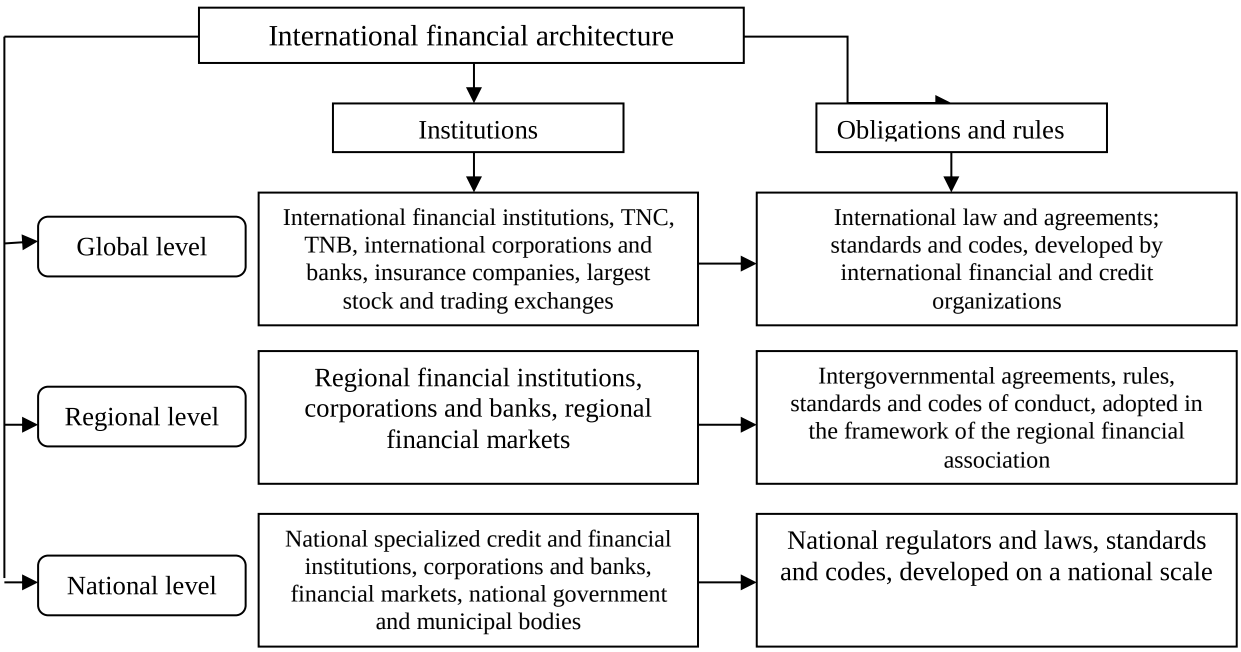

Figure 1. The structure of the world financial architecture in the conditions of a new normality [10].

The global (supra-national) level of development of the international financial architecture includes developing a new mechanism to control the international community as a whole, without limiting the sovereignty of individual states, through a system of financial institutions. An important component of the world financial architecture is the financial institutions, whose activity is a combination of complex multi-level contract relationships, making a great number of transactions, distributing financial assets and forming investment resources for the growth of economy. Transformation of the financial architecture shall take place through transformation of financial institutions, as they define the rate and level of development of the national, regional and global economy [11].

In the process of the continuing transformation, we can mark the role of informal discussion platforms (G7, G8, G20) in transforming the international financial architecture. The financial institutions of the past (the International Monetary Fund, the World Bank, the United Nations Organization, the Organization of Economic Cooperation and Development) never became centers of global incentives to develop global solutions, so they lost some confidence, and the role of individual countries in putting forward their initiatives gas grown (in particular, China, as well as other "growing economies"). Due to G20, during the period 2009–2015, obvious positive changes were manifested in the forms and mechanisms to regulate the world financial system. Efforts of the G20 countries are directed towards developing a common approach to infrastructural forming of national regulating systems.

In addition to the changes in controlling the world institutions, we can also see the calculations of quotas of the countries-members of the International Monetary Fund. Below are five formulas used during the period from the 8th to the 11th General review of the quotas [12].

Bretton Woods: $$Q_1 = (0.01Y + 0.025P + 0.2276VC)\cdot(1+\frac{C}{Y});$$

Scheme III: $$Q_2 = (0.0065Y + 0.0205125R + 0.078P + 0.4052VC)\cdot(1+\frac{C}{Y});$$

Scheme IV: $$Q_3 = (0.0045Y + 0.03896768R + 0.07P + 0.76976VC)\cdot(1+\frac{C}{Y});$$

Scheme M4: $$Q_4 = (0.005Y + 0.04228046R + 0.044(P+C) + 0.8352VC);$$

Scheme M7: $$Q_5 = (0.0045Y + 0.05281008R + 0.039(P+C) + 1.0432VC)$$

According to the proposal of G20, a reform was coordinated that resulted in an increase of the combined quota of the developing countries by 2.1 per cent points (from 36.6% to 38.7%). At the same time, the process of coordinating a new formula is made more difficult: $CQS = 0.5Y + 0.3O + 0.15V + 0.05R^k$.

After revising the formula for quotas calculation, it will consider the following: GDP (50%), openness (30%), economic changeability (15%) and the amount of international reserves (5%). However, a situation is developing when the formula was only a topic for discussion, without the actual reforms taking place.

The system of distributing quotas should be radically reformed on the basis of a fair and transparent mechanism, which will make it possible for the developing countries to play a proper role in the world financial architecture in the control structure of the IMF. It is necessary to engage the experts' community of the developing countries in this process to give scientific substantiation for the proposed changes.

Changing the model of development, or even expanded intrusion of national and even international regulating organs (reformed and newly established ones), with transition to a more sophisticated control of the world financial architecture, with an increase in the number of regulating instruments will make it possible to ensure the financial-economic growth and achieve the balance between economies of different countries, i.e. a steady growth in the most important economic indexes [13].

These conclusions make it possible to assume that, during the next stage of development, the world financial architecture will be characterized by a more intense financial globalization and development of supra-national financial regulating on the global scale.

3. Result

Further transformation of international financial architecture in the conditions of a new normality can be pictured as a change in two aspects [13]:

– financial-economic aspect: multi-polar multi-level structure of the world financial architecture with 4-5 regional clusters at the intermediate level (groups of countries with a relatively closed economic and financial turnover, raise of the models that are alternative to the Anglo-Saxon one); the one-pole Anglo-Saxon model (USA, UK – off-shore zones) serving the largest entities in the financial market (financial intermediaries, emitters, financial flows) [14];

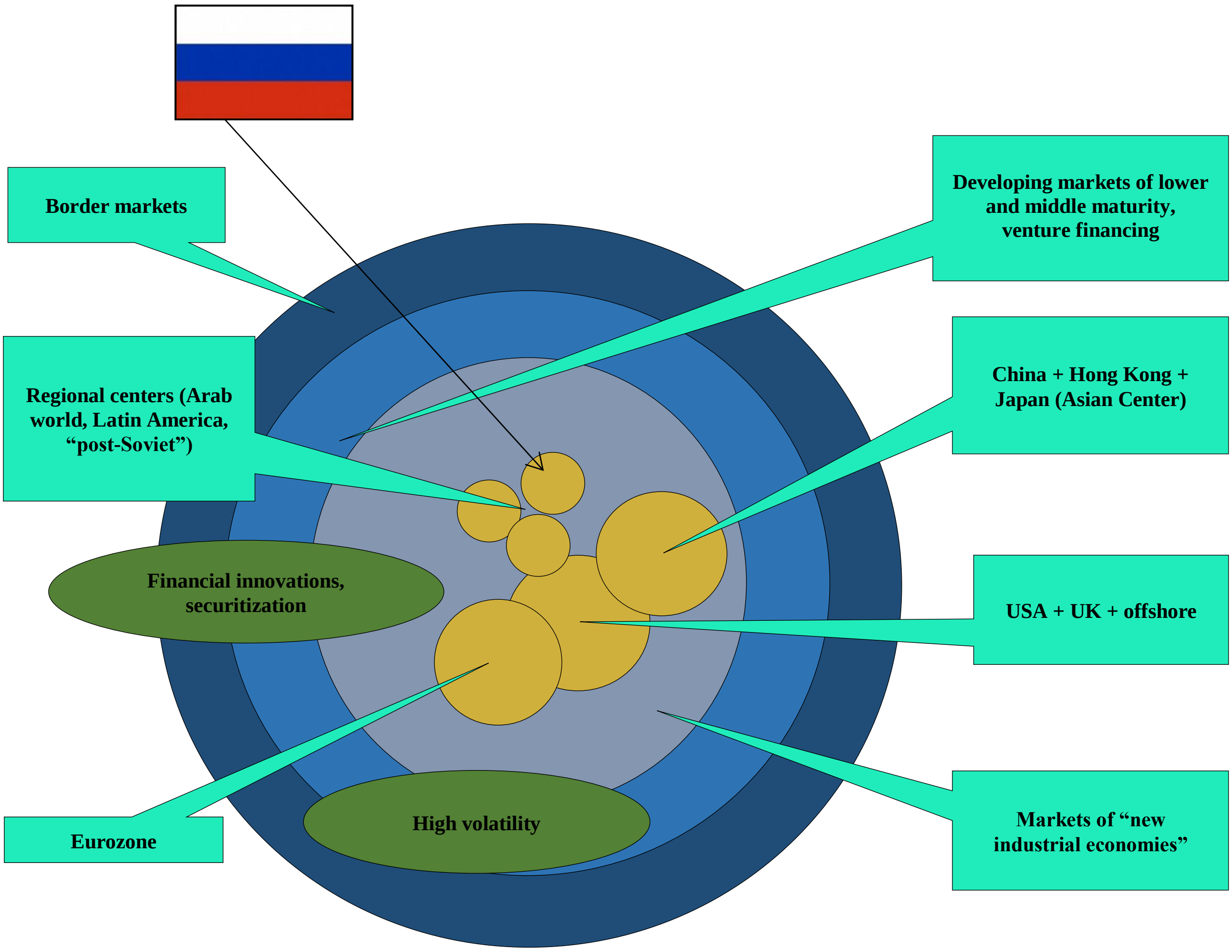

Figure 2. A “multi-polar financial architecture.

– the institutional aspect: an increased role of regional multipartite financial institutions, creating new multipartite stabilization funds and institutions of development, forming alliances.

It is necessary to regularly assess the regulating and supervision system effective in all the G20 countries so they are compatible with international standards [15] and disclose the results of such assessment. Financial regulating will keep on shifting from the national to the international (mainly, regional) level. Thus, the G20 will be solving more global problems in the future. Most countries participating in the G20 process have a well-developed financial market greatly involved into the global financial market. Besides, due to a higher development level of the financial market in these countries, it plays an exceptional part both for functioning of the actual commodities economy and for the growth of the population's well-being. In general, the G20 process was concentrated mainly on the issues of overcoming the obvious failures of the financial market. This process has not yet included the task of analyzing the deepest and the most long-term factors forming the danger of potentially more destructive global civilization crisis. For G20, it is necessary to keep on developing measures to prevent catastrophic changes and consolidate the most efficient and fairer global financial order in the conditions of a new normality.

4. Conclusions

Therefore, transformation of the international financial architecture includes two stages. Firstly, it is solving all the key problems regarding stabilization and post-crisis development of the world financial architecture in the short- and medium-term perspective. Secondly, in the long-term perspective, establishing a new world order with the trend towards forming a multi-polar financial architecture a more active movement towards multi-polarity with considering the interests of the developing countries' markets. Even though, currently, there are no alternatives to the existing one-polar world financial architecture, we should move towards implementation of the above-mentioned stages. It is also necessary to create an efficient mechanism for assessing system risks of the global financial system at the global and regional levels and developing the coordinated regulatory actions to decrease such risks [16]. The frames of regulating and supervising should be expanded so as to cover all the system-relevant financial institutions, markets and instruments.

5. Directions for further development

Future transformations of the world financial architecture should take place with consideration of the movement towards mixed-type economy, increasing the share of national and supra-national organs (in the developed and the developing countries). It is necessary to create and investigate efficient legal mechanisms and measures to prevent system risks, improve regulating and supervision over functioning of financial markets and promoting their "transparency", decrease the asymmetry of information and create conditions for carrying out policies aimed at sustaining competition, as well as the measures to stimulate and accelerate renovations in technologies and innovative development.

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