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Globalization and regionalization – financial trends and risks

Thesis of PhD. Final Papers

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„To change the world first you have to change yourself” – Mahatma Ghandi

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Premises to the Work:

The 20th century economic trends resulted in significant changes in production, financial, social and political systems on both national and global-market level. There were destroying wars in nearly every region of the world, poverty afflicted many countries and unemployment has grown to a threatening level.

The human being, the reasoning individual of the global world, was forced to accept the strict new rules of the developing business world and human relations, whereas he kept his mind and power of thinking free of restrictions. In the process of development, this individual kept the profit well in mind, but thoroughly forgot about the consequences of environmental damages.

The human thinking in business got fully controlled by the need for instant financial profit and the interests of business participants steered the world towards collecting fast-earned profit by every means. The globalisation of economy has grown above state governments, enabling the capital-owners to convert their financial influence into political power.

In conclusion, the fast expansion of the above mentioned trends arose my interest in searching into the field of globalisation and risks. My main aim was to analyze and process the environmental, economic and human relation aspects of the topic.

Regarding the topic, there is a very significant part of it: the globalisation in finances. This aspect went over extensive changes caused mainly by the introduction of e-business, which is why the questions of globalisation resulted in new international business solution processes.

The basic aims of the research were:

- Getting to know the specializations of multipolar world
- Research and effect evaluation of the technical and technological revolution of the 20th century
- The evolution – regarding the relationship between the nature, the human and the economy
- Globalization, the risks of financial globalization
- Aspects of e-business and e-commerce
- The power of thinking and the effect on development

Research Basis and Methods:

As a lecturer I was often faced with questions of long-lasting influence, which has changed the specifications of world market in the long run. Among others, one of these questions is the long-term forming of regions, in which the aspects of regional interests, regional connections and regional participation in forming the specifications of the world market are also included. It was also clear for me that asserting one regional interest generally means the impairment of the other's interests. This happens most given that a region or a company holds significant capital value and financial influence. The understanding of this process resulted in the waves

of fusions in the 20th century and the establishment of globalization by the means of implementation of the technical and technological development.

The new business conditions naturally caused new different risks. During my research, beside the analysis of the specifications and process of globalization, I was to recognise, evaluate and systematize these risks.

Hypothesis of search:

- 1.) Globalization and regionalisation are parallel, complex, integrated processes, which gained speed in the 20th century by supporting each other.
- 2.) One of the most significant aspect of globalization is the globalization of financial markets, since the fast flow of money may arise problems in the global balance of the world. In this field the risks are definitely higher, as the increasing speculation may result in the collapse of financial markets.
- 3.) The fusions and fusional waves are present not only as causes, but also as outcomes of the globalization of companies and banks.
- 4.) Globalization resulted in the establishment of new risk factors, and the widening meanings of former risk factors, creating new possible risk.
- 5.) Sustainable (zero-change) development is only sustainable by the well-balanced existence of the human race and its natural environment.
- 6.) Making conscious decisions when choosing between short-term and long-term interests regarding national, regional and international interests.
- 7.) The new, changed system of conditions is based on the conditions of conscious behaviour and cultured living together, which can be realized by the specialized development of the educational system.
- 8.) In the long-run ethical investment and ethical banking is profitable. Ethical thinking is not against profit-earning in the long-run. The ecological investment means an advantageous investment prospect.

Confronting Hypothesis and Result:

1.) Globalization and regionalisation is present in the whole development of human race. The two processes extend to different directions, since one sets its aim at influencing the whole economy of the world, while the other is to enforce the specializations established by a region or a community. The parallel existence of the two trend derives from the different power of interest assertion of different sized communities and regions. The difference of interests is truly recognised when it comes to the interests of private persons and is also existent when it comes to smaller communities, but in this case the difference of interests is summed up, as it is very likely that those small-community interest-groups are established along the guideline of similarity. The more significant the knowledge, the capitalized know-how and the size of the community gets, the more power of interest-assertment it has, asserting its rights by advantage over smaller, less-developed communities. The strongest communities establish integrations. The regulation of the strongest closed integrations may be the most proper way of maintainable development, since the strongest of integrations have the most effective power of interest-assertment.

The establishment of regional co-operation by the means of the founding of closed integrations results in co-operation of the members of the integration in the fields of social development, economy, politics, defence and many other way. Given the proper organisational establishment, it brings fast development to the members of the integration and the strengthening of the power of interest-assertment. (For example I would mention the European Union, or the former Monarchy of Hungary and Austria.)

As a result, communities reach formal agreements for avoiding deep conflicts, to enable the association, the community, the integration or the region to keep each other's interests and views in mind. In problematic cases regions or integrations gain enough power to enforce their interests on other groups or regions mostly against their will and without asking. For example one of those situations was the process of colonisation, or the interest-assertment of multinational companies.

Globalization is a world-wide process existing in many aspects, in which one of the stronger communities spreads its culture on every parts of the world. One of the specifications is that the difference between national and international connections lessen, while co-operation becomes stronger. This is a complex system, which changes the quality of life too.

Globalization can be also viewed in parts regarding the global co-operation of the telecommunication, the working capital and the financial capital. Globalization itself means that the exact place of physical happenings is non-definitive and that the production, the trading and service sector operates on a world-market level. The concept itself is a cliché today, meaning not only the globalization of capital, employment, product and service markets, but also the world-wide effects of this.

One of the defence solutions against world-wide effects and interest-assertment is the establishment of regions, as these closed communities ensure the rights of their members. This is why globalization and regionalization exist parallel, since communities recognised that they have to keep their own politics, economy and culture, etc. and also use the advantages of development.

2.)

The long-term and short-term money markets are fully controlled on national level, but the international control is faced with problems. According to the opinion of the participants of today money-markets – banking specialists, investors, brokers, etc - the best regulation force is the market itself. They also make their decisions on this principle. Whereas the capital-owners often make their transactions on short-term basis and turn to other business opportunities after realizing fast profit.

Financial speculation brings forth significant risks as its huge capital flow and really fast transactions take place in the international system of co-operation. That is why the flow of huge mass of capital goes unbroken around the clock in the world market, gaining advantage of the difference in exchange rates. The participants of the capital market are able to create a flow of capital well over the amount of the capitalized money of the national banks, which may result in the exaggerated change in exchange and interest rates of the country, leading to the breaking of economic balance.

The expectation of long-term and short-term money market participants mean a defining force of the market itself. In global markets, there is no background regulation force, the market is

unable to get rid of the tensions itself. Given that the present globalizational trend goes on, the speculative capital influences must be reckoned with. That is grounded on the fact that the speculation brings the most profit – even regarding the risks - which is why the trading of money in on the rise. Where speculations gains ground, it weakens the position of banks by the flow of hot money, as the banks are forced into disadvantageous transactions, which may lead to the weakening of the whole national economy.

The situation in the beginning of 21th century is worse than ever. The leading stock markets of the world are full with speculative transactions, trading in derivatives is general and huge – according to some estimations it reaches the amount of fourhundred-billion USD. The problem comes from the fact that the working capital changes to hot or escaping capital, which means the strong outflow of money from the real economy and may cause huge problems to not only developing, but also well-industralised countries. Given that the speculation flows in one of the leading economies of the world, it has an effect on the whole world market.

In the process of globalization, the crisis also form a fast and connected wave, which is well spread by the speculative transactions.

3.)

In the world economy, there are often happenings, which closely follow each other and have the same purpose. One of these was the quick productional fusions of the seventies and the expansion of mergers and acquisitions (M&A) in the banking sector in the end of 20th century. This was mainly caused by the significant changes in the specializations of the service industry, mainly in the economy level, but also in the fields of technology and the social area.

Globalization in economies exist not only in international co-operations, but also in the expansion of banks and companies. Fusions are a way of establishing production, trading and financial globalization.

In the flow of globalization, the need for multinational companies was created – for huge investments and companies – by the need for business advantages. Multinational companies go for even larger expansions to rationalize production and trading, to minimize costs and to rise more profit.

Joining into fusions is important for many organisations, mainly in the banking sector, as the increasing global competition is only tolerable for universal banks and multinational companies. To reach the advantageous size is only possible by the means of fusions or internal growth. Internal growth is a slow process, influenced by the earned profit and faster-growing banks and companies may take advantage of the slower one during this process. The growth of the international banking sector makes the globalisation of markets faster, so these two trends back up eachother.

There is one more important attribute to the 20th century to mention: the recession. Recession may bring forth an unwanted situation for smaller banks, which results in the search for new solutions. One of these solutions is also the merger of banks.

To sum up, fusion is one of the way of increasing the size of a bank. Increasing the size means not only better security prospects, but also more effective operational position in the chosen

region. It may also mean the rearrangement of the toplist of banks, giving winning place to banks enlarged by fusions. These larger banks can also profit from the difference in exchange rates and tax-regulations.

There is one more aspect to the fusion, which were above not yet mentioned: the synergical effect. As during the process of fusional operations, the financial, market positional, managing and resource synergies are mostly not properly evaluated, therefore the expected and realized synergy may differ on a large level.

Globalization needs the concentration and centralization of capital, and one of the solution for meeting this need is fusion

4.) In up-to-date enviromantal situation we can divide risk factors into two groups: the first being decisional risks, which include the possibility and consequences of unproper decision making, the other being financial risks, which mean the differing of profit earned.

In economies of globalization, risks of the whole economy tend to be connected, global and make their effect – for example in agriculture – on a growing scale. There are many co-operation between different regions and integratios, but the aspect of interdependence also exists. This comes from the merger of activities. The change, the development of the business world brings forth the change and development of risk factors.

That is why, in the process of financial and social development, it is the constant responsibility of the organizations active in research and development to unearth the existing risk factors, make them open to the public and to take actions to minimize them.

It is most important to evaluate the risks in the newly-established fields of fast-growing economy fields, like computer business. Those effects are mainly recognised in e-business. All risks of ordering, trading, payment and customer service are connected with the computer itself. One of the risks is unauthorized access to computer systems. It is also important to keep customer data secure and establish a system to ensure this security. In the banking sector the above mentioned risks bear even higher importance as the operation of banks is grounded on trust.

In the case of outsourcing, the risk is not only the quality of work, but also the choosing of the proper business partner.

It is clear that risks of finance and risks of decision-making are fully connected in business life, as they are to exist together.

5.) The human being is to be regarded a global being. This global being plays an important role in the connected operation of society and nature by forming them by its power of decision making, and causing damages by unproper decisions. In the 20th century, the human being forgot about the guiding rules of nature, causing irreversible damages, enviromental problems, in general breaking the natural balance.

The guidelines of economy bear strong resemblance to the basic rules of nature, as the human being formed the transactions of the economy according to the rules of nature.

As the human being forms business activity and the process of development, it is advised that the system of nature is analyzed. It is the basic requirement for the question of sustainable development. The connections in economy and nature can be viewed by the means of

evolution and system analysis. These two studies are the key to understanding the environment, which includes the economy, the society, the politics and the nature.

The environment is in a constant change, breaking the former balance and establishing a new one. Modelling this system by the means of mathematics is faced with unavoidable problems, since there is a constant change, there is a flow towards balance point, so the modelling is only possible in a system of optimal conditions. From the view of the human, the aim is to maximize profit, while investing the minimum of energy in physical and thinking level, and disregarding a silent factor, the forming of the nature in the process.

Sustainable development has three major fields: sustainable development of the economy, being in proper state regarding the competitive economy of today; sustainable development of the society, being also in proper state regarding the legislation of today; and sustainable development of the nature, which has major problems. (According to many researchers of the topic sustainable development means zero-change development to our most up-to-date knowledge.)

In business life in the aspect of earning profit, the wording of profit-maximalization is improper, that is why the realization is also disadvantageous. In the 20th century the main aim of the companies was to maximalize the profit regardless of every other factors.

The direction of development is the establishment of complex systems – like the globalization in this meaning – in optimal state, which also means the breaking-up of the oversized ones – like the founding and decline of former empires. In this case the problem stems from the improper handling of the environment, which – to our present knowledge – exists as a negative factor to the development.

6.) Making conscious decisions is only possible if the decision-maker is a well-advised system-understanding thinker. To think on a system-understanding level, one should be skilled and active in nearly every field of science. This is impossible in our globalized complex world, where many skills are very specialized.

The team is to consist of members with deep knowledge in different sciences, so the thinking together brings good result. The members of the team analyze the results of different scientific fields, which leads to preparing optimal decisions.

Regarding the decisions, agreement of interests also must be taken into account, which means analyzing long-term and short-term arguments. Short-term decision-makers want to reach maximum profit in the shortest possible run. It is against the long-term harmonious development, as the increased-speed decisions disregard well-founded, complex, system-like arguments.

It is important to establish the agreement of interests on personal, national, regional and international level, which is to be reached by conscious, contract-based, system-like co-operations. Long-term interests help developments and environmental-conscious thinking. These are the two important prospects of sustainable development, which are to be reached by conscious decisions. Long-term development of the world market can only be realized by well-thought international co-operation.

7.) The development of the community is strongly defined by its cultural level. It comes from the fact that the planning and establishment of innovations is only possible if the educational

level is proper. Given that the community consists of well-skilled, cultured members, it is able to use and increase its knowledge actively. This advantage of innovation creates new advantages in business.

Given that the community is focused not only on innovation and maximal profit earning, there is a possibility of learning environmentally-conscious behaviour for adults and children alike. That is why it is important to steer the educational system in this direction. Forming the thinking in this direction creates the possibility of establishing proper living conditions for the presently active generations without breaking the advantages of the next ones.

The educational system has the task of preparing the next generations to the new way of thinking, which enables the researchers to realize environmentally-conscious innovations.

8.)

Customer-decision is based on trust. It must be supported with information. Environmentally-conscious - and healthy - customers are ready to pay a higher price for environmentally-friendly products. This is why customers need more information before giving out their money.

Ethical investment means a new way of thinking, keeping the environment in mind and ensuring the sustainable development. Ethical investment is not unprofitable investment. Ethical investment means that the investor chooses between classic investment alternatives in the view of financial and ethical arguments. In the long-run these investments earn proper profit. There are countries where there are special investment funds to help ethical investments.

Ethical investments are supported by governmental decision, given that there is a legal advice for big investors to make the social, ecological, ethical, etc. effects of the investment open for the public. This question is very up-to-date, even the legislation of the EU took it on agenda.

Ethical investments are helped by ethical banks, handling money of capital-owners. Given that capital-owners take not only financial, but also ecological and ethical arguments in account when making a decision, the global money-flow is to be changed in the long run. The ethical investor never goes to speculation.

Ethical banks have an important role, not only in arranging money matters, but also in changing the anonymity of business and the specialities of investments. Ethical investments are financed by ethical banks, bring positive effect in the long-run and decrease the damaging of the environment. The ethical bank operates as a traditional bank, but keeps human, social and environmental arguments well in mind.

Ethical bank is interested in financing investments which are environmentally-friendly, are healthy and accept responsibility. Those banks also control the investing process and outcome of the investment.

In conclusion, the globalisation means that every piece of the world market is in connection and influences the others. According to Krug we can sum it up as follows: „The only constant in the world is change, it is only change that remains unbroken.”

Related Publications:

1. Gyulaffy Béláné dr: Business Finance (Dunaújváros, 2004.)
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1. Gyulaffy Béláné dr: Financial Planning for New Corporations (RAABE, 1998.)
2. Gyulaffy Béláné dr.: The convertibility of Forint to be declared – is the economy ready for it? (Jövőlátó, 1989., 8 pages)
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11. Gyulaffy Béláné dr.. Implementing Value-management in Finances (Dunaújváros College Papers XXII.)
12. Gyulaffyné dr.. Globalization – Assuring? – World-wide (Science Day Conference – Dunaújváros – Dunaújváros College Papers XXIII.)
13. Gyulaffy Béláné dr.: Constant Development – Process of Development - Globalization (Székesfehérvár – Science Day – Budapest College for Engineering – Kandó Kálmán College Faculty Székesfehérvár – presentation and CD)
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15. Gyulaffy Béláné dr.: Economic Change – Changing Employment Prospects – Personal Change in Employment Plan (NYME Geoinformatics College Faculty, Székesfehérvár – Issue– CD 2002.)
16. Gyulaffy Béláné dr: Risks – Financially Interesting Questions (Mosonmagyaróvá Conference Issue – 2004)

