Research Articles

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Cross-Cutting Issues in International Capital

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Introduction

For many decades, particularly since the 1970s, markets have been praised as the most effective economic mechanisms, and the more market actors there are, the better the mechanisms work, making the world economy an ideal stage for the interplay of market forces. Different streams of liberalism and the ideas stemming from them, have emphasized the critical importance of unrestrained market functioning for the overall well-being of individuals, states and probably the global economy as a whole. From the 1970s onwards (or at least until the late 1990s), neo-liberalism strove to revive the 'classical' impetus to deregulate and/or move the formation of regulatory regimes from governments to the private sector. Transparency and a market-based approach have become critical features of global financial regulation.

On the other hand, a number of scholars have already emphasized that strict demarcation lines between economics and politics are gone, with an ever increasing intensity linking high politics and high finance. Furthermore, classical state-centric approaches to analyzing both international economics and international politics have faced numerous competing concepts with new actors, issues, policy domains and modes of politicking in the globalised world[2].

In order to have 'global values' authoritatively allocated, global governance might be viewed as the evolving system of coordination across multiple political levels of public authorities and private actors (NGOs and corporations) which seek to realize common goals or resolve common issues through the making and implementing of global/transnational norms, rules, programs and policies[3]. Nevertheless, processes of the 'real world' can develop very quickly

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2 For example, see Cerny, 2007; Mugge; Scholte, 2002.

3 Baylis and Smith, p. 11.

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and quite often theories do not keep pace. This is particularly true of the global economic sphere. According to Cerny,

> Complex systems are characterized by "overlapping memberships" and "cross-cutting affiliations in the international / transnational/ global context – whether we look at states and state actors, multinational corporations, interest groups, and/or individuals – their tasks, roles and activities cut across the different levels and structures…[4]

To put it differently, the global capital market might exemplify what Kratochwil[5] has recently described as a shift from aiming to build a wall and protect the insiders to forming a set of loosely attached and boundary-spanning communities with questionable or temporary loyalties.

So, if the world economy is an ideal place for market forces to play "freely" and deliver optimal results, what are the building blocks of the global framework for capital flows and who really are the "builders", what do they strive to achieve or how they make their agendas? In other words, which are the policy issues that cut across the global capital market?

The Global Capital Market

The last decade of the 20th century witnessed dramatic changes in the ways and shapes the world capital market was operating. The standard view of financial markets' role – to allow a continuous mutation of assets (usually linked to national categories such as savings, investments, etc.) in search of improved results – has changed for good. And it is not only economists who have realized that world capital flows deserve different analyses and research tools. Such a view has been repeatedly applied by scholars, particularly in the area of International Political Economy[6].

Assuming that a modern capital market presents a conglomerate of specialized markets for long-term financial assets – as well as a complex of institutions, mechanisms and instruments – a global capital market refers to the operations, mechanisms and processes within an integral whole. We may also describe the latter as a combination of international elements (usually referred to as cross-border or open border, depending on the analyst's contra- or pro-globalization stand) and transnational elements (sometimes called trans-border transactions, like trans-world banking or trans-world securities, where distances and borders are irrelevant)[7], with a strong degree of integration between the different national parts.

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4 Cerny, 2007, p. 8.

5 Friedrich Kratochwil, p. 3.

6 For example, Higgott, R.: International Political Economy (IPE) and the Demand for Political Philosophy in an Era of Globalisation, European Central Bank, *CSGR Working Paper* 210/06, September 2006.

7 For details on globalization in finance, see: Baylis, J. and Smith, S, op. cit.

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Technological innovations and rapid information flows, aided by a sharp increase in total savings, have fostered a dramatic capital flows globalization process since 1995. Due to better information and, hence, wider choice – savings are channeled into financial instruments across borders, coupled with an overall rise in competition rise. Today capital flows through various forms and among a rising number of economic points of the world economy. What also has to be born in mind is the fact that supply and demand channels have also been transformed. The table below gives a brief overview of the global capital market's size and structure, as well as of its comparison to the real economy.

Table 1: The world capital markets, 2006 (billions US$)

	GDP	Capital market - total	Of which:	Capital market to GDP		
			Stock market capitali-zation	Bonds (public + private)	Bank assets	
World	48.434	194.462	50.827	69.201	74.435	402%
EU	13.658	73.984	13.069	23.192	37.736	542%
US	13.195	56.822	19.569	27.050	10.202	431%
Japan	4.377	20.110	4.796	8.724	6.590	459%
Asia*	6.271	19.210	6.857	3.508	8.845	306%

*emerging market countries

Source: Global Financial Stability Report, IMF, 2007

The above table could be read differently by economists and political scientists but most evidently those two readings should be considered simultaneously if accepted that the global capital market is indeed a complex system. Economists would probably conclude that the world economy is heavily indebted, especially when figures of bonds and bank assets are combined, and that the world long-term assets mutation is loosing touch with the processes of real economy at the world scale. Political scientists, if bothered to read economic figures, could conclude that the distribution and origin of capital power have shifted from the US to the EU (wherein capital markets superseded the GDP value 5.5 times) and that the US – which maintains a double-sided top value of being, at the same time, the physical basis of the so-called 'American Dream' and the leader of the 'free world' – will probably decline in ranking. In addition, it should be noted that the global creditors/debtors scene has undergone very significant changes: the US is still the largest debtor while Asian/Chinese investors are becoming the largest creditors of the US; particularly when government debt is analysed. Also, both economic and

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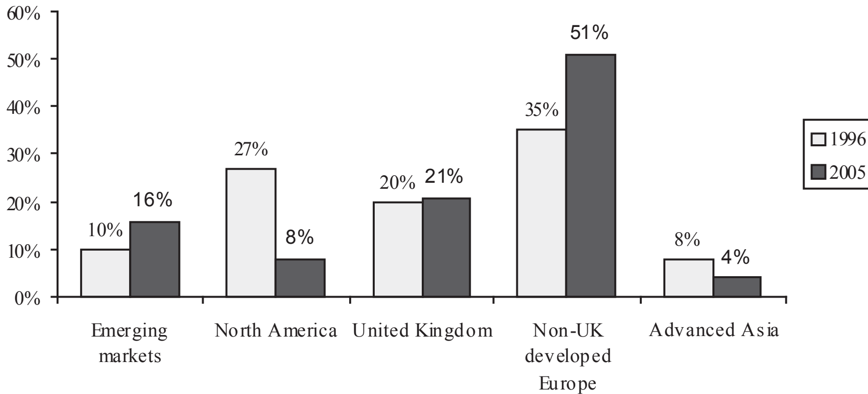
political readings of global data must consider another possible re-ranking of global values – resulting from imbalanced world energy markets, on the one hand, and dramatic consequences of climate change on the other hand – the values of economic and political stability have begun to rise in priority on the global agenda.

Nevertheless, economic data shows that, pertaining to the *structure of origin*, the US remains the largest holder (over two-fifths) of the total outstanding value of global financial assets, but its share declined slightly in the period 1993-2003. The fastest growth, according to capital origin, occurred in Eastern Europe and China, taking into account the very modest basis in those countries. Europe's adoption of the Euro (€) as a common currency has fuelled rapid growth in intra-European flows; also, the EU15 countries have provided large amounts of finance to new members of the EU. Thanks to the large current account surpluses of Asia and the oil-exporting countries, emerging market countries' shares – though representing a relatively small share of the overall capital flows – have grown significantly[8].

Table 2: Structure of global capital outflows



Source: Finance and Development, March 2007

IMF analysis provides a recent account of global capital flows and assets: Japan, China and Germany are the leading net exporters of capital (their combined share is over one third of global capital flows in 2005), while the US alone accounts for nearly two thirds of the overall imported capital in 2005.[9]

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[8] Goswani, M. et al: Global Capital Flows – Defying Gravity, *Finance and Development*, Volume 44, March 2007, p. 14.

[9] IMF (2007a).

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After the equity market turmoil in the period between 1998 and 2001, equity price indices stabilized by the end of 2005; stability significantly contributed to a growing interest of both world supply and demand. Nevertheless, US equities were the most desired product in 2005 – foreign investors bought $908 billion worth of American equities (in comparison, in 1988, foreigners invested *only* $187 billion in buying US stocks).

Growth in global over-the-counter derivatives markets represents another major aspect of a global financial outlook, highlighting intensive efforts to improve risk management. In December 2005, the total notional amount of various derivatives exceeded $284 trillion, with the gross market value standing at over $9 trillion. In comparison to the figures ofat the end of 2003, the markets exhibited growth of 44 % and 43 % respectively[10].

In comparison, the currency composition of the global capital market underwent less dramatic but still evident changes: in 2003, the US dollar lost its dominant position to the Euro. In 2005, 38 % of all international debt securities were denominated in US dollars while 45 % were denominated in Euros.

A steady increase of debt – especially corporate debt – will likely continue into the future; overtaking bank deposits and equity, thus further changing the profile of the global capital market. Contemplating future numbers, estimates indicate that by 2010, global capital assets will comprise about $60 trillion worth of corporate debt securities (double the value of 2003), $59 trillion of bank deposits, about $57 trillion of equity and about $30 trillion of government debt (an over 50% increase of the value in 2003).[11] In addition, equity derivatives certainly represent the market segment of rapidly rising importance and weight. In the language of financial professionals, the *noise* over this market segment has been considerable, although equity derivatives do not yet make up a large portion of the trade on exchanges around the world. According to the Bank for International Settlement, the gross market value of these instruments was recorded at $671 billion, more than double the figure of 2004.[12] According to some estimates[13], equity derivatives will contribute between $16.8 and $20 billion to investment banking revenues in 2007, outpacing cash equity reserves by over threefold.

If the global market is a complex system of assets, actors and institutions, any attempt to identify major trends and issues must take a longer, dynamic perspective with a more detailed look.

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10 IMF (2007a); proceedings from the IOMA-IOCA Annual Conference - Lisbon 15-17 May 2006.

11 Farrell, D et al (2005), p. 5.

12 More data and a full set of historical time series are available on the BIS website http://www.bis.org/statistics/derstats.htm.

13 Equity Derivatives – Special Supplement, *The Banker*, July 2006.

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Table 3: Global financial assets growth 1993-2003

Asset classes / Country of origin	Annual growth rate %	Financial growth to GDP
Total	**8.4 %**	**3.3 times**
Banking deposits	7.8 %	
Govern. Bonds	5.9 %	
Corporate bonds	10.2 %	
Equity	8.6 %	
USA	8.6 %	4 times
Euro zone	9.8 %	3.1 times
United Kingdom	11.3 %	3.9 times
Eastern Europe	19.3 %	1 time
Japan	4 %	4.1 times
China	14.5 %	3.2 times
India	11.9 %	1.4 times

Source: McKinsey Global Institute, www.mckinseyquarterly.com

While countries and areas showed different growth rates in the period 1993-2003, important financial growth is recorded in Eastern Europe, and also in China and India, with the latter two becoming increasingly significant financial players on the global level.

Overall, the global financial sector, and particularly banking, remains the profit leader, ahead of those traditional profit makers, such as the oil, gas and coal industries. According to some estimates, the world banking industry made almost $790 billion of after tax profits alone in 2006 (to be doubled in 2016[14]). Looking ahead, it is projected that emerging markets will contribute roughly half of the absolute growth in new banking revenues from 2006 to 2016, with North America and Western Europe declining in share (25% and 20%, respectively). It is believed that both Russia and China will maintain their accelerated growth rates while India will record a financial growth higher than Central and Eastern Europe. On the global level, wholesale banking will probably undergo some restructuring in the years to come, with investment banking and the securities business providing a larger relative share of the operations and revenues.

Actors and Issues

Without attempting to present a comprehensive overview of changes related to all types of actors, few examples may suffice to illustrate major issues that define or will define the global capital market politics. It is also important to stress that although concrete examples of stock exchanges or financial actors

[14] According to Dietz M. et al.

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have been categorized under separate sub-headings, all of them could equally serve as examples for all other sub headings for the basic logic and the underlying values do not show significant differences among the actors.

> More than in other major industries, it appears, long-term success in banking hangs on being in the right place at the right time. Over the last ten years, for example, 88 % of the growth in the revenues of Europe's 20 largest banks was attributable to market momentum – in other words, competing in or entering territories and market segments that enriched everybody.[15]

This conclusion, particularly the part related to the "right time", "right place" and "entering territories", could be applied to other financial markets' actors as well. The part that follows attempts to identify several major trends which are expected to further contribute to market momentum and change our views about political actions and reactions.

Globalization at Work: Across Jurisdictions

Firstly, multi-jurisdictional groups are a type of actor formed through the merger of stock exchanges from different countries, bilateral and multilateral agreements on cooperation, alliances, etc. The reason underlying their formation has been primarily to diversify, increase effectiveness, make better use of IT, etc. Nevertheless, the endless search for "regulation-friendly" environments – or the use of benefits arising from specific regulatory competition worldwide – plays a significant part in the creation of such groups. Such multifaceted actors continuously redefine their strategies, alongside with multiple sets of political values, agendas and norms they support. Two prominent examples show how transatlantic and/or cross-country mergers allow previous competitors to pull resources, think globally and work globally.

The transatlantic merger between the New York Stock Exchange Group, one of the world's largest equities exchanges, and Euronext, Europe's leading multinational exchange was being prepared for a long time. In April 2007, the deal created NYSE Euronext, encompassing seven exchanges from six countries. Although large multinational actors have existed for many decades, one cannot fully appreciate this new type of financial market actor without referring to numbers. Average daily turnover in April 2007 at NYSE Euronext amounted to $120 billion (more than double that of its nearest rival, NASDAQ), while combined market capitalization approached $25 trillion (six times higher than the Tokyo Stock Exchange, the second market in the world by market capitalization).

NYSE Euronext might be viewed as a prototype or precursor of future actors new to the global capital market: large, complex, far-reaching, cost-effective and,

[15] ibidem, p. 1

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most importantly, based in different regulatory environments[16]. Like NYSE Euronext, new actors can anticipate providing cross-border products and international listings; creating new capital market instruments (e.g., combining fixed income and equity, EFTs); offering and executing operations in multiple currencies and time zones; and above all, allowing easy, fast and cost-effective access to capital. Competitive pressures will motivate mergers targeting more efficient operations and increasing attention to economies of scale, consequently creating room for investment – by exchanges between themselves – into innovative products, value-added information and other services tailor-made to their clients.

OMX is another example of new multi-jurisdictional actors in Europe. By all measures, signals indicate that the merger of seven national exchanges[17] from Nordic and Baltic countries into OMX was necessary to achieve a critical mass, in order to become more efficient and to reduce costs. Created in 2003, OMX today owns and operates the largest integrated securities marketplace in Northern Europe. In addition to securities, OMX provides technology solutions for financial and energy markets worldwide. OMX technology solutions span the entire transaction chain, enabling exchanges, marketplaces, clearing organizations, central securities depositories and other financial participants to achieve optimum efficiency and innovation. OMX conducts operations in numerous countries in Europe, Asia and in the US. At the beginning of 2007, OMX market capitalization (excluding investment funds) was $1.152 billion (representing a twelve-month increase of 32% in dollar terms); over 800 companies and 5,000 bonds were listed on OMX (the highest growth in Europe). Reflecting the new business orientation of modern stock exchanges, OMX's own shares are listed on four European exchanges.

These two examples might point to one aspect of changing global structures of the world capital: numerous and diverse (national) economic and political layers are being efficiently combined into an operational whole.

Competition at Work: Growing Fast and Complex

The global capital market-place features another new type of actor: the *fast growing* actor. Capital market actors from Asia have been particularly assertive in tapping the global market, which is unsurprising keeping in mind the tremendous capital needs of the regional fast-track economies. Stock exchanges in Shanghai and Shenzhen (and partially, the Hong Kong Stock Exchange) have recorded growth several times higher in all major aspects of their businesses than that of 'traditionally' influential exchanges, such as the London SE or the NYSE Group. In February 2007 (as compared to Feb. 2006), for example, the

[16] More details on the merger available at *www.euronext.com* and *www.ne.com*.

[17] They include the Copenhagen, Helsinki, Iceland, Riga, Stockholm, Tallinn and Vilnius Stock Exchanges.

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Shanghai SE (founded in 1990) recorded an increase of 560% in share trading values, and the number of share trades topped 100 million surpassed only by NYSE Group and NASDAQ[18]. In addition to sheer numbers, a political analyst must not overlook the fact that the majority of US creditors of a governmental or non-governmental nature come from China. The US position of global hegemon comes with an additional price: high sensitivity to extra-territorial capital markets' turbulences which are reasonably associated with very fast economic growth.

Intensive transnational linking and actors' changed organizational structures and strategies even forced regulators to seek new definitions of global actors. Coming to terms with the reality of modern capital flows unbounded by territorial or market segmentations, national and international regulators have changed their focus slightly from origins to operations. Such new actors' activities raise issues (due to permanent cross-sectoral and cross-border transfer of financial risk) especially relevant to a comprehensive assessment of the strengths, weaknesses and supervision of financial systems. A large and complex financial institution (LCFI) is likely to embody specific characteristics[19]. Such an actor is a significant player in both wholesale and retail, regional or global, financial markets with substantial international operations. A group of actors usually form an LCFI and may headquarter in a country of origin, or may be based abroad with significant local presence in the form of branches or locally incorporated subsidiaries (perhaps including local holding companies). The legal form of an LCFI's local presence may present important regulatory implications, thus allowing the LCFI to exploit regulatory differences and to rapidly adapt to local circumstances. An LCFI's international and domestic financial activities include: commercial banking and other lending (such as credit origination and securitization); securities trading, dealing and underwriting, mergers and acquisitions, and other capital market activity; life and general insurance, as well as custody and asset management. In some cases, the operations of the wider group may include significant industrial and other non-financial activities.

In comparison to 'traditional' global capital market actors, an LCFI possesses certain additional features such as prominence in the local payments, clearing and settlements structures. To realize its primary motives – and as a consequence of its characteristics – an LCFI's liabilities reflect very diverse sources of local and cross-border funding and reserves, while its assets include a full range of marketable and non marketable financial instruments held locally and abroad. Likely, off-balance sheet items are particularly important, because they reflect complex funding, as well as hedging and speculative trading strategies. Of course, both over-the-counter (OTC) markets and organized exchanges

[18] World Federation of Stock Exchanges, p. 5.

[19] *Financial Sector Assessment: A Handbook*, IMF, Washington 2005, p. 124.

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exhibit these strategies. Despite many changes in LCFIs, compared to market actors, some features seem permanent: an LCFI likely comprises many different legal entities, and the link between those entities and its internal management structure may appear complicated or even opaque.

Profit at Work: Remodeling Tradition

Changes are also evident among the most 'traditional' actors on the global capital market – stock exchanges. Their transformation most often includes: opening up to foreign members (European stock exchanges, in particular); introducing electronic trade systems and changing their business nature through demutualization. Mutual or member organizations founded many stock exchanges; an individual or a securities firm, on the one hand, earned certain benefits (including rights to trade on the exchange and to establish a market in certain securities), and on the other hand, certain responsibilities (including obligations to act in accordance with membership rules to benefit the entire organization). This system worked effectively for many decades and, indeed, many argue it still does. Others however, believe that such structures constrain the exchanges and prevent them from competing effectively with rivals. Fast, efficient electronic systems that execute trades rapidly at little cost are particularly competitive rivals.

As exchanges needed greater resources to increase their competitive standing, a significant number of them decided to transform themselves into for-profit stock companies. They offered shares to the public and even listed on the exchange itself. In a number of cases, government authorities initiated the demutualization of domestic exchanges, believing it would improve the competitiveness and efficiency of the markets. According to the World Federation of Exchanges, as of March 2003, a total of 42 exchanges had demutualized. This figure encompasses exchanges in both developed and emerging markets, including, naming a few, the London Stock Exchange, Australian Stock Exchange, Deutsche Boerse, Athens Stock Exchange, Philippines Stock Exchange and Kuala Lumpur Stock Exchange.

The transformation of stock exchanges into *for-profit* share companies changes the modes of capital market operations and raises significant issues for securities regulators. Although many of the issues exist in the case of traditional stock exchanges, demutualization highlights potential conflicts of interest. Primarily, their regulatory functions (including the administration of their own operating rules) may be jeopardized, neglected or misused. Regulators handle such potential conflicts in a variety of ways. Some regulators have removed regulation from the exchange function entirely, giving it to an independent self-regulatory organization, or even assuming all or part of the functions themselves. Others consider improving internal controls at the exchange through enhanced regulatory oversight or strengthened corporate governance sufficient.

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The pillars of financial tradition, large institutional investors – like insurers, pension funds and hedge funds – have also embarked on the transformation wave. It is evident that such players have been partially shifting asset allocation from traditional investments (beta) to alternative investments (alpha). Traditional investments, such as mutual funds, are usually targeted to deliver performance similar to a given benchmark, and they are greatly influenced by general market conditions. Institutional investors, such as pension funds, usually face legal constraints in order to deliver at least a certain level of performance. New accounting rules force them to keep a specific balance between their assets and liabilities, so they turn to preserving their capital with an absolute and positive return objective (alpha) instead of capturing the market risk premium with a relative return objective (beta).

This search for new asset classes and new investment strategies created a new generation of so-called structured products, previously related to retail markets. Structured products are synthetic investment instruments specifically created to satisfy needs that the cash financial instruments available on markets cannot satisfy. They are mostly used to reduce the risk exposure of a portfolio, or to utilize the current market trend in order to deliver absolute returns. For example, in 2006, Goldman Sachs designed a new product named a Boosted Annual Coupon Note (BANCO). Sold to multiple investors, this product is a note of which the principle is protected, but the coupon is linked to the return of EuroSTOXX 50[20]. The coupon is capped, and if the cap becomes effective (i.e. the limit is reached), the investor is locked into that rate for the duration of the transaction's life.

The transformation into *for-profit* companies changes the modes of capital market operations and raises significant issues for global governance structures. Demutualization highlights potential conflicts of interest, primarily those related to self-regulation, thus signaling to a potential change in their political agenda whereon different aspects of the value of freedom (to self-regulate and to earn-and-distribute profit) might reverse their order. Nevertheless, changes in operational strategies of large institutional investors might point to a new way of targeting high profits while at the same time not jeopardizing stability which is one of the most prominent values sought for among global financial players.

Cooperation at Work: Joining and Pioneering

As a consequence of both technological advances and increasing competition, new actors from other domains have appeared on the scene. One example of how financial market participants can also join forces among themselves and with other experts in dealing with non-monetary issues is the Giovaninni

[20] EuroSTOXX 50 is a blue-chip stock index of the Euro zone, created jointly by the Deutsche Bourse and the Dow Jones Company.

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Group: a group of financial market participants formed in 1996 and chaired by Alberto Giovaninni (advisor to the EU Commission). The group engaged extensively in analyzing barriers to the efficient clearing and settlement of securities cross-border transactions among EU member states. The Group published two reports on the removal of barriers; recommending the elimination of differences in IT (Barrier One), other interfaces, national differences in securities issuance practices, etc. The group established a deadline of 2011 for all actors to comply with the Barrier One Protocol.

One unique actor on the world capital market deserves special attention. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a global private actor (a member-owned cooperative) with the membership originating from a variety of countries, whose number surpasses the one of UN members.[21] Over 8,000 banking organizations, securities institutions and corporate customers in more than 208 countries exchange millions of standardized financial messages through SWIFT on a daily basis. Its role is two-fold. On the one hand, SWIFT provides the proprietary communications platform, products and services that allow financial markets' actors to connect and exchange information securely and reliably. But, on the other hand, SWIFT's mission is also to act as the catalyst that brings the financial community together to work collaboratively in order to shape market practice, define standards and consider solutions to issues of mutual interest.

> SWIFT is a community-inspired co-operative, founded by and for the financial services industry. We work globally with more than 8,300 organizations including banks, market infrastructures, securities institutions, corporations, network providers, business partners and technology companies to ensure the financial world can carry out its business operations with certainty.[22]

In addition to numerous activities organized to meet such a two-fold aim, SWIFT actively supports the creation of virtual communities that bring together individual actors from different fields but with shared problems, visions and strategies. In 2007, there were more than 5.000 members and 80 communities in the SWIFT community network. For example, these sub communities are organized along product lines, expansion strategies, geographic location, particular issues such as the Single European Payment Area or SWIFT standards, etc. SWIFT's unrivalled position as the global finance communication spine lies in its global nature and flexibility to simultaneously encompass regional differences, sub-sectoral industrial needs and individual actor's aims and values, without fragmenting its overall strategy. It may indeed serve as the most illustrative example of multiple playing fields of the global capital and of actors' overlapping membership.

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21 As of July 2006, the number of UN member states is 192.

22 SWIFT (2007), p. 1.

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Another representative example at the furthest end from such institutionalized actors is The Association for the Taxation of Financial Transactions for the Aid of Citizens (ATTAC). Formed in France in 1998 as an international movement for democratic control of financial markets, today ATTAC works through networks of individuals in more than 30 countries, actively campaigning over a wide range of issues, such as off-shore centres, functioning of international financial institutions, etc. As one author has put it: "From a polite discussion among educated gentlemen, the debate over global financial governance has evolved into a much wider, more contested and very public exercise."[23] Although not yet spectacularly prominent, the activities of ATTAC and numerous other initiatives might point to a rise of a particular "global social resistance" to contemporary financial flows or the global public sphere, the impact of which is probably still to come.

Quite frequently capital market innovations are introduced by actors from previously competing (or at least much differentiated) financial sub sectors - hence pointing to a rising category of highly adaptable and innovative actors. For example, in 2006, Marsh and McLennan Securities announced the completion of a multi-territory, multi-peril catastrophe bond transaction offering to the Catlin Group (Bermuda), covering up to $200 million, in addition to the traditional reinsurance. Cat bonds transfer a set of risks from the sponsor (usually a reinsurance company) to investors. If a catastrophe takes place (earthquake, windstorm or a similar disaster at a prespecified location), part or all of the investors' claims are transferred to the sponsor. Thus, a completely new capital market instrument was introduced to the market. In the period 1997-2005, the value of cat bonds increased fourfold to about $2 billion, with a steady rise in new issues[24].

Increases in the frequency of natural disasters occurring worldwide and subsequent large losses may produce one positive consequence: international capital markets have started to develop new instruments to allow, on the one hand, a new dimension of portfolio diversification for investors, and on the other hand, to pool capital in the incidence of prespecified catastrophes. Climate change and capital flows have never been more closely related.

Energy at Work: Fuelling Capital Flows

Another type of actors can be distinguished not only with respect to their role or financial strategies but also in accordance with the origin of the wealth they invest in the capital market – new petrodollar actors. A continuous and unprecedented rise of oil prices over the past years has also contributed to the emergence of numerous actors from oil-exporting countries. Not only do they

[23] Germain, R. p. 7.
[24] Source: www.today.reuters.com

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share the same economic basis for generating their investment capital, they also share other characteristics. For example, if analyzed by country of origin, those actors usually include central banks, sovereign wealth funds (state-owned investment funds), government investment corporations and companies controlled by governments, wealthy individuals and private companies. In addition, most of them (apart from the sovereign wealth fund) are risk-prone investors and they are all eager to make the best use of the available capital for a short period of time. The transparency of their structure and operations are usually not up to the highest standards, and private petrodollar actors very often maintain close links to their governments. Moreover, we still have to wait and see how sovereign investors will behave as shareholders of foreign companies because this is a new territory for both practitioners and scholars.

This new type of actors brings about two issues which are the most important for analyzing the global market profile and its politics: the influence actors derive from a sheer volume of the capital invested, and the highly politicized domain of an energy resource – oil production and export. Regarding the first, it is estimated that petrodollar actors invested globally about $484 billion in 2006, four times the amount invested in 2002, which classify them among the fastest growing actors. Their investments made up over 36% of total net capital outflows of all countries with current account surpluses.[25] The same source anticipates that between 2007 and 2020, the member states of the Gulf Cooperation Council will earn $5 trillion to $9 trillion from exports of crude oil, and much of this could be invested into overseas capital markets[26]. As for the second issue, there is no need to elaborate here about those various and sensitive high-politics issues of oil price manipulation, international and cross-border coalition building, use of oil export and supply as political tool (etc.).

Conclusion

The main changes brought by financial globalization are trends toward intensive cross-border financial, greater risk-sharing internationally, an increasing share of cross-border asset holdings; and an increasing global profile of financial markets, actors and institutions. The present-day globalised economy poses a multitude of challenges to both the construction and functioning of unrestrained market framework(s), thus also requiring changes in the way we perceive and analyze current economic and political developments. Firstly, the blocks traditionally built by national governments and international governance actors have proved to be insufficient – new building forces are (expected to be) provided by private actors. Secondly, an unprecedented rise of multi-jurisdictional and multi-domain groups probably underscores the onset of critical

[25] Farrell, D. and Lund, S, p. 4.

[26] Boer de, K. et al, p. 10.

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reconfiguration of the global public domain. Third, issues and categories must not be anymore classified as "international" (outside national territories) and "national" (within the borders), while "multinational" or "transnational" issues are no longer primarily of economic origin and floating somewhere in the outer spaces of the global economy. Fourth, clear distinctions among the majority of actors do not apply anymore: capital market actors can no longer be categorized due to the areas of their actions or engagement or interest, or due to the type of actors they link or form networks with. Finally, when trying to analyze the complex interdependence of the global capital market, one must be prepared to research into at first glance not related issues that span the market: from energy and climate change over digitalization to social dynamics. To summarize, the global capital market of today deserves a new analytical view that could fully appreciate its changeable and detachable structures – boundary-spanning communities with overlapping and temporary membership pose a serious challenge for further research into global capital politics.

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