



Financial and Banking Services Market

Yevhen SAVELYEV

**INTERNATIONAL CAPITAL FLOWS
INTO AND ACROSS UKRAINE**

Abstract

The paper reviews on theoretical basis international capital flow movements. It proposes few new trends that exist in the capital markets, the way changes are taking place in Ukrainian financial market and its further integration in the world market. The paper proposes few ways in which, a financial offshore center can be created in Ukraine. It also discusses the advantages of having a financial offshore center in Ukraine at both political and economic levels.

Key words:

International capital flow, foreign direct investment, portfolio foreign investment, international lending, international financial centers, offshore areas, internationalization of bank concentration of capital, internationalization of capital allocation.

© Yevhen Savelyev, 2005.

Savelyev Yevhen, Doctor of Economic Sciences, Professor, Ternopil Academy of National Economy, Ukraine.

Translated by Bench Dmytro, Humenyuk Olha.

1. The tendencies of international capital flows

Economists have drawn unflinching attention to the issues of extent and directions of the international capital flows. They contribute to the content of all textbooks on macroeconomics, international economics, finance study, and a number of other economic disciplines. International capital flow has been defined as «the transactions leading to the change in level and/or structure of debt claims and receivable accounts»¹. If this statement were logically interpreted, the two-model situation would ensue. In the first place, the net flow model comes into picture. These models suppose that the capital flow is equally correlated with both the balance of current transactions and net balance of exchange operations. In the second place, the stock policy options are designed, which entails the structural variation of international capital. Although shaped in the macroeconomic scopes, the models themselves reside on the microeconomic basis. Capital restructuring makes it possible to re - syntheses the models, which are aimed at capital accumulation process².

To put in a simple way, the international capital flows are the allocation and functioning of national capital abroad. It can be also termed as self-enlargement of national capital. According to Mochernyy, «the international capital flow is the transfer of capital in various forms (monetary or material resources) between countries, which sets its goals in producing the profits, resolution of certain economic, social (rarely political) difficulties facing the capital-exporting and capital-importing states» [6:407–408].

The international capital flow can take the form of direct or portfolio foreign investment and international lending. Direct foreign investment is the investment of capital in order to obtain control over foreign enterprise with subsequent legislation on property rights and respective right on management. The portfolio investment vests no right of direct control over the investment property, but grant the right to income. The principal discrepancies between direct and portfolio investment could be seen in the comparative Table 1.

International lending is defined as the transfer of capital abroad in loan form. In the broad sense, it comprises all international movement of capital, except that of direct foreign investment. International lending involves monetary or commodity loan, which is offered by the lenders of one country to the borrower in another country on terms of due refurbishment and payment of interest.

¹ Sauernheimer K. Internationale Kapitalbewegungen, flexible Wechselkurse und gesamtwirtschaftliches Gleichgewicht. – Hamburg: Verlag Weltarchiv, 1980, S.19.

² Sauernheimer K. Internationale Kapitalbewegungen, flexible Wechselkurse und gesamtwirtschaftliches Gleichgewicht. – Hamburg: Verlag Weltarchiv, 1980.

Table 1

Comparison of direct and portfolio investment

#	Criteria	Direct foreign investment	Portfolio foreign investment
1.	Chief Objective	Control over foreign enterprise	High income
2.	Achievement Strategy	Set-up and work of production abroad	Purchase of foreign securities
3.	Achievement Activities	<ul style="list-style-type: none"> • Complete ownership; • Purchase of control stock (minimum of 25%) 	Holding or selling of securities in accordance with the major market trend
4.	Type of income	Entrepreneurial Income	Dividends, Margins

Till the 1950's, USA remained actually the single capital-exporting state. Countries severely afflicted by Second World War were acting as the beneficiaries of USA foreign financial capital. Since the late 1950's only, the export of capital became the key factor of growth in other industrially developed countries. These were consequently accompanied by few oil-producing countries of Persian Gulf.

The exportation of capital led to **the emergence of large international corporations** in different countries. Majority of these corporations can be called as multinational corporations (MNC), which today are the chief subjects of world economic relations. Development of these world markets assumed new characteristic of a large company: «market maximization» instead of «profit maximization». Consequently, the global net of production and distribution has been shaped and still grows, which demonstrates that MNCs are not satisfied with single-country production. They endeavor to introduce the highest degree of specialization for each enterprise of global net in order to implement most effective production of every component or unit of ultimate product in the place, which allows the maximum expediency. Thus, the existence of global mobility of productive factors is an accomplished fact, as well as that the enterprises tend to flock to the places of higher levels of profit rate and most comfortable operation terms.

There was a surge in the amount of foreign trade after the World War II. However, these were often related to the export of capital, which stimulated the taking-out of goods abroad. Several circumstances were concomitant to this process:

- Extension of capital exportation in the form of commodities (provision of machines, equipment, technologies, etc.);
- Prolific capital exportation by means of purchasing the commodities from the country where capital was exported;

- Increase of intra-corporation flow of commodities within MNC as the form of capital exportation.

Among the new aspects of capital exportation that determined its strategy the following ones should be highlighted:

- Adaptation and retention of own niches in the world market;
- Involvement of other states to the scientific and technical expertise in management;
- Surmounting the customs barriers of certain countries and regional group;
- Structural transformation of international division of labor.

The start-up stage in the development of international division of labor is duly ascribed to the end 20th century. The peculiarity of this period was accompanied by the coming of the international finance that stepped forth to become the fulcrum of increasing internationalization of world economy. The evolution of international finance would outstrip the production and exportation rates. Although the international trade has not lost its role as the factor of intensification of the international division of labor and strengthening of interrelation among national economies, its role was significantly taken in favor of international monetary and credit relations and financial ties.

The stated fact can be substantiated by appropriate statistic data. The yearly average growth rates of world commodities exchange was more than the growth of world GNP between 1982–1991, then between 1992–2001 commodities exchange were twice as high as compared to growth of world GNP [18: 197, 225, 226]. In respect to the financial globalization it should be said, that it is mirrored in the high mobility, increasing dimensions, diversification, and integration of financial resources and flows. At the beginning of the last century, the amount of capital deposited abroad was aligned with the world gross product. The foreign assets in developed countries equaled almost US \$28 trillions, and in developing and transformational economies – USD 2.5 – 3.0 trillions in 2001 [15; 19; 23: 63, 65, 258]. The daily turnover of currency market soared from US \$60 billions (1983) to USD 1.5–2 trillions (2001). The net volume of Eurocurrency market expressed through bank liabilities in foreign currencies exceeded by 3.1 times within 1985-1999 and reached \$6 trillions, meanwhile its gross extent including interbank operations touched \$10 trillions [13: 115]. The amount of yearly syndicate credit grew up 7.5 times since 1990 and equaled USD 1.5 trillion in 2000. Yearly international debt liabilities increased 2.6 times since 1994 and equaled USD 939.2 billion in 2000 with simultaneous extent growth of international debt issues over USD 6 trillion in 2000 [13: 453; 16: 17; 17: 20, 21]. Particularly astonishing are the dimensions of global market of derivatives, which services the management of currency, interest, and other types of risks characteristic for financial operations. At the end of 20th century, it increased up to US \$110 trillions [17: 22–24].

The complex of aforementioned trends should be complemented by the fact that each country, regardless of the rank taken in the world financial hierarchy, transformed into the borrowers. Foreign holdings, debts due to non-resident creditors, and their servicing were irreversibly included into the mechanism of functioning of national economies. USA has been rated as the world top borrower with net aggregate equaling \$2.3 trillions in 2001 [18: 918]. Borrowing from non-residents in USA are aimed at regulation of external payments, budget deficit backing on various levels, replenishment of state pension and investment funds, realization of structural transformations and social programs, etc.

The development of international capital flows has led to a new mechanism for the functioning of economies with chronic financial deficits. Due to this, large crises could be avoided. Sufficient number of developed and developing countries realize their successful development on basis of diligently worked-out system of foreign debt growth and payments, new borrowing, and servicing of payments. They have the possibility to receive the constant influx of foreign resources in forms of direct investment, placement of shares among non-residents, and borrowing from the world financial markets under these conditions. The viability of such economies with chronic financial deficits is corroborated by the fact that the world economy functions in deficit mode with constant negative balance of world current accounts and with increase of world investment over world savings for over three decades. The phenomenon of successful solution to the contradiction between the shortage of resources and sufficiency of development terms can possibly be explained through the enlargement of financial co-operation in new economic situation, which aims at the increase of external arrearage under conditions of international mobility of growing capital.

The globalization of economy has complicated the regulation of national markets because nowadays it's not the economy of single country, but the world economy that dictates the economy of nations. According to V. Peftiev and V. Chernovska, «the role of national state as such receives the back-burner place, and international capital evades the purview of these countries» [8: 42]. In these settings, new activities should be adopted with regard to the improvement of economic regulation mechanisms limited by national scopes and unrestrained movement of capital. Economists and politicians should seek methods and forms of resolving this contradiction. The outstanding achievement in this sphere would be the example of European Union, the financial architecture of which dispenses with regional and national solutions for crossing of borders and integration. However, the discrepancy between national interests and those related to the use of advantages ensuing from free movement of capital is apparent. Particularly distinguishing occasion is the unification of stock markets: London and Frankfurt ones. It could generate the single market accumulating USD 12 trillions worth of capital for German and British companies. Conversely, its creation had been thwarted due to the difficulties faced during the development of merging concept. The stockholders of London Stock Exchange were intimidated by the prospective of excessive control measures on German side; the Germans

discerned here the threat of lost leadership of Frankfurt-on-Maine Stock Exchange with subsequent affiliate status of London Stock Exchange.

According to L. A. Virvan, the contradiction shows itself in that «European stock exchanges turned out inefficient to function as an integrated stock market; although, at the same time, they realized the preposterousness of attempts to save the out-lived trading floors as contrasted with the capability of each client to trade using the terminal situated anywhere on the planet due to the modern technologies» [2: 119]. There is no doubt that the intensification of world competition eventually entails the creation of stock alliances and conglomerates of variegated financial structures. This would be the most appropriate response expressed by the financiers and entrepreneurs to the challenges of time, which could be recognized as the dawning epoch of the global market infrastructure and regulation of world financial environment in respect to the demands of entire monetary and financial system. Its projective horizons, foreshadowed by the modern pillars of world financial market, are represented by Frankfurt and London Stock Exchanges, Chicago Board of Trade, and NASDAQ.

Structure of economic regulation mechanisms limited by national scopes and unrestrained movement of capital will be resolved with greater effectiveness within certain interim on regional levels. This process will develop in form of new structures similar to euro zone, free trade zones, customs unions, economic unions, etc. In each case, the agreement among above-national norms and regulation rules with national norms should be achieved; broad-gauge informational supply, securing of economic transparency, formation of world communicative net, etc. is to be provided. Although, as regards to this tendency, it appears those above-national regulation mechanisms are developed, but national ones are merely appropriately applied to the international norms, or the international norms themselves are implemented on the national stage. The world norms become the privileged sphere concerning this process, owing to the fact that the world crises would not pity any country actively involved into the international market. George Soros rightly mentioned in this respect: «Securing the stability of markets should be the objective of state policy. This is the very principle I would like to introduce now».

Upholding of unified rules and orders unique for entire international system is the dominant characteristic of world economy with pronounced growing trend. It could be most abundantly surveyed in bank sphere, which encompasses the colossal movement of capital and is capable to instigate the risks and crises of planet scales. Global management of bank strategy will turn qualitative new after the introduction of unified norms named as «Basel-2». It includes the recommendations upon refinement of technique for risk assessment and management of risks, observation of risks, management of risks state, and market discipline. The system «Basel-2» offers new tactics to evaluate the sufficiency of capital. Foremost, the document allows performing several assessment variants of crediting risks taken by banks, ranging from the casual to the most complex ones, which would enable banks to subsume specific borrowers in certain groups in respect to the prospective losses. At the earliest from 2006,

Ukrainian bank system will commence to employ the European risk assessment methods from.

Intrinsically new to the system «Basel-2», as compared to system «Basel-1», is the assessment of all operational risks, increase of informational openness of banks, and transparency of capital. The operational risks comprise the direct and indirect losses instigated by the errors or imprecision of processes, organizational systems, mistakes or inadequate qualification of staff, and adverse external events of non-financial nature (personnel, process, technologies, environment, physical interference risks). The regulations of operational risks provided by Basel committee strive to stimulate the banks to develop and implement the system of internal control, appraisal of these risks, and overall refinement of risk management.

Regardless of the fact whether or not Ukraine would start to introduce the system «Basel-2» following its adoption by the states of Basel committee, it already faces the requirements based on recommendations of the system «Basel-2». Thus, the disclosure of information about the actual owners of Ukrainian banks is one of the conditions stated in Memorandum on co-operation between Ukrainian government and International Monetary Fund. The issues of transparency stress the importance of regulation of the operations between «interrelated» parties, as when both the bank and the company are shareholders.

2. International financial centers

Banks are the vehicles of capital movement. Banks make decisions taking into consideration the decisions is laid in the discrepancies across national markets and systems of state regulation of the economy. These factors contribute to the appearance and spreading of multinational banks as the phenomenon of economic globalization.

The notion of international capital movement demands the distinct discrimination between the internationalization of bank and concentration of capital and its allocation. The bank concentration of capital and its allocation is through the bank affiliates choosing the internationalization strategy, which therefore indicates to the presence of differences in the mechanism of state regulation. Essential element for the allocation of capital is the demand on capital and the risks associated in each country.

The bank concentration of capital engenders and stimulates the international financial centers. Flow of capital is determined by two variables; the intensity and structure of regulation present in each countries. Countries which have strict regulation on financial market will experience the flow of capital to countries which have low level of regulation. Hence, the banks situated in the countries of significant state restrictions and tampering into the bank activities (including economic one) may be stimulated to pursue the profit opportunities offered

by the markets of other countries. The concentration of multinational banks in those areas with essentially lower levels of state interference can be perceived as the result of these processes.

The presence of financial centre can offer various advantages to the regulating authority. The level and structure of regulation process will be also influenced by international cost of regulation.

The discrepancies in regulation processes can arise from the multiplicity of national sets of vector elements. This proves to be the solid reason to assert that existing and potential financial centres offer various advantages of regulative nature. Equally truthful would be the conclusion about equipollent influence of both the level and the structure of regulation process upon discrepancies of international costs of regulation. Furthermore, there are complementary factors, which are not by themselves, the results of special regulation in the activities of bank system, but which predestine the beneficial terms for creation of financial centres. These comprise current infrastructure (e.g. telecommunication), location within time zone, geographical closeness to the industrial countries, political stability [12: 20].

Depending on the mutual element combinations of the vector and their combination with complementary factors, specific advantages of international financial centre are shaped [14: 17]. When incongruity between origination and deployment of financial resources, which circulate in different financial centres is taken as the criteria, then four major types of financial centers can be specified [19]:

- **Booking centers** (The Bahamas, Island). These offer primarily taxation advantages for international banks, which allow all financial resources circulating in favor of non-residents and among them to be included in the process of international co-operation. Naturally, the demands for infrastructure maintenance in booking centers are rather low.
- **Centers of financing (consolidation)** (Singapore, Panama). These financial centers accumulate «offshore» resources of other market fields for the use in one's own region.
- **Centers of accumulation** (Bahrain). Financial resources are transferred from the national to other markets owing to the high level of national savings and slight internal absorption.
- **Initial centers** (London). The globalize origin and deployment of resources under the dominance of international intermediation characterize these. The financier and clients for such centers come from the developed industrialized countries. The functioning of these centers can be represented as the turning wheel of international distribution of capital. They cover complete range of financial services of offshore type from Eurocurrency trade to underwriting (placement) of Eurobonds due to the use of international financial marketing, syndicate unities, and management of Eurocredits.

The special position of London in offshore business has to be duly marked. Perhaps, this city can be associated with its capital status. In this respect, it is not only the peculiarity of financial services offered by English bank structures, but rather their control over this business. As the matter of fact, most of the offshore zones are former British colonies. The British National Intelligence Service (NCIS) continues activities in those places, and British presence is still felt (much more than that of the US). The USA could be more evident in offshore zones, but the British dominate due to greater colonial experience. However, some 200 years ago the USA themselves were the colony of Great Britain, and many English banks were considered as resident in that time.

It should be stressed that in 1555, the «Moscow Company» was established in London pursuant to the command of Parliament; this company is now considered the predecessor not only to East Indian and West-Indian companies, but to the multinational corporations of 20th century as well. London would become the residence of «oil kings» from the territories of former Soviet Union inasmuch as it is an attractive locale for people from everywhere, and especially for inhabitants from the Commonwealth States. This order survives during last 400 years and shelters rejected dynasties, outcast tyrants, and representatives of outstanding families of India and Black Africa nearby London City together with the capitals exported from their historical motherland.

The concepts of geographical distribution of services, their types, and multiplicity are the most common criteria used for the classification of international financial centers. The regional, national, and international financial centers are differentiated by the geographical criterion. The research project of Frankfurt-am-Main University led by professors P. Spahn and U. van den Busch determines classification of international financial centers according to the number of top-banks included on the list of 500 biggest world banks (Table 2).

For successful establishment and development of international financial centers in Ukraine, it is important to consider the proposed classification of P. Spahn and U. van den Busch. They determine the next types:

1. **Nationally oriented**, which perform the operations to satisfy the financial and investment needs of national clients. The majority of European financial centers belong to this type, Vienna, Lisbon, and Stockholm being among them. Financial centers similar to ones in Frankfurt, Paris, Milan, and Madrid have clearly stated international character due to the high weight of operations on world market, in particular in stock markets. Simultaneously, they play essential role on the stage of national economy.

2. **Global centers**, which perform the financial operations rarely related with certain national economy. In general, only London, New York, and Tokyo are subsumed into this group. In respect to ever-increasing significance of time for financial operations (e.g. currency contracts and the derivatives), these financial centres transformed into the establishments of paramount importance in their time zones, especially for resolving the issues of risk management.

Table 2.

Rating of European financial centers on the list of 500 world biggest banks

City	The number of 500 top banks	City	The number of 500 top banks
London	201	Vienna	32
Frankfurt	107	Warsaw	31
Paris	90	Lisbon	26
Milan	75	Prague	25
Madrid	75	Athens	24
Luxemburg	67	Stockholm	22
Brussels	63	Copenhagen	20
Zurich	53	Dublin	19
Amsterdam	40	Oslo	14
Geneva	40	Helsinki	11

Source: 22: 32.

3. Performance-oriented types of operations. These financial centers are divided into transaction centers and booking centers [20: 4]. Transactional centers develop innovative projects for resolving the complex financial and investment problems, meanwhile booking centers perform exclusively financial operations related to the servicing of capital movement, which is allocated foremost to the realization of projects in transactional centers. Tasks executed in booking financial centers are standard and delocalised. Some of these centers of delocalised character struggle to obtain profits due to the special regulative and taxation framework terms and their activity resembles the principle of «mailbox centers» (so called offshore centers), i.e. they are used only for confidential inexpensive operations [Abel, 1998]. The regions like the Bermudas or Cayman Islands, Luxemburg and Liechtenstein belong to the financial centers of booking type. On the contrary, London, Paris, and Frankfurt are typical transactional centers.

4. Specialized financial centers. By splitting the financial centers according to the specialization degree, one should take into account that no transactional centre can fulfil each type of operations. For example, Edinburgh, being the distinguished centre of asset management, does not have its own stock exchange and yet cannot manage to assume the prominent status of corporation finance assets. Geneva, famous for its status of European centre of private banking, is still not capable to gain the equal success in enterprise financing. On the contrary, London is very unlikely to fail one's expectations of fulfilling any kind of financial operations. This is the reason why London is not considered as a specialized financial center in comparison with Edinburgh or Geneva. The definition of universal centre would be more pertinent to its nature.

All international financial centers perform financial transactions with relatively weaker regulation mechanism in comparison to the client's domestic index of regulation. International financial centers tend to appear in the places that allow the investors of capital the opportunity to earn premium profits with transactional operations [11: 512]. The banks present in the majority of financial centers provide the possibilities of global and effective arbitrage in regulation field [14: 17].

If observe the rating schemes of financial centers, it would reveal the concept of strenuous competition between them, which is especially evident when former stable leaders often irrevocably lose their positions. Recently feeble financial centers exert teasing pressure over the favorites and are snatching superior rating. Fine analysis of this tendency reinvigorates the chances of creation and development of international financial centers in Ukraine. It is particularly necessary for Ukraine to make bold steps into the world financial markets and act as natural financial players, instead of «second hand» peddlers, which fear to participate in the run with entitled partners. The supply of new or even alternative products to the consumers of financial services would be starting points in our rating.

The data presented in Table 3 shows for the novices like Ukraine there are many opportunities on the financial markets. It should be noticed that within 1990-2002, only five financial centers managed to retain their status quo, namely, London, Paris, Frankfurt, Brussels, and Amsterdam. Barcelona jumped to a rate 6 from 11, Madrid – to 7 from 17, Milan – to 8 from 17, Berlin – to 9 from 15, Zurich – to 10 from 7, and Munich – to 11 from 12. As the saying goes «Morning sun never lasts a day, after all», changes are pending in the group of the five leaders. Frankfurt intends to substitute London following the coming of European Central Bank headquarters in its bosom. Meanwhile Frankfurt and Berlin could retain top rating, other leaders among German financial centres are losing their positions. Thus, Düsseldorf from rate 6 in 1990 plummeted to 13, and Hamburg – from 14 to 18. This competition could be complemented by new financial centers created in newly independent states. Ukraine is one in this group; consequently, it is not to be excluded that its leaders would not attempt to impinge upon the world financial hierarchy.

In general, the statement of Z. Lutsyshyn about current modification for the formation of financial centers and loss of traditional prime mover in economic causation chain between exportation of «excessive» capital in search of super-profit is justified. Although this reason lost the significance, it still exerts motivational, incentive, financial, and psychological grounds [5: 41].

In this respect, the trend of escalating power and number is quickly developing among the international financial centers. This tendency will become the ascendant against the global accumulation of capital flows. This issue is studied in detail worldwide in order to obtain the advantages from the challenges of international financial market. Ukraine should not be tardy to commence participation in formation of net set of financial centers.

Table 3.

Rating of European financial centers

Financial centers	2002	2001	1995	1990
London	1	1	1	1
Paris	2	2	2	2
Frankfurt	3	3	3	3
Brussels	4	4	4	4
Amsterdam	5	5	5	5
Barcelona	6	6	6	11
Madrid	7	8	9	17
Milan	8	11	10	9
Berlin	9	9	15	15
Zurich	10	7	7	7
Munich	11	10	12	12
Reference				
Düsseldorf	13	17	10	5
Hamburg	18	18	19	14

Source: Haley and Baker, European Cities Monitor 2002.

3. Formation of Financial Centers of the International Level in Ukraine

Ukraine is a transition country with a developing economy. Nowadays developing economy are forming their financial markets and trying to integrate to world financial market, taking 7–8% positions. Market capitalization of shares in developing countries during 1990–2001 rose by 4.0 times and their liabilities on bills of debts rose by 5.2 times. China had the first place on securities, followed by Korea and Brazil [9: 19, 20, 23, 53].

Ukraine can be referred as developing countries with medium economic growth only conditionally, because Ukraine needs to take again its position, which it had until 1990. Our calculations show that for this we need at least 5 years. Moreover that on the state level there is even no policy to catch up with the industrially developed countries but even countries with transition economy, majority of which during the last 10–15 years greatly passed Ukraine in their development. Taking into consideration above listed factor we can rather talk about Ukrainian economy as a renewal economy.

Ukraine have rather different situation in financial system, in that sense that until proclaiming of independence Ukraine practically had no financial market at all. Only after that; in frame of transition to market economy, the beginning

of the process of formation of the financial market took place. It is going on too slowly and irregularly. The best way to talk about Ukrainian financial market is to call it as that one which is in the process of rise and formation. The typical traits of Ukrainian financial market are: lack of development of monetary-financial and bank infrastructure, high state share in credit market, low market of shares capitalization, oligopoly (limited number of companies which possess shares by which the quotation is made). It is enough to say that capital of all Ukrainian banks is equal to the capital few Polish banks. Stock companies and stock markets aroused but they are functioning only in narrow and even almost closed circle of small quantity of oligarchs and politicians.

Especially low level of development of exchange and interbank markets of securities and derivatives which makes speculations and hedging almost impossible. Foreign market capital (excluding direct investments) comes into Ukrainian market predominantly through buying by non-residents of bonds and shares, which are issued by government and other official issuers, and also through international bank crediting to state and private debtors.

Majority of the economic scholars in Ukraine agree that it was not able to collect all advantages from the globalization. Research by IMF, World bank, other international organizations testify to the surplus increase of debt obligations, insufficiency of investment resources, backlog of demand on international credits, large risks from the observance of the modes of the fixed rates of exchange and other defects of post social countries.

In Ukraine it is time finally to realize that most financial problems, especially related to the shortage of resources, are the result of passive policy of the state (and from it – domestic businessmen) at the financial markets. Lag in financial market development from neighbors is obvious. Being between large countries groupments – European Union, Balkan countries, East Europe, Russia, Turkey and Caucasian countries, Ukraine has a more weak financial market, indisputably, except for Georgia and Armenia. It does not quite refer to its geopolitical position. Very often facts are mentioned in economic literature, that all banking system of Ukraine is equal to the Polish bank eighth after rating. Thus, in Poland 60 commercial banks are functional and 600 – co-operative [7: 41].

With regard to lack of development of the financial banking system in Ukraine, according to market principle, there are enough reasons for raising the issue of Ukraine becoming world class financial centers. The foremost factor is time. Ukraine is on crossroads, it has to start at the earliest otherwise it will be too late.

Secondly, Ukraine is the large state in the European continent – by area, population and potential. With such indexes a country can not remain the last one. Otherwise it will be deprived of independence – at first in economic, and afterwards in other forms. All of the large states that have international financial centers on their territory – USA, Great Britain, Germany, France, Japan and other. Such a process is also taking place in Russia at rapid rates.

Thirdly, presence of financial center in a country creates a favorable investment climate and becomes a substantial factor for a wave of resources, which are enough, to satisfy demand of economy

Fourthly, Ukraine is a export oriented country. At the same time it is also a large importer. It results in greater cross movement of capital. Because of this, the banking system of Ukraine could successfully act as international financial mediator.

Fifthly, presently there is flow of capital especially from the developed countries to many enterprises in developing countries. Due to high demand in western market, western companies are shifting production to East. Clearly, this will require solid financial mediators in post social countries, role which the Ukrainian banks and insurance companies can fill.

Formation of financial center of international value creates a lot of problems, which makes it necessary to solve this problem at initial stages. Reasons for creating such a center is known, then two questions arise in agenda: where to create such a center, in which region of the country, and if to create it, and taking into consideration the framework of country economic scenario.

In relation to location. In some countries international financial centers are in a capital (for example, in France, Japan). There are countries, in which international financial centers are located out of capital, than expressed dissociated from a national government and, to a certain extent, over national status (the USA, Germany). For Ukraine, taking away of financially-bank capital outside Kyiv is difficult, without regard to that fact that presently more than 50% of banks of Ukraine have their main offices in the capital. The reform should be to break this tradition. The tendency is to from one powerful Mega City with high level of concentration of enterprise and high standard of living. This process can be taken positively it took didn't take place at the expense of other regions, from where there was an outflow of financial and intellectual capital.

Creation of financial center in Ukraine will give possibility to build a modern oasis for the conduct of businesses in the scales of international level, where the best modern banks, exchanges, insurance companies, consulting firms, educational and research establishments of economic orientation, hotels, sporting buildings and others will exist. And all this has to begin from the National bank and some large commercial banks as they will be first in new city as founders of financial capital of Ukraine.

For creation of financial capital a seashore territory with comfortable transporting connection and favorable ecological state is the best place. The best place for its beneficial territorial location in the district of Odessa. Odessa region has developed aviation, railway, marine and motorcar routes

Moving of financial center from Kiev is not something to be too disturbing in that sense, that, they say, a financial capital is already created and it'll be very hard to destroy all that is already created. Actually, streams of capital that is ac-

accumulated in Kyiv, too little even on Ukrainian measurements, and from international positions they are completely nothing.

Right step in relation to creation of financial center of international standard, at once will pull out Ukraine on the cutting edge of streams of capital. The large business will be there not only because there is a need to invest to Ukraine but also because here it is comfortable to conduct businesses of international level.

4. Offshore: Ukrainian alternative

At the end of 1950's in the USA the concept of «off-shore» appeared, by which, the activity (foremost, financial) of company was moved to a particular place, in order to avoid the governmental control especially tax control. During the last half of the century, off-shore areas were created in different parts of the world, in which it was advantageously to concentrate capitals and use the market openness present in that area. Today there is a growing interest in the system of business in of-shore zones. For example, the Central bank of Russia selected 48 countries which are in the category of off-shore by granting them favorable tax mode and removing for conducting financial operations. By Order of Cabinet of Ministers of Ukraine dated February 14, 2002, № 53 35 countries and territories, to which Cyprus was also later included as off shore. On the whole, we can count about 60 countries, that give tax deductions and, accordingly, can be attributed to off-shore. Some time's offshore countries even change the legislation and adapt it to the norms accepted in most of other countries.

Does the off-shore forms of development of countries that existed makes sense, when the circle of the WTO countries-members is broadening, resulting in diminishment of custom barriers of international trade. Secondly, the fight against «dirty» money laundering and financing of terrorism at an international level is increasing. An international group for development of financial measures for fight against money laundering – FATF (FATF – Financial Action Task Force on Money Laundering) makes «black» lists, about those countries, which do not co-operate with it in counteraction to this process. Ukraine was placed in the list in September 2001. At the end of 2002 FATF came out with sanctions against Ukraine, which were later abolished in February 2004 after development of the national system of counteraction to money laundering and conducting of measures on implementation of international standards. Presently countries in the «black-list» of FATF are the islands of Raven, Guatemala, Myanmar and Philippines.

In July 2004, FATF adopted a new strategy directed on those loopholes on the way criminal legalized profit and at the same time stopping the finance of terrorism.

FATF is also collaborating with the Worldbank and International Monetary Fund for the fight against money laundering and financing of terrorism. Before this collaboration, each of these three institutions used its own method, through what sometimes there were variants of disagreement and the volume of money laundering was growing. Such a unity of actions, will promote control efficiency at the international financial market.

Consequently, the off-shore areas in the 21st century do not have the future. But it would be an error to consider offshore areas in general have exhausted itself as transfer territories of motion of capital. They must be transformed to financial services of a new type. New ways has to be developed for elimination of money laundering and financing of terrorism in such areas. More emphasis has to given for clean financial operations.

Economic policies prevalent in offshore area are important factor for the development of the area. From time of Adam Smith researcher, have come out with new economic tool to keep up with the time.

The question is foremost about a) transparency; b) competition; c) supremacy of law that provides on the whole identical, homogeneous approach of adjusting the economy and successive observance of ownership rights. History proved, countries which exactly stick to these principles, generally got the best results in relation to long-term economic development.

A important question that arise: what fate will be the fate of countries which presently are in the off-shore areas? Taking into consideration the entire above-mentioned factor, it is possible to assert that, these countries will have two alternatives: grow as an ordinary country with an economy, which will meet the requirements of the certain standards of other countries, or to become the offshore of a new type. For example, Cyprus becomes a country, which meet the requirement of the standards of European Union. All this exactly gave the back-grounds to adopt the European standards of offshore areas³.

In the contemporary environment, it is legitimate to put into discussion the conception of offshore area; is it a territory or country, where the most favorable terms are created for the conduct of honest business and receipt of financial services of the greatest quality. Among them it is possible to select the following:

- grant of all spectrum of financial service: calculation, credit, investment, insurance;
- the most modern level of financial service;
- high skilled financial staff;

³ In this connection the belated decision of Cabinet of Ministers of Ukraine (order from March, 29, 2002, № 156-p) in relation to including of Cyprus to the list of offshore areas causes the surprise. Presumably, on it the Ukrainian officials were induced by the example of Russia, where Cyprus always entered to a similar list.

- presence of legal efficient schemes for tax planning which easily integrate into national markets;
- competitive tax system,
- grant of consulting services in payment of taxes in an off-shore area and on the home country;
- providing of independent international legal services and defense of business in entire countries, where a firm carries out the production and commercial operations;
- highly developed infrastructure;
- favorable cultural environment and hospitality industry;
- Low level of economic criminality and crime.

A rhetorical question can be asked: does Ukraine need to create off-shore areas like the British Virgin islands or Virgin islands of the USA, to Hong Kong (Syangang) or Singapore, Switzerland or Luxemburg? Such question raises more general issue, namely – historical mission of Ukraine. The question is about positioning of country in general (and a new country especially) in relation to external processes in a world, determination of its internal choice and self destination. The search for a new model of the international relations goes in a world, which also include economic order, therefore Ukraine has to be determined, either she will adhere to the policy of self insularity or will begin the ways of having the active role in world history and setting a new state on a world stage. Thus there is a need to realize that a new country, as baby, must begin to walk, speak, study and, finally, give adequate and effective answers for the challenges in the contemporary scenario, realizes its mission. Otherwise, world does not need it and it is possible with a confidence to forecast, that other states to which it will be needed for execution of the special role in the newest history will eat up her.

It is clear, that the location of Ukraine in the new model of the world mode has too many-side and it is a multidimensional problem, which needs realization of whole rows of intellectual breaches. This is to take place in different spheres, especially at the international markets of intellectual projects, geo cultural strategies and civilization initiatives. However at first Ukraine has to declare itself at the international market of capitals, find the world necessities on it, instead of restrictions by the awareness of necessities of world on your own. It means high-quality sense, that not only Ukraine is need in the international market of capitals as beneficiary of free financial resources but also the international financial market need Ukraine.

It is impossible to disagree that there is large specific gravity of economic utopism and romanticism in such a statement of a question. And however, well counted utopism and romanticism is the most perspective pragmatism. At the beginning it will have many critics and skeptics. When favorable time will come,

subject to the condition willingness to take advantage of them, utopian and romantic ideas will become deciding point of changes. Short history of independence already has such examples. Last was in the victory on competition of Eurovision by Ruslana Lyzhychko. The Ukrainian singers went long way, and finally won the competition, which forced to change quite a bit priorities of Ukrainian bureaucracy and it speeded-up creation of the Ukrainian cultural center and making of tourist infrastructure more modern, without what a next competition of Eurovision can not be conducted.

It is worth to remember: Who could forecast, that Baltic countries would during ten years after disintegration of Soviet Union be able to attain the European standards? On this background prejudice harms to Ukraine, that it cannot at all circumstances in the nearest time be able to live and work in an European way.

Pessimism in relation to possibilities of Ukraine to be the deserving partner of present big pots of financial market can be dispersed, if to search positive moments in the minus phenomena. We will take into consideration the known fact in relation to the low level of capitalization of the Ukrainian banks, comparative with the banks of leading countries of world. Clearly, such a statistics cannot be commented in favor by the task of achievement of success at the international market of capitals. However much we will appeal to statistics – (Table 4) in relation to the amount of banks per 100 thousand of persons in different countries of the world. Below Ukraine such a countries, as Denmark, Brazil, Turkey, Egypt, take place. Not far points higher as Ukraine is quite a bit financially powerful countries such as Spain, Belgium, Great Britain. Without regard to that, these countries have banks with incomparably greater charter funds and appeal of capital, in this statistics it is legitimate to see the lines of mentality of Ukrainian, which testify to his propensity to financial business.

Going back to the Ukrainian standard of off-shore area, we will pay more attention to character of constructing of new economic and social schemes of Ukrainian society.

It may include schemes for privatization, construction of financial sector, creation of free economic zone

There is a need to agree with the idea of Center of social researches «Sophia» in relation to the necessity of «transition from the national-democratic implementation phase of the project to the geo cultural project «Ukraine». From linear geopolitics and democracy shuttle, a world passed to network multilevel influence on processes in separate countries and regions. Becomes the back of the partly delegated sovereignty and attraction of separate segments of national concords in global and international mechanisms creations and observances of new norms, social and informative checking systems, providing of collective security personal and, mechanisms of defense and realization of rights and freedoms of a person, new migratory streams. To ignore a new reality or be limited to the scale of old tasks – means to attract a country in a new stagnation with the irretrievable consequences» [4].

Table 4.

Approximate information in relation to the amount of banks per 100 thousand of persons in different world countries

Country	Population, thousand of persons	Number of banks	Number of banks per 100 thousand of persons
Luxemburg	412	210	51.0
Ireland	3500	1040	29.7
Italy	57180	876	15.3
Austria	8188	906	11.1
Canada	30000	2350	7.8
Finland	5116	361	7.1
Norway	4300	216	5.0
Germany	80000	4000	5.0
Japan	127000	6200	4.9
Switzerland	7801	375	4.8
France	60180	2200	3.6
USA	263034	8620	3.3
Portugal	9920	219	2.2
Netherlands	15493	169	1.1
Russia	144000	1349	0.9
Belgium	10143	89	0.9
Great Britain	58258	492	0.8
Spain	57333	387	0.7
Bulgaria	8402	46	0.5
Czech	12000	53	0.4
Ukraine	48055	161	0.3
Denmark	81817	201	0.2
Brazil	155000	217	0.1
Turkey	68000	68	0.1
Egypt	74700	67	0.1

Source: Hrytsenko. There are possible declinations in indexes, as some of them are taken after different countries in a different time in a period 1996–2003.

Presently Ukraine and Ukrainians is mainly attached to the global and international mechanisms creations and observances of new norms and systems. It in an innovative plan over every comparison is easier, than prosecution of improvement of something old. Ukraine does not badly «shine» in peacemaking actions, newly independent States, European economic space and other new educations and initiatives. However everywhere it is the state which was attracted, instead of such, that initiated. As for the new off-shore, it is not improved form of economic order, and alternative. All elements of its organization are to be charged irreconcilability to some elements of shading of economy. New off-shore, or off-shore in Ukrainian way is territory, that

gives possibility to conduct business to the businessmen and firms which are not arranged by shadowing of economy, which want to find defense from the self-will of officials, unfair taxes, repressive governments. Taking into account position of countries, the citizens of which carry the activity in new off-shore, it is to induce their guidance to the changes, reforms and other steps in relation to the improvement of terms of development of enterprise. Consequently, new offshore is the form of passing ahead development, that is alternative to going development after.

Table 5.

Amount of operating banks of Ukraine in 2000–2003

Area	Quantity of acting banks, items			
	2000	2001	2002	2003
Total	154	153	157	157
Autonomous Republic Crimea	7	4	4	5
Kyiv	79	84	85	83
Regions				
Vinnyska	–	–	–	–
Volynska	2	3	3	2
Dnipropetrovska	12	11	13	12
Donetska	9	8	9	11
Zhytomyrska	–	–	–	–
Zakarpatska	1	1	1	1
Zaporizka	6	5	5	4
Ivano-Frankivska	2	2	2	2
Kyivska	–	–	–	–
Kirovogradska	–	–	–	–
Luganska	2	2	2	2
Lvivska	4	5	5	5
Mykolaivska	–	–	–	–
Odeska	9	9	9	10
Poltavska	3	3	3	3
Rivnenska	–	–	–	–
Sumska	–	–	–	1
Ternopilaska	1	-	-	-
Kharkivska	12	12	12	12
Khersonska	1	–	–	–
Khmelnyska	–	–	–	–
Cherkaska	–	–	–	–
Chernivetska	1	1	1	1
Chernigivska	3	3	3	3

Source: (Bulletin, 149)

Passing to greater reality, it is needed to define territories, on which it is possible to create alternative off-shores within the limits of Ukraine. It is given out, that for this purpose Crimea, Zakarpattya and Odessa, is most prepared. These cities are on itself international, in fact multinational with composition populations already. These cities from the olden times have traditions of international business and collaboration with foreign partners. Selected regions must have favorable cultural and climatic aura. The infrastructure for financial business and rules and regulation for taxation does exist in these regions. To a certain extent information of table 5 testify about it. Presently 10 banks are registered in the Odessa region, in Crimea – 5 and in Zakarpattya – 1. In this cities all large Ukrainian banks have opened the branches. Although it is impossible to assert that the financial market of these regions already functions on the European standards, their present quality can be sufficient, if not hurrying to put right rapid alteration of new institutions and reconstruction of existing ones. In times, independence of these regions are included in the circle of leaders of economic and social development, new humanitarian and economic projects are pulled out, leading to quick integration in the world market.

By the way, it is already possible to select certain tendencies in relation to creation of off-shore areas of alternative type. For example, such examples exist in Latvia. Even the Central bank of a Russian Federation from 1999 put this country in the list of the states and territories, where the off-shore areas exist, although she in no way an offshore area in the present time. True, in Latvia there are banks, which are specialized on the grant of services to the Russian clients and their off-shore companies which are registered out of Latvia. Large activity was exposed by the banks of Latvia in the grant of services in opening of correspondent accounts to the off-shore banks, that was instrumental in creation of whole industry from converting of rouble facilities and transferring them in other countries.

Creation in Ukraine as offshore areas of a new type is a complex process. A business community notices the development of offshore area quickly and follows to new areas to take advantage of tax vacations. And here businessmen try to find all the comfort realization for their activity that induces them to invite their partners into this area. It is no need to think that businessmen are only interested in the rates of income tax. They are other element, which is responsible for transference of business in other country.

Who can be a client or non-resident of off-shore area of Ukraine? Firstly, banks and companies of region of the Mediterranean and Black seas. Secondly, companies of countries, which are incorporated in nowadays offshore areas and which need to pass to other jurisdiction without the loss of legal entity, that without closing of bank accounts and stopping of existent contracts. Thirdly, firms which make decision in relation to the place of stay, depending on the operating rates of tax. Fourthly, banks and companies, which search more advantageous terms of, double taxation. Fifthly, personal interest in opening of correspondent accounts of banks.

For functioning of tax harbor of a new type it is needed to have highly competent (accordingly, high-paying) personnel which are able to develop the legal (within the framework of current domestic and foreign legislation) and effective (which are actively used by international business) schemes of the tax planning. For their integration in world financial markets state machine, especially diplomatic services of Ukraine, are purposefully to work above the conclusion of agreements with other states in relation to double taxation. These schemes must have constructions, in which the companies of off-shore area can co-operate with non-off-shore companies.

Desirably, the developers of models for Ukrainian off-shores area should take into account the geopolitical place and role of Ukraine, especially as country-neighbor of European Union, and the most favorable terms should be created for companies and banks which work simultaneously in the markets of EU and CIS. It is here possible to use some foreign constructions, for example, such, that carry the names of the «Dutch open sandwich» and «Dutch bread and butter». The «Dutch open sandwich» consists of Netherlands holding and companies of the Netherlands Antila islands, that owns shares of the first one. Use this scheme for minimization of taxes in sources at got dividends from companies from countries which are related to Netherlands by the agreements about abolition of double taxation. At payment of taxes to Netherlands taxes in sources are small through such agreement; at payment on Antila islands they small through the tax agreement between Netherlands and Netherlands Antila islands. Out of that, the Netherlands holding is exempt from a tax on profits as dividends, and the Antila company pays a tax on such profit by a low rate. In the end, total rate of taxes that are paid in Netherlands and on Antila is rather small and makes only 10.2%. The «Dutch sandwich» includes the Antila holding, that owns the Netherlands holding, which, in same queue, owns other Antila holding which already owns property in the USA. This scheme lost the actuality through the changes in the legislation of the USA and abolitions of tax agreement between the USA and Antila islands, but it can be used in other countries.

From experience of present off-shore areas it is possible also to adopt an order, after which such companies, which are owned by non-residents, but are managed by the citizens of Ukraine, get status of companies of off-shore area, does not conduct the business in the country of proprietor and pay an annual duty to the country of stay. Thus in Ukrainian off-shores it is expedient to create a favorable climate for the companies of various forms: close type, open type, with the limited liability and with unlimited liability, joint-stock companies. Depending on the types of activity, this can be mercantile, holding, insurance, trust, financial, off-shore banks.

In relation to a legislative base, it is to be coordinated with the task of development of offshore areas. It seems that many interesting initiatives would well «working» exactly in the conditions of attachment to concrete territory of country, where it is comfort to work for the foreign companies. We will take for example measures of bringing in of foreign banks for work in Ukraine. Last from the most substantial is presentation of NBU in order of initiation of bill for consideration of

Supreme Council of Ukraine of bill «About bringing of changes to Law of Ukraine «About banks and bank activity» (registration number № 3561) in relation to the grant of right to the foreign banks to create the branches on territory of Ukraine. It is considered that the acceptance of such a bill will be instrumental in the active bringing in of foreign capital, application of modern bank technologies, expansion of spectrum of modern bank services, acceleration of entry of Ukraine to World trade organization, adaptation of legislation of Ukraine to the legislation of European Union, and also integration of the banking system in the world financial system [10]. There are the large doubt, that, being accepted, such a law will give that result indeed, in such an expect, namely – that the branches of foreign banks will appear in all regions of Ukraine. It is needed to conduct a regional policy in relation to bringing in of foreign capital and development of the system of bank services of financial centers. One of the steps is the creation of off-shore areas of a new type.

Bibliography

1. Бюлетень Національного банку України. – № 5/2004 (136). – С. 149.
2. Вірван Л. А. (2003). Фінансова інтеграція сучасного ринку капіталів // Фінанси України. – № 12. – С. 118–124.
3. Гриценко Р. (Квітень 2004). Структуризація та консолідація банківського сектору України // Вісник НБУ. – С. 4–8.
4. Єрмолаєв А. Реконструкція держави. До дня незалежності // День. – 2004. – 21 серпня.
5. Луцишин З. О. (1997). Міжнародні валютно-фінансові відносини: практична філософія і реалії української економіки. – Тернопіль: Збруч. – 450 с.
6. Мочерний С. Міжнародний рух капіталів // Економічна енциклопедія: У трьох томах. Т. 2 / Редкол.: С. В. Мочерний (відп. ред.) та ін. – К.: Видавничий центр «Академія», 2001. – С. 407–409.
7. Патрікац Л., Крохмалю Д. Проблеми і перспективи банківської системи України // Вісник НБУ. – 2004. – № 1. – С. 38–43.
8. Пефтиев В., Черновская В. Развивающийся мир: глобализация или рационализация // МЭ и МО. – 2000. – № 7. – С. 42.
9. Рубцов Б. Б. Мировые рынки ценных бумаг. – М.: Экзамен, 2002.
10. Тігіпко С. Л. Банківська реформа: рік перший. – Київ: Національний банк України, 2004 // http://www.bank.gov.ua/Inf_mat/Of_mat/comprehensive_prog/Fristyear.

11. Aliber, R. Z., The integration of the offshore and domestic banking system, in: *Journal of Monetary Economics*, 1980, p. 509–526.
12. Chang, S. Y., The Economic Impact of offshore Banking Centers on the Host Countries, in: Park Y. S. / Essayyad, M. (eds.) a. a. O., 1989, p. 143–157.
13. Clark E. *International Finance*. Second Ed. – L.: Thompson, 2002.
14. Dale, R. *The regulation of international banking*, Cambridge, 1984.
15. *International Financial Statistics*. – Wash.: IMF, October 1999.
16. *International Capital Markets. Developments, Prospects, and Key Policy Issues*. – Wash.: IMF, September 2000, p. 17.
17. *International Capital Markets, Developments, Prospects, and Key Policy Issues*. – Wash.: IMF, August 2001, p. 20, 21.
18. *International Financial Statistics*. – Wash.: IMF, December 2002.
19. Park Y. S. The Economics of offshore financial centers, in: *Columbia Journal of World Business*, 1982, p. 31–35.
20. Park Y. S. Recent functional changes in international finance and their implications for international financial centers, in: Park Y. S./Essayyad, M. (eds.) a. a. O., 1989, p. 235–246.
21. Sauernheimer K. *Internationale Kapitalbewegungen, flexible Wechselkurse und gesamtwirtschaftliches Gleichgewicht*. – Hamburg: Verlag Weltarchiv, 1980.
22. Spahn P., van den Busch. *Position und Entwicklungsperspektiven des Finanzplatzes Frankfurt*. – Wiesbaden: Forschungs- und Entwicklungsgesellschaft Hessen mbH, 2002.
23. *World Economic Outlook*. – Wash.: IMF, October 1997.

The article was received on October 14, 2004.