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GLOBALISATION, GLOBAL CHALLENGES AND GLOBAL CHAOS. THE EFFECT OF HANDLING THE CAPITAL MARKET MANIPULATION AND THEIR ROLE IN THE EMERGENCE OF FINANCIAL CRISES

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Abstract
The present study is a synthetic analysis of the role of capital markets in the development of international trade in the context of globalization, trying to provide an answer to one of the frequently asked questions of futures markets on the role of capital markets in the context of globalization. Influences the prices on the two markets (spot and forward). How can speculation in futures markets influence prices in these markets and how does this affect the spot markets?

Keywords: capital market, stock market, manipulation, economic and financial crisis, forward market, spot market.

1. Introductory aspects on the role of capital markets in the development of international trade in the context of globalization.

The capital market is a field of activity whose existence and development depends both on its institutional components and financial availability, and largely on the confidence that inspires its mechanisms and the behaviour of those who lead it and those who directly carry out operations specific to the market. The explanation is found in the fact that these operations can considerably affect the economic and financial interests of issuers and investors in many controllable variables such as timing of their initiation, the price charged, the use of the information, the methodology used.

In fact, international trade is a form of connection between national markets. The capital market has its well-defined role, in an upward evolution, but quite volatile, but important in the development of international trade.

In the last two decades, international financial markets have become increasingly interdependent. Financial globalization has brought considerable benefits to national economies and investors, developing international trade relations, but at the same time changing the structure of markets, creating new

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risks and challenges for market participants and supervisory and regulatory institutions. The wave of globalization has been marked, especially since the mid-1980s, by the increase in the volume of capital flows between developed countries and especially between developed and developing countries. While some of these countries have benefited from increased financial activity and recorded relatively high rates of economic growth, other countries have gone through periods of economic crisis, including financial, with high macroeconomic and social costs.

Globalization has thus become one of the major topics of debate and international economic analysis, generating multiple directions of research on the causes, volume and direction of movement of capital flows, groups of states involved or affected, benefits, systemic risks and market volatility.

To the same extent, the analyses focused on the response of financial markets to new opportunities or challenges, from the perspective of products, participants, work and information technologies or systems of organization, control and regulation. Simultaneously they have sought answers and new developments of classical theories to determine how and in what way financial integration influences the micro-financing decision and to what extent corporate capital structure changes depending on access to global resources saving and investment.

In all this context, the economy of the financial integration of the Central-Eastern European states made its debut later; the economic literature has addressed the issue of transition states primarily in terms of economic stabilization and structural adjustment, institution building and the operational framework necessary for a free and functioning market economy, change in ownership, cost and price distortions, and reactions of sectors still under-productive in the use of monetary and fiscal levers.

2. Features of the globalization process from the perspective of developments on capital markets

They are relevant especially after analysing how this process shapes and influences the international capital market but also from the perspective of the effects of globalization on the world economy.

The global economy at the international level is marked by a multitude of fundamental mutations that reshape the fabric of interdependencies on the basis of which it operates. The development of the information society and the continuous adaptation of economic structures to the rapid changes that are taking place worldwide are virtually placing all nations in a continuous process of restructuring and transition. Two main forces, dynamic and interdependent, lead this process, namely: deepening the process of globalization of the world economy and the emergence and development of regional economic arrangements.

Globalization can be defined as the highest form of internationalization of economic activity. Globalization trends are manifested in the world economy on several levels: the integration of the international production system, the integration of markets for goods or services, the convergence of economic policies of national economies.

At present, the economic interdependencies between the states of the world have deepened as a result of the process of globalization, which is expressed mainly through the internationalization of production and technologies, markets for goods, services and capital, increasing the complexity and diversity of production, trade and sales, the development and unprecedented increase in the speed of transport and telecommunications, including through the expansion of e-commerce.

The phenomenon of globalization further enhances the role of information as a decisive resource of economic development in the current stage and implicitly in the development of international trade.

Therefore, perhaps among the most important changes manifested in the world financial markets were those related to the phenomenon of accelerating their integration and globalization. This development, directly driven by the liberalization of national financial markets, rapid technological progress and the huge leaps in telecommunications, has led to new investment and financing opportunities for financial market players around the world. Easier access for corporations or individuals to global financial markets will lead to the optimization of the capital allocation process, and thus to the promotion of prosperity.

World economic trends seem to be materializing in two prominent directions:

► the disappearance of all barriers in the international trade of goods, services and financial assets;

► increasing the role of the bond market in the process of optimizing the capital allocation.

It is clear that both the form and the way financial systems operate have undergone profound changes under the impact of the globalization of national economies. The financial system has undergone considerable changes under the direct influence of four main factors:

■ intensifying competition between financial institutions;
■ increasing competition between markets;
■ new requirements on transparency and profitability in the financial industry;
■ intensifying the restructuring process in order to cope with the pressure caused by increased competition.

The consequences of globalization on financial markets in general and capital markets in particular:

1. A first consequence of the globalization process is the improvement of the macroeconomic efficiency of financial systems. Free movement of capital, interconnected markets and hedging opportunities provided by new financial instruments allow an optimum balance between overall capacity of financing and loan applications of corporations and governments. The level of the market interest rate, established on the basis of the demand-supply ratio and incorporating the specific risk, leads to a more efficient allocation of capital. At the same time, the lifting of the entry barriers on the financial markets, the free circulation of information, as well as the fierce competition on these markets led to the approach of the financial market to the market with perfect competition. By reducing funding through bank loans, which led to a certain restriction of the creation of the currency of the account, the financial markets have allowed the financing of the economy in a less inflationary way.
2. A second consequence of the globalization process is reflected in the creation of a new legislative framework on the conduct of monetary policy. Financial regulations have contributed to key changes in the approach to macroeconomic policies. The existence of open economies and the interdependence between financial systems have led to a general overhaul of the context in which monetary policy can be implemented. Financial markets can penalize a monetary policy that results in rising inflation through capital withdrawals, with the immediate effect of raising the long-term interest rate and / or depreciating the exchange rate. At the same time, the transmission mechanism of monetary policies has become much more diversified and complex.

Capital markets in developed countries are more integrated and interdependent than 10-20 years ago. The measures taken by various countries to develop and increase the efficiency of their financial systems have contributed to increased internationalization of capital markets. In this context, the measures taken are:

● opening national capital markets to foreign investors;
● encouraging competition and liberalization of national stock markets;
● total or partial waiver of foreign exchange control measures, which have encouraged international portfolio investments.

3. The link between globalization and market volatility

The development of institutional investors and their increasing involvement in portfolio investments abroad out of a desire to diversify investments has completed this process. New information technologies and advances in telecommunications have led to an accelerated globalization of financial markets, reduced the autonomy of national markets and significantly increased their volatility.

The free movement of capital between countries was the first step towards the internationalization of national capital markets, and the measures to remove such restrictions from national legislation were in many cases taken in the early 1980s.

The freedom of international capital movements has opened new horizons for economic agents for arbitrage between national capital markets.

Given the abandonment of fixed exchange rates between the currencies of different countries and their transition to float due to the increase in exchange rate volatility, there was a need to hedge risks using derivative financial instruments.

Some of the most significant exchanges that affected the structure of the international financial system were also captured, adapting it to the globalization trends of the markets:

► reducing the role of the banking system in financing enterprises by developing the securities market;
► the massive wave of privatizations in Western economies, which encouraged the development of the national capital market;
► development of institutional investors;
► internationalization of financial investments.

Globalization means the integration of financial markets around the world into an international financial market.

The internationalization of financial markets must be seen in the context of developments taking place in the world economy, in connection with economic processes and phenomena, increasing interdependencies between national economies, taking into account the cooperation in production between companies located in different countries and increasing international trade.

The development of market internationalization is stimulated by regional economic integration, as well as by the revolution in the field of informatics and telecommunications, whose progress has also been beneficially reflected in the dynamization of capital flows.

The degree of globalization of national financial markets is different, depending on the financial products considered: short-term or long-term, currencies, bonds or shares.

Another dimension of market globalization is given by the origin of the participants. If we consider this, we find the massive involvement of American investors in international issues.

4. Diversification of portfolios between risk and performance

Also, the size of institutional investors is important and the ranking would be:

a. in the first place - investment and pension funds and American insurance companies;
b. in the second place - the Japanese
c. in the third place - European institutional investors.

When individuals select an asset, an important factor in making the decision is the risk involved in that asset. It is known that people have an aversion to risk. For example, it has been shown that investors in the foreign exchange market base their demand for a particular financial asset on the analysis of the risk involved in that asset (measured by the risk premium), as well as on the analysis of the expected gain.

If people have a risk aversion, they will make the decision to purchase an asset based on both the expected future income and the risk analysis related to that gain. Under the influence of risk aversion, for example, investors will want to hold estimated bonds in different currencies if the resulting portfolio of financial assets provides the desired combination of risk and return, even if the interest rates offered by those bonds are eroded by currency parities. . In general, a portfolio whose earnings fluctuate sharply year on year is less desirable than a portfolio that offers the same earnings year after year, with minor fluctuations.

In this context, it was concluded that the international exchange of assets can be beneficial to both parties engaged in this operation by allowing them to reduce the risk of investments made. The exchange leads to this risk reduction through the opportunity it offers participants to diversify their portfolios - to distribute their wealth over a wide range of assets. Risk reduction is, therefore, the basic reason for the international exchange of assets, and one of the functions of the international capital market is to make diversification possible.

The diversification process has evolved substantially as a result of the accelerated development of the international capital market since 1970. However, the process of international portfolio diversification has not yet reached, according to specialists, an optimal level. The slow process of developing international portfolio diversification is a confusing phenomenon, as economic theory has shown that there are major advantages to diversification.

5. The effect of capital market manipulation and their role in the emergence of financial crises

The big stock exchanges have an international character, faithfully reflecting the current situation. Although based in one country or another, the influence of stock exchanges transcends national borders; characteristic markets, stock exchanges set the tone of the market, anticipate the trend, are the place of discovery of representative prices for traded products. One of the questions frequently asked by those who study the futures markets was how prices in both markets (sight and futures) influence each other. How can speculation in futures markets influence prices in these markets and how does this affect the spot markets?

Although it may seem paradoxical, the prices of commodities traded on the stock exchange have a lower volatility (daily decreases or increases) than those without a stock market due to the fact that the volatility of stock market prices is restricted to most stock exchanges by regulations at a certain size and, at the same time, tempered by the action of speculators.

Empirical research has shown that forward transactions in agricultural commodities lead to a reduction in the volatility of spot traded commodities and the presence of speculators attenuate the amplitude of price fluctuations, reduces the gap between extreme exchange rates within a season and the amplitude of price fluctuations from a season to another.

Stock market transactions also have the function of minimizing price risks for actual goods. This function is performed by hedging. Hedging or hedging operations are performed out of the desire of operators (farmers, traders, processors, etc.) to protect themselves against price risks resulting from price changes in the physical products market.

Thus, the operator initiating such a hedging operation on the futures market assumes a position opposite to its position taken on the physical market (spot market), in the hope of compensating any loss related to the physical market, with a gain on the futures market. Hedging can be selling or buying depending on the position of the operator in the futures market.

6. Conclusion

Thus, through stock exchanges, an operator can insure against the price risk, minimizing its risks, which it transfers to another operator on the market (a speculator).
Commodity exchanges are approaching the idea of perfect competition. Through the trading method specific to stock exchanges, which has them according to a program and rules observed by all operators, it is impossible for an individual or a group to exert a negative influence on prices.
Futures markets contribute to the removal of monopoly positions and the fight against dominant positions. Futures markets offer a mechanism for disseminating prices to all market participants, the multitude of conditions met for ensuring the price, making us consider that its formation is done in the most competitive way possible.
These conditions refer to:
1. large number of market participants;
2. futures markets are centralized and regulated both in terms of the nature of transactions and in terms of their operation;
3. trading systems allow all participants to know the price offered and requested by each, regardless of who is the other party in the transaction;
4. futures contracts are standardized;
5. there are no barriers to access the market.
Due to the fact that futures markets are based on the principle of transparency of transactions, they reduce the possibility for those with dominant positions to monopolize the market.
The function of providing information on the price level of some goods available at a certain time. If a farmer wants to know what will be, approximately, the price of the harvest over a certain period of time, the most appropriate option is to study futures contracts with maturity at the time that interests him.
Stock market prices are not only influenced by the supply-demand ratio, but also by other factors of an economic, social or political nature (inflation, significant changes in exchange rates, strikes, changes in the political or fiscal regime, etc.), and anyone can get an overview of future prices by studying futures quotes.
The function of informing stock exchange participants about the availability of goods and demand from around the world is achieved by publishing and promoting various information, which allows assessments for current and future periods on the stock of goods or global demand. Therefore, the information provided by the stock markets is of interest to all participants in the stock market: farmers, traders, consumers, speculators, arbitrators, etc. Basically, this information is a real guide in planning the future actions of the

participants in the stock exchange activities.

Stock markets lead to an uniformization of prices, local markets and a lower segmentation of markets. Any monopoly practices that may occur at the local level will be annihilated by the accessibility of all participants to a unified, representative market. Futures stock markets provide local participants with access to national or international markets. An integrated market at national level means that all local operators will be able to follow the trends of the national market and prices will become much more stable. Studies show that those who use the stock market to cover risks have a higher income stability than those who do not use such markets.

The analysis of the economic functions of commodity exchanges reveals, at the same time, their economic importance in the world economy which can be briefly reproduced by the following:

constitutes a characteristic market on which demand and supply for certain types of goods are concentrated, where operations are concluded on the basis of well - defined conditions; exerts a decisive influence on world trade in commodities; influences the level of prices that are formed outside the stock exchanges; is the place where economic and political information is concentrated; transactions remove some of the production and commercial risk; they are also used by other market bodies to conclude transactions.

The economic utility of the stock markets results from the advantages conferred by the participation in the stock exchange trade. Stock market operations allow traders to know prices in competitive conditions, prices that take into account available information and supply and demand forecasts. The prices thus obtained serve as a barometer or reference points for the negotiation of goods in several related markets.

Commodity exchanges or futures markets are proving their usefulness in world trade in that they help to improve the flow of information on current and forward prices of products. The knowledge and wide dissemination of the courses marks a progress compared to other information systems in which these courses are generally known only by a few privileged people.

As long as there is a futures market, producers as well as consumers should be able to negotiate price information more easily. When this price information is not widely disseminated, it is very difficult for small operators to act effectively. Most agricultural holdings, small and medium-sized enterprises, trade offices, especially in developing countries, do not trade on commodity exchanges, but can start from price information given by commodity exchanges in order to make appropriate decisions in matters of production and marketing.

Generally, participants in commodity exchanges have sufficient information in the field. In this context, stockbrokers stock as well as authorities try to attract customers by providing them various studies available on the market. Some of them are freely accessible and very simple, while others are communicated only to important customers and are very technical.

As the reality of different countries, especially developed ones, shows, there are many professional newspapers and shops, financial magazines and daily press that draw aspects related to the products traded on the commodity exchanges. In these countries there is a possibility that the information can range from a general analysis of the economic and political situation in the world, as well as from its effects on the demand and supply of a product as well as on prices, to sectoral studies on a product, articles on recent market behaviour or technical analysis.

The complexity of this problem shows us that it would be impossible to enumerate all the information accumulated regarding commodity exchanges; however, they are of obvious interest to those who trade a product, either on the physical market or on the futures market.

Global stock exchange practice has shown that research should be deepened to determine whether the dissemination of all this data is really intended to inform the public, or whether it is only to persuade the client to carry out operations on which the stockbroker charges a commission.

Also, the development of commodity exchanges led to the increase of trade on the background of trade liberalization, capital movements and innovations developed by stock exchanges (new standardized products, new operations, etc.). Thus, trade liberalization was one of the prerequisites for the development of commodity exchanges. The liberalization of capital movements has also been important in the development of stock markets. Without the freedom to finance international transactions, it is difficult to develop international trade in raw materials. This freedom has favoured the development of commodity exchanges because it allows international operators to intervene freely in order to carry out stock exchange operations.

The increase in international investments has favoured the development of stock markets. Several factors have contributed to this momentum:

1. the emergence of international capitals in search of advantageous and liquid investments;
2. the emergence of large private fortunes;
3. the boom of mutual funds on raw materials and especially offshore ones;
4. the understanding by mutual fund managers of the benefits of diversifying and investing part of their resources in raw materials.

The sustained innovation of commodity exchanges has influenced trade in those products due to the introduction of new contracts on increasingly complex commodities (raw materials, financial products, classical or derivatives, etc.), as well as the permanent adaptation of contracts to the needs of operators and changes in cash market operations or the creation of new markets for strategic raw materials, such as petroleum products, nickel or financial securities, which gave credibility to commodity exchanges, allowing them to and change the questionable image of speculative markets reserved for insiders.

By expanding the range of forward contracts offered, stock exchange managers allowed new operators to appear on the stock markets (banks, financial and credit institutions, investment companies, etc.), operators that would attract customers to intervene and use these new opportunities.

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