NEAR EAST UNIVERSITY

The Faculty of Economics & Administrative Sciences

The Department of Business Administration

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Submitted By : Ümit Sezgin Aydın
Submitted To : Assoc. Prof. Dr. Berna Kocaman

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ABSTRACT

The Effects of Globalization on Financial Markets

The world' liberal financial markets have been facing serious destabilising effects of financial globalization. Actually the developing countries' experiences with liberalization, deregulation, and open financial markets have been disappointing. Owing to financial liberalization, the concept of black-money and unrecorded economy have been settling down in the world economy, and together with the concept of black-money, the off-shore banking system has been developing. In addition sudden attacks drawbacks of the short-term capital movements have been causing financial based economic crises. These crises are prevented through the IMF. But, this structure includes most of deficiencies for the world economy. Thus, these deficiencies show some of necessary action that should be used for re-arrangement of the IMF and the World Bank's policies. The purpose of this study is to examine the process of globalization and how this process has been affecting the ability of the financial markets. Lastly it reaches to the conclusion that financial markets were severed from financial liberalization.

INTRODUCTION

The concept of globalization, developing since the 1980s, has accompanied with a series of changes. In this period of time, most of changes and different concepts have being faced. The end of cold-war following the collapse of USSR, the acceleration of communication and information technologies through technological improvements and present demand and arrangements caused by increased capital accumulation stimulated the globalization process.

In this concept of globalization process, international trade and capital movements are liberalized, and new investment alternatives are developed. The world economy has being affected significantly. These free capital movements and new investment alternatives cause unrecorded economy and black-money. Black-money and unrecorded economy, using advantages of liberalization, unrestricted world trade, reduction in customs, lessening of frontier controls add 80-100 billion dollar to the global fiscal system. In this system, millions of black-money that is moving around the world economy is acquitted through some banking systems such as off-shore banking. Because of this reason, off-shore banking system is very important tool of globalization process.

In the world economy, the biggest economies' growing capitals lead to great waves as a result of entering and existing of national economies in order to get short-term profits. So, world economy has recognized with globalization in financial-based economic crisis caused by sudden attacks and drawbacks of short-term capital movements.

In 1944, for preventing and predicting financial crises and removing their effects, the related countries have established the IMF and the World Bank at the Bretton Woods

Conference and designed to achieve different but complementary ends. The IMF was designed to defend the international monetary system, which meant in effect helping governments overcome balance of payments problem-structural imbalances. The World Bank- its proper name is International Bank for Re-construction and Development- had the role of invest in programmes to promote post-war re-construction.

But these international financial centers have insufficiencies in preventing and predicting financial crises. Especially the slowness of the IMF policies in the function international control, observation, and support and its insufficiencies in preventing financial crises has accelerated the studies of finding new alternatives for these problems.

I. The Objectives of This Study

In this study, objectives are that studying on the concept of globalization process and its effects on world economy- financial markets; understanding where the globalization process is today, and in the future? ; making search on the structure of the IMF and the World Bank; underlining the importance of offshore banking systems-Tax Heavens- for globalization process; and talking about relations between black-money and off-shore banking system.

II. Relevant Questions for Analyzing This Project

- What is the globalization process?
- What are the important parts of financial globalization?
- What are the forces driving globalization?
- Are the IMF and World Bank policies enough to prevent international monetary system?

- What is the relationship between offshore-Tax Heavens-banking sector and black money-money laundering process?
- What are the effects of offshore banking sector on international fiscal system?

III. Methodology and Data Collection

While getting these theoretical information; relevant books, articles, magazines, and newspapers will be reviewed from library, Internet resources, and so on. The Internet pages of the IMF and the World Bank also will be searched.

I. WHAT IS GLOBALIZATION?

Economic "globalization" is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions of globalization that are not covered here.

At its most basic, there is nothing mysterious about globalization. The term has come into common usage since the 1980s, reflecting technological advances that have made it easier and quicker to complete international transactions—both trade and financial flows. It refers to an extension beyond national borders of the same market forces that have operated for centuries at all levels of human economic activity—village markets, urban industries, or financial centers.

Markets promote efficiency through competition and the division of labor—the specialization that allows people and economies to focus on what they do best. Global markets offer greater opportunity for people to tap into more and larger markets around the world. It means that they can have access to more capital flows, technology, cheaper imports, and larger export markets. But markets do not necessarily ensure that the benefits of increased efficiency are shared by all. Countries must be prepared to embrace the policies needed, and in the case of the poorest countries may need the support of the international community as they do so. (IMF Internet Page, 2002).

II. ARCHAEOLOGY OF THE GLOBALIZATION

Actually the mean of globalization process is used as increasing the area of capital movements. This concept has existed since the revolution of industry. For instance the beginning of the 18th century, the famous economist who is A. Smith asserted that trade should be made beyond the borders. But in that period of time the frame of market mechanism could not solve the social condition and because of this reason new alternative ideas were appeared instead of A. Smith's ideas. (Aktan, 1994: 24)

Essentially after 1920s suspicions ideas increased towards free market model. In that time, in spite of these suspicions ideas, the newest response was the Keynesian model. (Ölmezoğulları: 15). This model kept in mind to create purchasing power with the policy of demands. This type of policy brought about to exist the organization of fordist. These types of approaches talked about that the working conditions were standardized and who got higher wages than before. This frame conformed to the aim of Keynesian economics. So, the concept of fordinizm can be divided into three;

1. The mass production supposes the heap initially.
2. Fordinizm connects with protected system of national market. This system helps ones who make mass production.
3. The model of mass production is very sensitive towards sudden falls in demand. Essentially in depression times, wages were raised and take advantages of loans were increased. Thus sudden falls in demand was tried to prevent. (R. Murray)

But after 1970s, possible effects of this frame were being lower. Because of satisfaction of domestic market and preferring the goods, which satisfy, individual needs and wants instead of the mass production (Bozkurt, 1996:50), and increasing the price of raw materials, the model of Keynesian was scrutinized. Policies of Keynesian economy were not reliable any more; because idea of high inflation brought about expanding employment volume was not be successful. Social precautions that were brought for preventing employment, any more were trouble to make production. In addition the dimensions of public spending fairly increased for providing social balance, and this condition reduced the effects of state intervention.

In the process of production, the critical point to reach productivity is high technology. Separately, Japan and Southeast Asian Countries that face more liberal politics coped from crisis easily. The model of Japan was based on product elasticity and very convenient to use high technology.

The organization of economy was made according to neo-liberal politics. Thus customs walls that prevent national economy and the aim of social prevent on employment's effects were being lower. Lastly after 1980s, the model of socialism was debilitated so there were no barriers in front of the globalization.

III. THE GLOBALOZATION AND NEW ECONOMIC PROBLEMS

The biggest economic effect of globalization is to provide free capital movements. Owing to globalization process, the world financial markets were integrity. The daily size of financial markets is more than $ 1.5 trillion. Because of the fastest capital movements, the effects of reel economy have become weaker. This condition normally has caused reducing the share of production.

The big characteristic feature of globalization is to base on international firms. In 1970s the number of international firms were not more than 200, but today their numbers are beyond 40,000. In addition some of international firms' global endorsements are more than ¼ of all economic activities in the world economy. (Rambert: 27). Another example is that the General Motors' endorsement is more than Denmark's GNP and Toyota's endorsement is also more than Norway's GNP. (Rambert: 25).

The international firms today are the biggest tools to increase the production of goods and service. (İyibozkurt: 37). These firms spread their activities to provide to expand labor markets, markets of raw materials, and size of market. But theirs production policies have influenced the countries total income and expenditures.

The effects of them cause various rectionist movements. Essentially they settled down to the developing countries to get benefits from their activities. (Hırst, Thompson: 15). In addition the important point is that these firms brought about unequal income between countries. (Zurawicki: 66).

Another effect of global economy is seen on the financial markets very extremely. The rapid fluctuations of financial capital movements cause destructive effects.

Together with technological improvements, the international financial markets react more to a little negative ness. As a result effects of financial crisis are very big on the financial markets. The Asian Crisis is very good example. This crisis appeared because of forcing the Thailand's government to devaluate its currency. In the beginning the speed of the crisis' breadth was very surprising. In that period of time, in Malaysia, Singapore, Indonesia, and South Korea faced with devaluation problem and most of Asian Countries' stock exchange markets were influenced negatively. (Uluagay: 21).

While the process of globalization is destroying the national markets; it makes easy the competition of taking shares from financial markets. Thus owing to free capital movements and rivalry, the international firms want to form sensitive structure for expanding to different cultures and geographies.

IV. THE CONCEPT OF GLOBALIZATION AND FINANCIAL MARKETS

If we want to understand the process of globalization, we should understand the potential changes of international economy after the cold war. (Mittelman, 1997: 2). The period that is recognized with the concept of globalization has two main parts. First one is related with the period of saving capitals. In here the critical points are that becoming free capital movements, increasing its volume, and speed, being widespread, and entering new investment tools. These are actually real potential power of globalization and this power has expanded extremely the financial markets of the world economy. (Freeman, 1998: 56).

This term is affected on a large scale from;

1. In 1970s, destroying the Bretton Woods System and passing to the system of floating exchange rate.
2. In 1980s, the governments have enabled free capital movements in a period of liberalization.
3. Some of the biggest economies' balance of payments had structural imbalances, and
4. Banks and other financial institutions were willing to borrow money to help developing countries. (Axford, 1995: 108)

The second part of globalization process is directly related with technological improvements. In here we can talk about expanding computer technology, gaining speed the information and telecommunication technology in all over the world.

(Akkaya, 1998:429). All parts of our lives are dealing with those types of technological improvements.

In the beginning of 1990s SEC 144 A code of law provided to open the commercial bills markets to the foreigners in U.S.A. At the same time (Parasız, 1995: 147) Japanese government decided to abolish the 65th code of law that bordered the free capital movements, and EU countries attempted to remove all barriers. These activities accelerated to develop the globalization process.

The process of globalization has caused most of financial problems in the world economy. Essentially the development of global financial system caused two parts. First part includes goods and services are traded as reel economy. In second part, the casino world that contains money trader and speculators, takes part. (Axford, 1995: 108). So, international financial sector has been more important than industry, and investors. Capital has been more important than labor and the sharing of profit has been increased. (Bal, 1998: 89). This condition has being damaged the international justice. In addition, free capital movements do not contribute the reel economy and these movements may cause most of financial crisis.

4.1. The Globalization of Finance

Three decades ago, a manufacturer building a new factory would probably have been restricted to borrowing from a domestic bank. Today it has many more options to choose from. It can shop around the world for a loan with a lower interest rate and borrow in foreign currency if foreign-currency loans offer more attractive terms than domestic-currency loans; it can issue stocks or bonds in either domestic or international capital markets; and it can choose from a variety of financial products designed to help it hedge against possible risks. It can even sell equity to a foreign company. (Hauler, Gerd, 2002)

4.1.1. Forces Driving Globalization

What has driven the globalization of finance? Four main factors stand out.

Advances in information and computer technologies have made it easier for market participants and country authorities to collect and process the information they need to measure, monitor, and manage financial risk; to price and trade the complex new financial instruments that have been developed in recent years; and to manage large books of transactions spread across international financial centers in Asia, Europe, and the Western Hemisphere.

The globalization of national economies has advanced significantly as real economic activity—production, consumption, and physical investment—has been dispersed over different countries or regions. Today, the components of a television set may be manufactured in one country and assembled in another, and the final product sold to consumers around the world. New multinational companies have been created, each producing and distributing its goods and services through networks that span the globe, while established multinationals have expanded internationally by merging with or acquiring foreign companies. Many countries have lowered barriers to international trade, and cross-border flows in goods and services have increased significantly. World exports of goods and services, which averaged $2.3 billion a year during 1983-92, have more than tripled, to an estimated $7.6 billion in 2001. These changes have stimulated demand for cross-border finance and, in tandem with financial liberalization, fostered the creation of an internationally mobile pool of capital and liquidity.

The liberalization of national financial and capital markets, coupled with the rapid improvements in information technology and the globalization of national economies, has catalyzed financial innovation and spurred the growth of cross-border capital movements. The globalization of financial intermediation is partly a response to the demand for mechanisms to intermediate cross-border flows and partly a response to declining barriers to trade in financial services and liberalized rules governing the entry of foreign financial institutions into domestic capital markets. Global gross capital flows in 2000 amounted to $7.5 trillion, a fourfold increase over 1990. The growth in cross-border capital movements also resulted in larger net capital flows, rising from $500 billion in 1990 to nearly $1.2 trillion in 2000.

Competition among the providers of intermediary services has increased because of technological advances and financial liberalization. The regulatory authorities in many countries have altered rules governing financial intermediation to allow a broader range of institutions to provide financial services, and new classes of nonbank financial institutions, including institutional investors, have emerged. Investment banks, securities firms, asset managers, mutual funds, insurance companies, specialty and trade finance companies, hedge funds, and even telecommunications, software, and food companies are starting to provide services similar to those traditionally provided by banks. (Hauler, Gerd, 2002)

4.1.2. Changes in Capital Markets

These forces have, in turn, led to dramatic changes in the structure of national and international capital markets.

First, banking systems in the major countries have gone through a process of disinter mediation—that is, a greater share of financial intermediation is now taking place through tradable securities (rather than bank loans and deposits). Both financial and nonfinancial entities, as well as savers and investors, have played key roles in, and benefited from, this transformation. Banks have increasingly moved financial risks (especially credit risks) off their balance sheets and into securities markets—for example, by pooling and converting assets into tradable securities and entering into interest rate swaps and other derivatives transactions—in response both to regulatory incentives such as capital requirements and to internal incentives to improve risk-adjusted returns on capital for shareholders and to be more competitive. Corporations and governments have also come to rely more heavily on national and international capital markets to finance their activities. Finally, a growing and more diverse group of investors are willing to own an array of credit and other financial risks, thanks to improvements in information technology that have made these risks easier to monitor, analyze, and manage.

Second, cross-border financial activity has increased. Investors, including the institutional investors that manage a growing share of global financial wealth, are trying to enhance their risk-adjusted returns by diversifying their portfolios internationally and are seeking out the best investment opportunities from a wider range of industries, countries, and currencies. At the wholesale level, national financial markets have become increasingly integrated into a single global financial system. The major financial centers now serve borrowers and investors around the world, and sovereign borrowers at various stages of economic and financial development can access capital in international markets. Multinational companies can tap a range of national and international capital markets to finance their activities and fund cross-border mergers and acquisitions, while financial intermediaries can raise funds and manage risks more flexibly by accessing markets and pools of capital in the major international financial centers.

Third, the nonbank financial institutions are competing—sometimes aggressively—with banks for household savings and corporate finance mandates in national and international markets, driving down the prices of financial instruments. They are garnering a rising share of savings, as households bypass bank deposits to hold their funds in higher-return instruments—such as mutual funds—issued by institutions that are better able to diversify risks, reduce tax burdens, and take advantage of economies of scale, and have grown dramatically in size as well as in sophistication.

Fourth, banks have expanded beyond their traditional deposit-taking and balance-sheet-lending businesses, as countries have relaxed regulatory barriers to allow commercial banks to enter investment banking, asset management, and even insurance, enabling them to diversify their revenue sources and business risks. The deepening and broadening of capital markets has created another new source of business for banks—the underwriting of corporate bond and equity issues—as well as a new source of financing, as banks increasingly turn to capital markets to raise funds for their own investment activities and rely on over-the-counter (OTC) derivatives markets—decentralized markets (as opposed to organized exchanges) where derivatives such as currency and interest rate swaps are privately traded, usually between two parties—to manage risks and facilitate intermediation.

Banks have been forced to find additional sources of revenue, including new ways of intermediating funds and fee-based businesses, as growing competition from nonbank financial intermediaries has reduced profit margins from banks' traditional business—corporate lending financed by low-cost deposits—to extremely low levels. This is especially true in continental Europe, where there has been relatively little consolidation of financial institutions. Elsewhere, particularly in North America and the United Kingdom, banks are merging with other banks as well as with securities and insurance firms in efforts to exploit economies of scale and scope to remain competitive and increase their market shares. (Hauler, Gerd, 2002)

V. THE GLOBAL FINANCIAL SYSTEM AND CAPITAL MOVEMENTS

After 1970s, there were some of potential changes in international banking sectors. In 1973 OPEC countries increased the price of oil and international banks faced with the biggest capital movements. When the price of oil was increased; OPEC countries have excess supply, and the countries that imported oil, needed more banking funds. Thus between years 1976 and 1980 international banks' assets increased as %95. In this period of time, offshore banking system was attached importance. These actions enabled that related countries without limitation and necessary action use money movements. (Sassen, 1991:66).

The move to what is sometimes characterized as a speculative global economy has been facilitated by new technologies that allow unprecedented speed in the movement of money. Flight capital, the proceeds of crime, money seeking preferential interest rates or foreign exchange arbitrage combine with contract payments and debt settlements in a vast melange of movements and transactions that is bewilderingly fast and complex. Indeed, the global financial system provides a crucial underpinning for international commerce and investment in a world characterized by global trade, the prevalence of transnational and multinational corporations and the rapid movement of investment capital. The globalization of financial services has become one of the most important dimensions of the overall globalization process. (Blum, Levi, Naylor and Williams, 1998).

In addition, the massive growth of electronic payments has been made possible by the development of the electronic transfer mechanisms operated by the Society for

Worldwide Interbank Financial Telecommunications System (SWIFT), the Federal Reserve (Fedwire) and the Clearing House Interbank Payments System (CHIPS). The volume and value of the transactions that move through these mechanisms are staggering. "Each day, more than 465,000 wire transfers, valued at more than two trillion dollars, are moved by Fedwire and CHIPS, and an estimated 220,000 transfer messages are sent by SWIFT (dollar volume unknown)". (Office of Technology Assessment, 1995: 1).

According to a report by the now defunct United States Office of Technology Assessment, a reasonable guess is that 0.05 per cent to 0.1 per cent of the approximately 700,000 wire transfers a day contain laundered funds up to a value of $300 million.25 This is dwarfed by the more than $2,000 billion that is transferred by wire on an average day, greatly complicating efforts to identify the laundered funds. Furthermore, although bank-to-bank transfers of aggregate funds for settlement or loans constitute about half of the total volume of wire transfers; with the complicity of corrupted bank employees, these can also contain laundered money. (Blum, Levi, Naylor and Williams, 1998).

In table 1, capital movements can be seen in the world economy.

Table 1:**Global Capital Movements ($ Billion)**

	Net Special Capital Movements	Net Direct Investments	Net Portfolio Investment	Net Other Investment	Net Legal Investment	Changes In Reserves
1984-89	13.5	13.0	4.4	-3.8	26.2	-14.4
1990-93	144.5	64.8	64.0	15.4	17.4	-79.6
1994	155.7	85.3	104.4	-34.0	-2.1	-75.4
1995	195.3	99.6	40.7	55.1	23.2	-121.0
1996	214.9	120.4	80.2	14.2	3.2	-106.2
1997	123.5	147.2	69.9	-93.5	22.4	-37.7
1998	56.7	127.5	35.3	-106.1	53.4	-31.7
1999	129.2	118.6	41.9	-31.3	-0.6	-67.3

Source: IMF, 1998: 60

Table 1 depicts that capital movements between 1984 and 1989 were only $13.5 billion, but its volume reached to $ 215 billion in 1996. The effects of global crisis slowed down between 1997 and 1998, but after 1999 it gained speed. In international capital markets, total numbers of currencies, which are replaced, are $1.5 trillion in only one day. (Yıldırım, 1998:136).

Global capital movements contain both legal accumulation and illegal ways. This structure normally created offshore banking sector, but this sector has being faced most of fiscal problems.

5.1. The Globalization And The Concept Of Black-Money

Black money is obtained by doing narcotic, weapon smuggling, terror, woman and child trade, and other similar things. (Şahbazov, 1999: 128). This money, which being unrecorded and illegal, has potential power in the financial system of the world economy, and it is laundered through some of the systems. (Gümüşkaya, 1998: 64). The world economy and the global capital, growing by advantages of new production techniques and information economy, has reached significant volumes together with black-money additions and unrecorded economy returns. Black-money and unrecorded economy, using advantages of liberalization, unrestricted world trade, reduction in customs, lessening of frontier controls add 80-100 billion dollar to the global fiscal system.

5.1.1. Definition and purpose of money-laundering

Today money-laundering attracts the most attention when associated with trafficking in illicit narcotics. However enterprising, criminals of every sort, from stock fraudsters to corporate embezzlers to commodity smugglers, must launder the money flow for two reasons. The first is that the money trail itself can become evidence against the perpetrators of the offence; the second is that the money per se can be the target of investigation and action.

Legitimate business corporations, too, might have recourse to the techniques of laundering whenever they need to disguise the payment of a bribe or kickback. In the current climate, where there has been a highly publicized backlash against corporate and public-sector corruption, laundering in bribery cases is likely to attract an increasing amount of attention. In fact even Governments make occasional use of the same apparatus—to dodge reparations, evade the impact of sanctions or covertly fund political interference in some rival state.

Regardless of who actually puts the apparatus of money-laundering to use, or what strange twists and turns it takes, the operational principles are essentially the same.

Strictly speaking, money-laundering should be construed as a dynamic three-stage process that requires: firstly, moving the funds from direct association with the crime; secondly, disguising the trail to foil pursuit; and, thirdly, making the money available to the criminal once again with its occupational and geographic origins. In this respect money-laundering is more than merely smuggling or hiding tainted funds, although those acts may constitute essential constituents of the process.

Perhaps the most logical way to keep the nature of the process of laundering distinct from some of its constituent parts is to stress the difference between hiding the existence of criminal money and disguising its nature. If criminal money is hidden from the view of the law, for example if it is spent in the form of anonymous cash or moved to a jurisdiction where there are no sanctions against the use of money of illegal origin, it can scarcely be described as "laundered". All that has happened is that criminally derived money has had its existence hidden from the law enforcement authorities of the place where the underlying offence has been perpetrated. However, if the money is given the appearance of legitimate provenance in a place where sanctions against its illegal origins do exist, then and only then can it be said to be truly laundered—it has had its nature disguised. (Blum, Levi, Naylor and Williams, 1998).

5.1.2. Global Fiscal System And The Volume Of Black-Money

This global world economy enables to open quite a few closed economies, and to develop international markets. But the globalization process brings about to increase proportion of crime. In order to increase international goods trade, the globalization process enables to make easy the bureaucracy in customs. Because of this action, crimes like narcotic and weapon smuggling are made easily in all over the world.

As a matter of fact, most of countries cannot protect themselves from negative effects of unrecorded economy and black-money. If any country launders its black-money through some of ways; this process can cause most of problems for both other countries and global financial system.

Crime organizations and individuals, who know deficiencies of the system, benefit from open borders, free trade areas, off- shore banking sectors, electronic fiscal transfers, clever cards, and etc. to launder millions of dollars in one day. (Günay-Şahbazov, 1999: 134).

Total amount of black-money, because of being illegal, cannot be fixed. But IMF's international fiscal statistics show the total amount of black-money as between $ 700 billion and $ 1 trillion. If we compare this amount with the U.S.A.'GNP that is nearly $ 8 trillion, we see that this amount is very big and serious. In addition this amount increases continuously between $ 80 billion and $ 100 billion each year. Annually $ 500 billion is achieved from only trade of narcotic. (Özsoylu, 1998: 13).

The total amounts of black-money that are laundered every year, is included in fiscal system in the world economy. Estimations of IMF show us total amount of money-laundering equals between %2 and %5 of global GNP. According to FATF(Financial Action Task Force on Money Laundering), which was established by G-7 countries(Canada, France, Germany, Italy, Japan, England, and U.S.A.) and the European Groups, every year $ 300 million is laundered in international banking system. Table 2 shows that, in 1990 FATF estimated total number of narcotic, cocaine, and hashish selling equals $ 122 million and approximately its part of $ 85 million was laundered. (Günay-Şahbazov, 1999: 135).

Table 2**: The Quantity of Narcotic Trade in Europe and U.S. (1999-Billion Dollar)**

	Cocaine	Hashish	India's Hemp	Total
USA	6.1	2.3	7.5	15.9
The EUROPE	28.8	10	67.2	106
Total	34.9	12.3	74.7	121.9

Source: Günay-Şahbazov, 1999: 135

In world economy, unrecorded economy equals approximately % 90 of U.S.'s Economy. In 1993, that amount was $ 5.8 trillion. The rate of unrecorded economy to GNP, in 1999, for Switzerland was % 7, for U.S.A. was % 8, for Japan was % 11, for England was % 13, for Germany was % 16, for Belgium was % 22, for Italy was % 27, for Greece was %29. (The Economist, 2001: 122).

5.2. Off-Shore Banking and Its Effects on International Fiscal System

In international fiscal system, quite a few countries and little islets, which are identified as International Off-shore Financial Centers (IOFC), offer most pf advantages to get big amount of funds. In addition, these centers are known as also "Tax Heavens."

Off-shore banking system started to take form in countries in the end of the 1960s. These countries have offered possible tax advantages without taking control. Owing to these actions, related countries have been more charming to get funds. (Kızılot, 1999: 173).

In 1970s, because of developing off-shore banking system, narcotic traffic has increased. This means that amounts of black money from the operation of narcotic trade can be laundered through off-shore banking system. (Naylor, 1994: 299). Actually this condition is possible outcomes of global capitalist system. In this system, approximately $ 1 or $ 2 trillion black-money exists and that amount of money is laundered through off-shore banks. The world economy has used either off-shore banks or the European and U.S. banks to launder black-money. The European and U.S. banks are not be used because amount of black money may be very big and that amount may cause to collapse the related countries' banking sectors. (Odabaşı, 1999: 37).

The countries, territories, cities or areas falling into this category are shown below (see in appendix).

The Caribbean: Anguilla, Antigua, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Netherlands Antilles, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Turks and Caicos Islands

Europe: Andorra, Campione, Cyprus, Gibraltar, Guernsey, Ireland (Dublin), Isle of Man, Jersey, Liechtenstein, Luxembourg, Madeira, Malta, Monaco, Sark, Switzerland

Asia and the Pacific: Cook Islands, Hong Kong Special Administrative Region, Labuan, Macao, Marianas, Marshall Islands, Nauru, Niue, Samoa, Singapore, Vanatu.

Middle East: Bahrain, Dubai, Lebanon

Africa: Liberia, Mauritius, Seychelles

The Cayman Islands, for example, one of the most important offshore jurisdictions, is generally judged to be the fifth largest financial center in the world, behind London, New York, Tokyo and Hong Kong. There are over 570 banks licensed in the Cayman Islands, with deposits of over $500 billion. Mutual funds licensed or registered in the Islands, offshore insurers and non-resident and exempted companies are other important dimensions of Cayman financial activities. (Cater, 1997: 23).

In addition, in Cayman Islands, there are 32,000 international trade firms, 550 banks, 900 international investment funds, and 400 insurance companies. In addition, in Cayman Islands, only 35,000 people live.(Odabaşı, 1999: 36).

Bermuda, for example, which hosts about 40 per cent of the world's captive insurance companies, has been extremely cautious and is regarded as one of the more scrupulous jurisdictions that, for the most part, has attracted the right kind of business. Yet even in Bermuda, there are virtually unregulated areas of financial activity such as insurance companies and mutual funds that have the kind of multiple account capabilities that facilitate money-laundering.

In 1998, however, there have been reports that Panama, which still has over 100 banks from 30 countries and a bank sector that accounts for 11 per cent of GDP. These countries, territories, cities or areas, which are known as Tax Heavens, hold very big amounts of funds. The biggest foundations' branches have been settled down in those countries, such as Citibank, Chase Manhattan, Swiss Bank, and Trust Corporations, Schrodes, Midland, and Barclays. (Euromoney, 1994).

Recently $ 5 trillion capitals are held in off-shore banks. If we think that U.S. GNP that is $ 8 trillion, that amount of money is very big amount.

Table: 3 **Amounts of Funds that are held in off shore Banks. (Trillion $).**

Type of Funds	Quantity
Off shore Funds	2
Ship Transport	1
Bank Accounts	1
Insurance Companies	0.75
Investment Funds	0.25
Total	5

Source: Kızılot, 1999: 173

5.3. Relationship Between Black-money and Off-shore Banking(Tax Heavens) Sector.

Today, enterprise criminals of every sort, from drug traffickers to stock fraudsters to corporate embezzlers and commodity smugglers, must launder the money flowing from their crimes for two reasons. The first is that the money trail itself can become evidence against the perpetrators of the offence; the second is that the money per se can be the target of investigation and seizure. Regardless of who actually puts the apparatus of money-laundering to use, the operational principles are essentially the same. Money-laundering should be construed as a dynamic three-stage process that requires: firstly, moving the funds from direct association with the crime; secondly, disguising the trail to foil pursuit; and, thirdly, making the money available to the criminal once again with its occupational and geographic origins hidden from view.

Criminal money is frequently moved abroad and then cycled through the international payments system to obscure the audit trail. Despite a myriad of complications, there is a simple structure that underlies almost all international money-laundering activities during this stage of the process. The launderer often calls on one of the many jurisdictions that offer an instant-corporation manufacturing business. Many sell "offshore" corporations, which are licensed to conduct business only outside the country of incorporation, are free of tax or regulation and are protected by corporate secrecy laws. Once the corporation is set up in the offshore jurisdiction, a bank deposit is made in the haven country in the name of that offshore company, particularly one whose owner's identity is protected by corporate secrecy laws. Thus, between the law enforcement authorities and the launderer, there is one level of bank secrecy, one level of corporate secrecy and possibly the additional protection of lawyer-client privilege if counsel in the corporate secrecy haven has been designated to establish and run the company. In addition, many laundering schemes involve a third layer of cover, that of the offshore trust, which is usually protected by secrecy laws and may have an additional level of insulation in the form of a "flee clause" that permits, indeed compels, the trustee to shift the domicile of the trust whenever the trust is threatened.

In essence, the rule in successful money-laundering is always to approximate, as closely as possible, legal transactions. As a result, the actual devices used are themselves minor variations on methods employed routinely by legitimate businesses. In the hands of criminals, transfer-pricing between affiliates of transnational corporations turns into phony invoicing; inter-affiliate real estate transactions become reverse-flip property deals; back-to-back loans turn into loan-back scams; hedge or insurance trading in stocks or options becomes matched- or cross-trading; and compensating balances develop into the so-called underground banking schemes. On the surface it may be impossible to differentiate between the legal and illegal variants; the distinction becomes clear only once a particular criminal act has been targeted and the authorities subsequently begin to unravel the money trail.

There have been a number of developments in the international financial system during recent decades that have made the three F's—finding, freezing and forfeiting of criminally derived income and assets—all the more difficult. These are the "dollarization" (i.e. the use of the United States dollar in transactions) of black markets, the general trend towards financial deregulation, the progress of the Euromarket and the proliferation of financial secrecy havens.

Fuelled by advances in technology and communications, the financial infrastructure has developed into a perpetually operating global system in which "megabyte money" (i.e. money in the form of symbols on computer screens) can move anywhere in the world with speed and ease. The world of offshore financial centres and bank secrecy jurisdictions is a key part of this but can also be understood as a system with distinct but complementary and reinforcing components, many of which are readily amenable to manipulation by criminals.

The characteristics of offshore financial centres and bank secrecy jurisdictions can be understood as a tool kit that can be used not only to launder the proceeds of drug trafficking and other crimes but also to commit certain kinds of financial crime. Not all jurisdictions are equally lax, however, and the study provides a brief overview of the geography of the world of these financial and bank-secrecy havens. This world is in a constant flux that reflects differential responses to the complex balancing act between competitiveness, on the one hand, and high ethical business standards, on the other. The optimum competitive position is one in which the centre is neither too stringent in vetting customers nor too obviously indiscriminate in accepting all custom.

Serious efforts have been, and continue to be, made to create greater transparency in financial matters, but the offshore financial world remains for a large part a "Bermuda triangle" for financial investigations.

The common denominator in money-laundering and a variety of financial crimes is the enabling machinery that has been created in the financial havens and offshore centres. The effectiveness of these centres in helping people and companies to hide assets is not the result of any single device. Changing bank secrecy rules alone will not help. Rather, the centres have created a tool kit composed of new corporate instruments, foundations, trusts, trust companies, banks and bank accounts. The tools are mixed and matched with jurisdictions that have made a point of non-cooperation with the rest of the international community in criminal and tax investigations. What started as a business to service the needs of a privileged few has become an enormous hole in the international legal and fiscal system. If the international community is to develop a rule of law to match the globalization of trade and the global movement of people, the questions raised by this hole in the system will have to be addressed. The world community will have to face the issue of the use of sovereignty by some countries to give the

citizens of other countries a way around the laws of their own societies. (Blum, Levi, Naylor and Williams, 1998).

VI. INTERNATIONAL CAPITAL MOVEMENTS AND SPECULATION

The liberalization and globalization of financial system leads to occur the newest financial tools and give new functions to those financial tools. After 1980, increased financial improvements were appeared on markets, products, services, and technologies. (Lucas, 1994: 179). In the world economy, there are 152 financial instruments, which are money and other financial assets. (Odabaşı, 1999: 38).

Task of various financial innovations is directly related with both preventing the possible financial risks and safeguarding actors who exist in economy, from potential risks, and in addition, this action causes to speed up internationalism- or globalization. (Miller, 1992: 12). But, most of these financial innovations' aims are originally different. For instance, at the 11th century, the options, which were operated in the Japan Brass Market, were transformed into speculative character of gambling tool. (Kozanoğlu, 1998: 141). The developments of financial tools that are operated in international markets can be seen at the Table 4.

Table: 4 **The Amounts of Financial Tools in International Markets (between 1993-1998), (Billion of Dollars)**

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interest Rate Futures	4960	5875	8576	5978	7580	8019	7913
Interest Rate Options	2362	2623	2714	3277	3639	4623	3755
Foreign Exchange Futures	34	40	33	37	42	31	36
Foreign Exchange Options	75	55	120	133	118	49	22
Index of Stock Exchange Futures	232	242	338	394	810	916	1458
Total	7775	8897	9282	10118	12407	13931	13521

Source: the IMF, 2000

Table 4 shows that futures and options, which are operated in international markets, have increased and end of 1999 theirs amounts have reached $ 13.5 trillion.

These funds can be aimed to use for speculative purpose. However, especially hedge funds-that are financial tools, are criticized more.

6.1. What is a Hedge Fund?

A hedge fund is a fund that can take both long and short positions, use arbitrage, buy and sell undervalued securities, trade options or bonds, and invest in almost any opportunity in any market where it foresees impressive gains at reduced risk. Hedge fund strategies vary enormously -- many hedge against downturns in the markets -- especially important today with volatility and anticipation of corrections in overheated stock markets. The primary aim of most hedge funds is to reduce volatility and risk while attempting to preserve capital and deliver positive returns under all market conditions.

There are approximately 14 distinct investment strategies used by hedge funds, each offering different degrees of risk and return. A macro hedge fund, for example, invests in stock and bond markets and other investment opportunities, such as currencies, in hopes of profiting on significant shifts in such things as global interest rates and countries' economic policies. A macro hedge fund is more volatile but potentially faster growing than a distressed-securities hedge fund that buys the equity or debt of companies about to enter or exit financial distress. An equity hedge fund may be global or country specific, hedging against downturns in equity markets by shorting overvalued stocks or stock indexes. A relative value hedge fund takes advantage of price or spread inefficiencies. Knowing and understanding the characteristics of the many different hedge fund strategies is essential to capitalizing on their variety of investment opportunities.

It is important to understand the differences between the various hedge fund strategies because all hedge funds are not the same -- investment returns, volatility, and risk vary enormously among the different hedge fund strategies. Some strategies which are not correlated to equity markets are able to deliver consistent returns with extremely low risk of loss, while others may be as or more volatile than mutual funds. A successful fund of funds recognizes these differences and blends various strategies and asset classes together to create more stable long-term investment returns than any of the individual funds.

- Hedge fund strategies vary enormously – many, but not all, hedge against market downturns – especially important today with volatility and anticipation of corrections in overheated stock markets.

- The primary aim of most hedge funds is to reduce volatility and risk while attempting to preserve capital and deliver positive (absolute) returns under all market conditions.

The popular misconception is that all hedge funds are volatile – that they all use global macro strategies and place large directional bets on stocks, currencies, bonds, commodities or gold, while using lots of leverage. In reality, less than 5% of hedge funds are global macro funds. Most hedge funds use derivatives only for hedging or don't use derivatives at all, and many use no leverage. (Friedland, 2000).

6.1.1. Hedge Funds Styles

The predictability of future results shows a strong correlation with the volatility of each strategy. Future performance of strategies with high volatility is far less predictable than future performance from strategies experiencing low or moderate volatility.

1. Aggressive Growth: Invests in equities expected to experience acceleration in growth of earnings per share. Generally high P/E ratios, low or no dividends; often smaller and micro cap stocks which are expected to experience rapid growth. Includes sector specialist funds such as technology, banking, or biotechnology. Hedges by shorting equities where earnings disappointment is expected or by shorting stock indexes. Tends to be "long-biased." *Expected Volatility:* High

2. Distressed Securities: Buys equity, debt, or trade claims at deep discounts of companies in or facing bankruptcy or reorganization. Profits from the market's lack of understanding of the true value of the deeply discounted securities and

because the majority of institutional investors cannot own below investment grade securities. (This selling pressure creates the deep discount.) Results generally not dependent on the direction of the markets. *Expected Volatility:* Low - Moderate

3. Emerging Markets: Invests in equity or debt of emerging (less mature) markets that tend to have higher inflation and volatile growth. Short selling is not permitted in many emerging markets, and, therefore, effective hedging is often not available, although Brady debt can be partially hedged via U.S. Treasury futures and currency markets. *Expected Volatility:* Very High

4. Funds of Hedge Funds: Mix and match hedge funds and other pooled investment vehicles. This blending of different strategies and asset classes aims to provide a more stable long-term investment return than any of the individual funds. Returns, risk, and volatility can be controlled by the mix of underlying strategies and funds. Capital preservation is generally an important consideration. Volatility depends on the mix and ratio of strategies employed. *Expected Volatility:* Low - Moderate - High

5. Income: Invests with primary focus on yield or current income rather than solely on capital gains. May utilize leverage to buy bonds and sometimes fixed income derivatives in order to profit from principal appreciation and interest income. *Expected Volatility:* Low

6. Macro: Aims to profit from changes in global economies, typically brought about by shifts in government policy that impact interest rates, in turn affecting currency, stock, and bond markets. Participates in all major markets -- equities,

bonds, currencies and commodities -- though not always at the same time. Uses leverage and derivatives to accentuate the impact of market moves. Utilizes hedging, but the leveraged directional investments tend to make the largest impact on performance. *Expected Volatility:* Very High

7. Market Neutral - Arbitrage: Attempts to hedge out most market risk by taking offsetting positions, often in different securities of the same issuer. For example, can be long convertible bonds and short the underlying issuers equity. May also use futures to hedge out interest rate risk. Focuses on obtaining returns with low or no correlation to both the equity and bond markets. These relative value strategies include fixed income arbitrage, mortgage backed securities, capital structure arbitrage, and closed-end fund arbitrage. *Expected Volatility:* Low

8. Market Neutral - Securities Hedging: Invests equally in long and short equity portfolios generally in the same sectors of the market. Market risk is greatly reduced, but effective stock analysis and stock picking is essential to obtaining meaningful results. Leverage may be used to enhance returns. Usually low or no correlation to the market. Sometimes uses market index futures to hedge out systematic (market) risk. Relative benchmark index usually T-bills. *Expected Volatility:* Low

9. Market Timing: Allocates assets among different asset classes depending on the manager's view of the economic or market outlook. Portfolio emphasis may swing widely between asset classes. Unpredictability of market movements and the difficulty of timing entry and exit from markets add to the volatility of this strategy. *Expected Volatility:* High

10. Opportunistic: Investment theme changes from strategy to strategy as opportunities arise to profit from events such as IPOs, sudden price changes often caused by an interim earnings disappointment, hostile bids, and other event-driven opportunities. May utilize several of these investing styles at a given time and is not restricted to any particular investment approach or asset class. *Expected Volatility:* Variable

11. Multi Strategy: Investment approach is diversified by employing various strategies simultaneously to realize short- and long-term gains. Other strategies may include systems trading such as trend following and various diversified technical strategies. This style of investing allows the manager to overweight or underweight different strategies to best capitalize on current investment opportunities. *Expected Volatility:* Variable

12. Short Selling: Sells securities short in anticipation of being able to rebuy them at a future date at a lower price due to the manager's assessment of the overvaluation of the securities, or the market, or in anticipation of earnings disappointments often due to accounting irregularities, new competition, change of management, etc. Often used as a hedge to offset long-only portfolios and by those who feel the market is approaching a bearish cycle. High risk. *Expected Volatility:* Very High

13. Special Situations: Invests in event-driven situations such as mergers, hostile takeovers, reorganizations, or leveraged buyouts. May involve simultaneous purchase of stock in companies being acquired, and the sale of stock in its acquirer, hoping to profit from the spread between the current market price and the ultimate purchase price of the company. May also utilize derivatives to

leverage returns and to hedge out interest rate and/or market risk. Results generally not dependent on direction of market. *Expected Volatility:* Moderate

14. Value: Invests in securities perceived to be selling at deep discounts to their intrinsic or potential worth. Such securities may be out of favor or underfollowed by analysts. Long-term holding, patience, and strong discipline are often required until the ultimate value is recognized by the market. *Expected Volatility:* Low – Moderate. (Friedland, 2000).

6.1.2. Hedge Funds and Speculation.

Owing to choppiness in international financial market, hedge funds are taken into consideration. The crisis of ERM in 1992 and the fluctuations at the international conversion markets in 1994, led to take the hedge funds into account. (IMF, 1998: 4).

These funds that are used for specific speculative aims, can be able to move billion of dollars together with speculative actions in a short period of time. The famous master of hedge funds- who is George Soros- obtained 1 million dollars from sterling through the operation of hedging. (İlyas, 1998: 32).

Although, the IMF's declaration reflected there wasn't any effect of hedge funds on Asian Crisis and the biggest guiltier were foreign investment and commercial banks' loans. Hedge funds had a big part in Southeast Asia. (Mctigue, 1998: 21). Because in 1996, totals of $ 93 billion private capital entry and 1997, totals of $ 12 billion capital exit –in South Korea, Indonesia, Thailand, Malaysia, and Philippines- were recorded. It means this capital movements for both sides was $ 105 billion- this amount equaled %11 of those countries' total GNP. In 1997, private fund flow was occurred whose amount was $ 256 billion in developing countries. But, for previous year, its amount only was $ 35 billion. (Tőre, 1999: 25). Thus, these explanations depict the effects of hedge funds of the Southeast Asia Crisis.

The numbers of hedge funds and developments of these funds can be seen at the Table: 5.

Table: 5 **The Numbers of Global Hedge Funds and Quantities ($ Billion).**

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Number of Funds	1373	1648	1977	2373	2848	3417	4100	4700	5100	5500
Quantities of Funds	42	58	67	94	120	172	189	217	261	295

Source: OECD, 1999: 29

Table 5 depicts that, total quantities of hedge funds reached 550, and total number of these funds were $ 300 billion in 1997. Most of these funds' capital is less than $ 100 million. But, roughly 10-12 units of these funds are more than $ 1 billion and others are between $ 5 and $ 12 billion. Through declaration that reflects there are approximately 3800 units of these funds are settled down in U.S.A. Most of them are guessed to hold in off-shore banks for moving more easily. (OECD, 1998: 28).

VII. THE FUTURE OF GLOBAL FINANCIAL SYSTEM

After 1973, international financial system, which was established in the Bretton Woods Conference, has been facing some of negative nesses. So, the possible risks of countries' financial crises have been raised. These crises actually damage developing countries. Owing to these risks, in international financial system, necessary precautions are needed for reducing the effects of financial crises risks. Thus, in that time the IMF and World Bank (IBRD) should be considered.

The IMF and World Bank were established at the Bretton Woods Agreement in 1944, and designed to achieve different but complementary end.

The IMF was designed to defend the international monetary system, which meant in effect helping governments overcome balance of payments problems.

The World Bank- its proper name is International Bank for Reconstruction and Development- had the role to invest in programmes to promote post-war reconstruction. In Europe, there were few countries, which did not face such a problem or need no help from the World Bank. (BBC, Internet Home Page, 2003).

Before 1944s, because of adjusting fixed exchange rate, foreign surplus, and deficits of the gold standard, there was no need any institution such as the IMF. But, after the Bretton Woods Agreement, the task of adjusting gold standard was given to the IMF. In that time, the IMF made operations for leading the governments to reach their economic policies in the system of fixed exchange rate.

Since 1973, floating exchange rate system has been becoming widespread, and this action led to reduce the function of the IMF. Because, the reserve needs of governments were becoming less.

In that period of time, the IMF looked for new responsibilities. So, it helped some countries whose currencies lost their values, during the system of floating exchange rate. Afterwards, it paid attention to the 3rd World Countries. It also gave loans to some of borrowed countries, and took responsibility for being mediator between banks and borrowed countries.

7.1. To Re-arrangement of the IMF and World Bank Policies.

The IMF cannot inspect the hot money that is moving around the world. This is very serious defect for the balance of world economy. Today, the IMF's supervision is not enough to control the special capital movements. In this structure, some people think that there is no need the IMF, and governments can able to protect by themselves without any need the policy of IMF. (Sağlam, 1998: 45).

Recently, the famous speculator who is George Soros, advised about the world fiscal system and the IMF policies. According to him, in global age the control of international capital movements cause most of negative nesses. But, the IMF is insufficient about this topic. For making this work, International Credit Insurance Corporation should be established. Soros's other important recommendation is that the IMF should be transformed into real International Central Bank to prevent international crises. (Töre, 1999: 25).

In addition, South Korea's- it faced global financial crisis- balance of budget, speed of inflation, share of public borrowing in GNP, and rate of individual saving have better conditions for both the IMF and other international corporations. In spite of these good conditions, global financial crisis did in that country. This condition shows that the source of this crisis was private sector. (Arın, 1998: 18). In this period, the IMF faced first financial crisis whose source was private sector. Consequently, the IMF should develop alternative policies for preventing this type of crises. (IMKB, 1998: 31).

7.2. Criticisms Direct at the IMF and World Bank

The biggest deficiency of IMF is that the developed countries decide by themselves without the policy of the IMF, and this condition leads to negative nesses in the world economy. Especially, the U.S.A. in spite of the IMF policies forms its budget and foreign trade alone, and this country is still trying to solve value of dollar, its trade, and foreign trade deficit according to its own opinions. Today, these types of applications are also used by some of the countries such as England. (İyibozkurt, 1993: 283).

The policies of the IMF and World Bank are willing to liberalize foreign trade. Because, if production is liberalized, developed countries can increase their growing capital needs to use the advantages of liberalization. In world economy, undeveloped countries have chance to sell only products of agriculture and textile. But, theirs trade liberalization are not enough to satisfy. This meant developed countries want from undeveloped and foreign countries to liberate their own foreign trades, but at the same time, developed countries restrict the product of agriculture and textile. (Kozanoğlu, 2002)

RECOMMENDATIONS

In today's financial structure, desire of there are no financial crises, is out of question. Because, this desire contains there is not any hot money movements in the world financial markets. In globalization process, these movements cannot be prohibited and stopped. But, it can be possible to reduce the negative effects of hot money movement to provide stability in currency markets, and other similar reasonable efforts. So, possible recommendations can be said for preventing financial based crises. These are; limit of exchange rate should be determined, the supervision of international banking should be increased, fleeing of capital should be prevent, financial operations markets should be closed down during the financial crisis, and unreal exchange rate changes should be also prevented.

Recommendations for the IMF and World Bank;

- The international stimulant system should be established.
- The IMF and World Bank should be rearrangement- these two institutions especially the IMF should be more effectual in the international monetary system.
- The IMF should seek to mitigate the negative effects of globalization on the world economy in two ways: by ensuring the stability of the international financial system, and by helping individual countries take advantage of the investment opportunities offered by international capital markets.
- The IMF should increase the transparency of their financial and corporate sectors as a mean to reduce financial abuse, such as money laundering and fraud,

and it should step up its surveillance of international capital markets, and should improve its ability to predict and preempt crises.

- The IMF and World Bank should also attached importance private sector as well as public sector. Because, the South-East Crisis depicted these two institutions did not pay attention to this crisis.
- The IMF should be rescued from the pressure of U.S.A. and transformed into individual structure.

Other Recommendations;

- In macroeconomic stability, the right conditions should be created for investment and saving.
- Structural reforms should be made to struggle with financial abuse, such as money laundering and fraud.
- International structure should be established to put in order financial capital movements.
- Adequate resources should be ensured for sustainable development of international monetary system.
- New international control and observation institution should increase the controls and observations on offshore banking sector or tax heavens.

CONCLUSIONS

I. The Scope and Limitations of This Study

This study focused to analyze the financial globalization and its possible effects on the ability of financial markets. Indeed, financial globalization can lead to most of negative nesses on financial markets. Because of this reason, this study attached importance free capital movements- private capital flows, money laundering process, offshore banking sector- Tax Heavens, speculation and hedge funds, and lastly the IMF and World Bank policies. In addition, this study underlined the mean of globalization, forces driving globalization, and development of globalization.

During this project, some limitations were faced. The main limitation was time. In this time period, related informations could be collected mostly from Internet resources, books, newspapers, magazines, articles and etc., but the researcher does not have any computer, because of this reason some of difficulties were faced.

II. Conclusions of This Study

During the past two decades, financial markets around the world have become increasingly interconnected. In this period of time, two important parts of globalization have been taking a role. First one is related with capital saving. In this part, the driving powers of globalization are that becoming free capital movements, increasing its volume and speed, being widespread, and entering new investment tools. Second one is related with technological improvements. These two parts are more important and remarkable.

In this process, both developed countries' trade surpluses and unrecorded economies' continuously increasing volume have been contributing the global capital volume. These contributions are saved into offshore banks to take role in process of money laundering. End of this process, they are transformed into funds that are used in fiscal markets. As a matter of fact, degree of correlation between black money and offshore banking sector is very high. Because, offshore banking sector were established for saving high volume of money. This money is generally black money that is obtained by doing illegal activities such as narcotic, weapon smuggling, terror and etc. So, the best way to launder black money is offshore banking sector. This sector is known as Tax Heavens. Tax Heavens are established in countries, islands, and other similar areas. They provide tax advantages without taking a control and as a result these areas have been charming to get funds. Why these big amount of money is saved into banks of European and US. This is very clear, if that amount of money is saved into developed countries' banks; their banking systems can be collapse. Thus this amount of money is saved only through offshore banks.

In the world economy, the structure of international capital that depends on short time profits, affects negatively to all fiscal markets, and suddenly attacks and drawbacks of big amounts of funds cause financial-based crises. When analyzed, it is seen that one crisis occurs in every nineteen-month period. The fluctuations, which are appeared by the reason of both speculation and speculative capital movements, can bring about negative nesses for all world economies. ERM Crisis, which was faced in England, South-East Asia Crisis, South-America Crisis, and crises that were existed in Turkish Economy depict that these crises are possible outcomes of obtaining short-term profits and rants.

Today, financial crisis anxiety disturbs all world economies and this condition shows the structure that includes stability and no financial crises is needed. This structure is attached importance by developed countries as well as developing ones. Our world economy has been facing many global-based financial crises. However, owing to financial globalization, some necessary financial institutions- the IMF and World Bank- were established in the Bretton Woods Conference in 1944. After this conference, task of the IMF is to defend international monetary system, which meant helping governments overcome balance of payments problems, and task of the World Bank is to invest programmes to promote post-war reconstruction. But these two important institutions of global financial system are criticized more by reason of some of their activities. Especially, the biggest deficiency of the IMF is that cannot be able to control the international monetary system effectively. For instance, the U.S.A. decides to form its budget and foreign trade without the IMF observations, and the U.S.A. is still trying to solve the value of dollar, its budget and trade deficits according to only its own opinions. This means that international monetary policies of the IMF are not attached importance by developed countries as especially the U.S.A. and England. In addition, the IMF cannot inspect the hot money that is moving in the world financial markets. Actually, this is very serious deficiency for this institution. Because this means is very clear; if the IMF cannot inspected the hot money, it cannot be able to control the private capital movements. – Private capital movements have become the most important source of financing for economic growth, job creation, and productivity. But, they can also be a source of volatility and financial-based crisis. - At the same time, the IMF and World Bank policies are not enough to overcome private sector based financial crises.

Particularly, after the South-East Asia Crisis, these two financial institutions were criticized more.

In process of financial globalization, short-time capital movements have been leading to most of financial crises. However, if these short-time movements are restricted, this condition normally conflicts with the globalization process. Today' s financial-based structure that contains financial activities such as speculation and speculative capital movements cannot possible to continue. Thus, the specific advises such as; the IMF and World Bank should be rearrangement, new international control institution should be established, and short-time capital movements should be restricted, must be criticized more for the future of global financial system.

Above all, the process of globalization has acquired considerable emotive force and being opposite side of this process is not being remarkable and reasonable effort. The important points are that accepting the realities of globalization, and taking action accordingly. Consequently, the globalization or internationalization is unavoidable process and in this process, negative sides can be good experience for the future global financial system.

Lastly, in this project, the hypothesis was that how the globalization process has been affecting the ability of the financial markets. So, this project depicted possible effects of globalization on financial markets. In accordance with the globalization of financial markets, the world economies faced and suffer from structural problems of international financial systems and instability conditions. Finally, this work is reached that financial markets were severed from structural problems of financial liberalization.

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APPENDIX

p. Major Financial Havens