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The Impact of Financial Globalization on the Arab Capital Markets: Analytical Study (2010-2015)

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Abstract
This study aims to examine the impact of financial globalization on Arab capital markets development using commonly recognised indicators to test this impact. Arab countries made significant reforms to improve market efficiency, transparency, and prevent unfair trade practices. The results showed that Arab financial markets the more opened to global financial markets are the most affected by crisis over the study period.
Keywords: Financial globalization,Arab capital markets,Crisis,Volatility, domestic financial system.

1. Introduction:

Financial globalization is a vast and complex topic. Understanding the effects of financialglobalization on Arab countries, in particular, is of considerable importance. It is acknowledged that financial integration affect several aspects of economic performance, specially the performance of capital markets.Its role to increase investment rates, technology transfers, trade openness, stimulates the development of domestic financial system and economic growth.

This study aims to determine the impact of financial globalization on Arab capital markets development using different indicators during the period from 2010 to 2015.

II- An overview about financial globalization and stock markets:

II-1 Financial globalization :

The concepts of financial globalization and international financial integration are closely linked. Financial globalization is a broad concept that refers to the strong expansion of transnational financial flows (Prasad *et al*. 2003). According to the World Bank, 'financial globalization' or 'globalization of financial markets' can be defined as "as the integration of a country's local financial system with international financial markets and institutions" (World Bank, *Global Development Finance*, 2010). The concept of international financial integration (or financial integration) refers to the specific links of a country with international capital markets (Prasad *et al.* 2003).

II-2 Effects of Financial globalization on capital markets:

Some studies found that financial liberalization has positif impacts on the countries economy in general , specially on capital markets .Among them the dominant economic theory , it suggests that financial globalization and international financial integration may foster more efficient resource allocation, facilitate risk diversification, increase specialization in production, create technological spin-offs, contribute to the development of the financial system, improve investment rates and boost growth (refer, in particular, to IMF (2001) ; Edison, Klein, Ricci and Sløk (2002a and 2000b) ; Henry (2000) ; King and Levine 1993); Mougani (2001 and 2006) ; Obstfeld (1994) ; Prasad et al. (2003); and Stulz (1999).

The positive impacts can be summarized as follow :

a. ***Increased savings:*** Because of a performance relatively higher capital into developing countries, the opening of the capital account resulting in an increased capital inflows from developed countries. These inputs are used to compensate, at least partly, structural savings from which suffer developing economies.
b. ***Reduced cost of capital*** : Market financial liberalization expands the possibilities of risk allocation. Seeking to diversify their risks, local firms become active in these markets and this facilitate the increase liquidity of shares traded. In total, diversification translates into lower risk premiums requested by investors while increasing liquidity causes the reduction in the cost of capital.
c. ***Increased technology transfers***: Integration fiscal policy is perceived as a "market-friendly" by foreign investors thus results in a Rising foreign investment including FDI. Technology transfers are facilitating productivity labor increases.
d. ***Financial sector development:*** Besides deepening the local financial market (rising capitalization ratio of GDP, for example), the model predicts an increase in foreign participation in the banking sector: the modes management and risk control systems are well modernized; the range of financial services is expanding their competition intensifies and enhances the quality banking. The credit allocation becomes more efficient.

Although the positive effects of financial globalization , some other studies disagree and criticized authors' of dominant economic theory, in particular, note that fluctuations in capital flows related to capital account liberalization are likely to cause and spread financial crises3. These new stances were mainly developed after the crises of the 1990s. Institutions such as the International Monetary Fund and some authors thus emphasized that while financial openness is desirable, it is essential for such liberalization to be gradual and prudent (IMF 2001).

III-Analytical study:

In this study, the development of the stock markets in Arab countries is measured with the help of selected indicators of development. The following figure highlights the salient features of stock market of those countries (table 1 and table 2) :

Table 1: Number of listed companies in Arab capital markets

	Number of listed companies					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Abu Dabi market	64	67	66	66	65	83
Amman market	277	247	243	240	236	230
Bahrain market	49	49	47	47	47	50
Saudi Arabia market	146	150	158	163	166	92
Kuwait market	214	216	219	210	216	74
Morocco market	75	76	77	75	75	24
Algeria market	2	2	2	2	2	2
Tunisia market	56	57	59	65	81	44
Dubai market	65	62	57	55	58	60
Sudan market	53	56	57	59	58	224
Palestine market	40	46	48	49	49	204
Muscat market	119	130	131	131	131	147
Qatar market	43	42	42	42	42	50
Beirut market	24	25	28	28	30	171
Egypt market	212	214	213	212	215	78
Total	**1441**	**1460**	**1462**	**1466**	**1471**	**1531**

Source: Annual Reports of Arab Monetary Fund ,2010/2011/2012/2013/2014.

Table 2: Number of sharestraded in Arab capital markets

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
ABU DHABI SECURITIES MARKET	7 111,97	5 601,53	6 343,68	1 455,36	8 522,27	3 549,14
AMMAN STOCK EXCHANGE	6 912,23	3 982,29	2 338,32	2 619,63	2 109,48	2 155,93
BAHRAIN STOCK EXCHANGE	610,12	486,57	561,14	1 791,67	1 096,87	399,93
BEIRUT STOCK EXCHANGE	150,70	74,80	51,63	42,63	89,03	44,83
CASABLANCA STOCK EXCHANGE	354,66	217,86	254,06	220,14	302,86	149,63
DAMASCUS SECURITIES EXCHANGE	0,13	16,75	11,20	18,63	25,16	6,95
DOHA SECURITIES MARKET	2 012,25	2 162,66	2 190,22	1 848,73	4 248,49	1 943,72
DUBAI FINANCIAL MARKET	37 578,17	25 018,05	40 462,90	27 180,36	58 898,20	87 120,46
EGYPT CAPITAL MARKET	27 336,99	16 669,04	31 980,14	26 991,32	54 277,63	26 177,91
KUWAIT STOCK MARKET	-	-	-	-	-	-
MUSCAT SECURITIES MARKET	2 990,60	2 341,97	4 247,54	8 033,08	6 411,16	4 813,02
PALESTINE SECURITIES EXCHANGE	217,20	175,97	145,79	202,40	180,60	118,02
SAUDI STOCK MARKET	31 555,34	47 640,18	83 653,14	51 916,56	68 420,65	52 467,06
TUNIS STOCK EXCHANGE	245,04	231,43	223,02	209,08	195,69	188,22
Total	200 757,89	52 496,56	23 945,58	72 937,00	56 000,30	01 986,64

Source : Annual Reports of Arab Monetary Fund ,2010/2011/2012/2013/2014/2015.

According to the table we notice that there was slow expansion from 2009 to 2014 as measured by number of companies listed on the capital markets, which reached 30 companies by a percentage of 2.08%.This result was made by :

- The growth of number of listed companies in some countries such as : Saudi Arabia ,Kuwait,Tunisia ,Beirut.Which led to the augmentation of of number of shares traded.
- The decline of number of listed companies in other countries like : Abu Dabi,Amman,Dubai and Morocco because there was a high liberalization of their capital markets.

  Concerning the turnover rate of Arab stock markets showed in table 3:

Table 3: The turnover rate of Arab capital markets

	2010	2011	2012	2013
Abu Dabi market	30,6	14,8	15,8	16,6
Amman market	12,0	9,4	7,8	19,8
Bahrain market	34,7	17,8	26,7	61,6
Saudi Arabia market	1,4	1,7	1,9	3,2
Kuwait market	25,1	11,4	13,7	10,2
Morocco market	57,3	86,5	137,8	78,1
Damascus market	6,1	10,8	3,3	2,9
Tunisia market	11,3	9,8	8,8	15,6
Dubai market	14,9	16,9	15,4	13,5
Palestine market	18,4	13,2	9,6	10,5
Muscat market	34,5	20,7	24,9	35,8
Qatar market	14,8	5,0	3,7	3,3
Beirut market	66,4	50,2	49,4	37,5
Egypt market	20,5	13,8	13,5	13,4
Total	**38,2**	**44,0**	**66,4**	**47,0**

Source : Annual Report of Arab Monetary Fund ,2012, p 409.
: Annual Report of Arab Monetary Fund ,2014, p 422.

According to the table we notice thatturnover rate recorded an increaseduring the period between2010 and 2012from38.2to66.4as a result ofincreasedtrading volumein the Arab markets. Thenthe turnover ratefell to47in 2013, due to several factors, including: changing the behavior of traders from speculative to investment medium and long termand thus keep the shares for a longer period, and wentpart of theliquidityto thereal estate investment.

Concerning the capitalization of Arab stock markets showed in table 4:

Table 4: Capitalization of Arab capital markets

	2009	2010	2011	2012	2013	2014	2015
Abu Dabi	80.201	77.647	71.329	77.647	109.645	113.739	133.948.71
Amman	31.889	30.904	27.210	26.971	25.761	25.493	23.922.73
Bahrain	16.263	20.060	16.590	15.532	18.469	22.087	18.026.28
Saudi Arabia	318.751	353.400	388.873	373.365	467.341	482.896	17.374.02
Kuwait	93.824	113.883	86.295	79.375	108.469	100.334	46.332.81
Morocco	74.186	69.386	60.092	52.605	55.329	53.369	600.30
Algeria	91	106	136	127	125	110.69	156.147.68
Tunisia	9.237	10.612	9.648	8.874	8.950	9.295	86.139.79
Dubai	58.095	54.692	9.648	8.874	8.950	87.831	57.254.83
Sudan	3.033	2.446	2.695	2.192	2,244	1.876	96.269.43
Palestine	2.377	2.449	2.782	2.836	3.242	3.190	28.362.65
Muscat	23.616	28.304	26.210	30.299	36.767	37.830	3.175.85
Qatar	87.936	123.641	125.598	126.297	152.589	185.814	8.202.36
Beirut	12.834	12.676	10.285	10.421	10.545	11.221	8.202.36
Egypt	91.092	84.109	48.679	61.621	61.517	69.907	-
Total	**903.427**	**986.832**	**876.982**	**918.730**	**1132.166**	**1205.860**	**1.100.474.75**

Source : Annual Reports of Arab Monetary Fund ,2010/2011/2012/2013/2014.

We can see that the capitalization of Arab capital markets passed by two steps :

- From 2009 to 2011: we notice that the capitalization declined from 903427 million dollars to 876982 million dollars because the effects of global financial crisis.
- From 2012 to 2014: we notice that the capitalization increased from 918730 million dollars to 1205860 million dollars because the growth of foreign investment in these markets.

Analysis of the performance of Arab financial markets:

- 2009was characterized byunevenperformance of Arabmarkets, it recordeda marked declineat all levelsas a resultaffected bythe global financial crisis, whichresulted in the exclusionof investments, including tospread of an atmosphereof uncertaintyamong investors, it was also affected bythe slowdownin economic activity, which affected theperformance and profitability of listedcompaniesin these markets.(AMF Annual report, 2010)

Thisvulnerabilitydifferedbetween the Arabmarkets,according to the degreethey relate tothe global financialmarkets, there is no doubtthat themost relevantmarketsto global markets and the mostattractivefor foreign investmentare the mostaffected .

- **2010**was markedimprovement inthe performance of Arabfinancial marketsas a result ofthe following reasons: (AMF Annual report, 2011)

a- Improvement in the activity of the initial versions.

b- The attention ofthe authoritiesto strengthenprotection and controlthrough the introduction ofnew controls, in addition to theinterest inthe application ofsoundgovernancestandardsand stimulatecirculation.

- **2011** most of the Arab financial markets had a significant decline as a result of the political events in Egypt dated 01/22/2011, where bourses lost $ 141 billion, equivalent to 14 percent of their market value, within only five weeks of the outbreak of the events in Egypt. However, most of the Arab authorities have taken measures to stabilize the financial markets. After that the European sovereign debt crisis , which impacted negatively on the Arab financial markets, particularly ones associated with the global financial markets.(AMF Annual report, 2012)

- **2012** scored an improvement in the most Arab market indicators, although some of them were influenced by the instability of some Arab countries. (AMF Annual report, 2013).

-**2013** was characterized by the following:

a. Upgrading some Arab financial markets to the rank of emerging financial markets. **b.** Arab financial markets performance improved by 18.6 percent, according to the Composite Index for the Arab Monetary Fund.

c.Improvement of the overall market value of these markets and increase the flow of foreign investments in it.

-2014/2015 were characterized by a decrease of14.1percentinthe composite index of the Arab Monetary Fund due to continued uncertainty about oil prices, and the instability ofthe Araband emergingfinancial marketsas well asforeigncurrency markets.

IV. Conclusion

As a conclusion to this study, the increasing use of international capital markets is having both positive and negative effects on domestic markets. In terms of positive effects, the financing obtained by firms and governments in international markets tends to be of longer-term nature than that obtained in domestic markets. Also, when firms go to international capital markets, they become more transparent, providing domestic investors with better investment opportunities.

Aside from these positive effects of internationalization on domestic markets, there are also some negative ones. For instance, the listing of large local firms in international markets can have a negative impact on domestic market trading and liquidity, as trading activity migrates abroad. Moreover, financing in international markets is volatile, with the risk premium increasing substantially during crisis periods. Foreign bond financing tends to be denominated in foreign currency, exposing issuers to currency risk. These factors have led many to link financial globalization with crises.

There is an important relationship between financial globalization and the development of countries . The beneficial effects of financial globalization are more likely to be detected when the developing countries have a certain amount of absorptive capacity. Preliminary evidence also supports the view that, in addition to sound macroeconomic policies, improved governance and institutions have an important impact on a country’s ability to attract less volatile capital inflows and on its vulnerability to crises.

International financial integration should, in principle, also help countries to reduce macroeconomic volatility. The available evidence suggests that developing countries have not fully attained this potential benefit. Indeed, the process of capital account liberalization appears to have been accompanied, in some cases, by increased vulnerability to crises. Globalization has heightened these risks, since cross-country financial linkages amplify the effects of various shocks and transmit them more quickly across national borders and this is the case of Arab stock market. That’s why those countries must continue to fly their international financial integration with caution in order to protect their markets from risks of financial crisis.

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