Reaping the Benefits of Financial Globalization

Giovanni Dell'Ariccia, Julian di Giovanni, André Faria, Ayhan Kose, Paolo Mauro, Jonathan D. Ostry, Martin Schindler, and Marco Terrones
Contents

Preface v

I Overview 1

II Introduction 2

III Some Facts on Financial Globalization 5
  De Jure Financial Openness 6


  International Risk Sharing in Theory 14
  International Risk Sharing in Practice 15

VI How Does Financial Globalization Affect Stability and Growth? 17
  Volatility and the Frequency of Crises 17
  Economic Growth 19

VII Conclusion 24

Appendixes
  I Country Lists 26
  II Capital Control Indices 27
  III Case Studies on Financial Account Liberalization 28

References 33

Boxes
  2.1. Measuring Financial Globalization 3
  3.1. The Integrated Approach to Capital Account Liberalization 8

Figures
  3.1. Gross External Assets and Liabilities by Income Group 5
  3.2. Composition of Gross External Assets and Liabilities, 1975 and 2004 6
  3.3. Capital Controls by Financial Openness and Income Group 7
  3.5. Gross External Assets and Liabilities by Levels and Changes in De Jure Financial Openness 9
  6.1. Financial Integration and Consumption Volatility 19
Tables

3.1. Gross and Net External Positions, 2004 6
3.2. Capital Controls by Type, 1995–2005 7
4.1. Determinants of Gross External Liabilities Per Capita, 2004 11
4.2. Gravity Estimates for Bilateral Foreign Asset Positions, 2004 12
5.1. Potential Gains from Risk Pooling Among Countries 15
6.1. Impact of Financial Integration on Consumption Volatility 18
6.3. Financial Integration and Economic Growth 20
6.4. Impact of FDI on GDP Growth 21
6.5. Financial Openness (De Jure) and Total Factor Productivity Growth 22
6.6. Financial Integration and Financial Sector Development 23
7.1. Summary of Findings and Policy Implications 25

The following conventions are used in this publication:

• In tables, a blank cell indicates "not applicable," ellipsis points (…) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.

• An en dash (–) between years or months (for example, 2006–08 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2007/08) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2008).

• "Billion" means a thousand million; "trillion" means a thousand billion.

• "Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to 1/4 of 1 percentage point).

As used in this publication, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.