BANK FOR INTERNATIONAL SETTLEMENTS

Foreword to Chapter VI of the BIS Annual Report – Understanding globalisation

Arguments that question the benefits of globalisation have been receiving greater attention in the public debate. This shows that we risk forgetting the lessons of the past and taking for granted the gains in living standards, productivity and prosperity achieved over the last half-century.

In this year's Annual Report, we recommend taking advantage of the current tailwinds to growth to build economic resilience as a basis for sustained growth. Preserving the benefits of globalisation is a key element of this strategy.

Today we are releasing a special Annual Report chapter devoted to the economics of globalisation, documenting how deeper trade and financial links have developed hand in hand. The focus we are putting on this issue reflects the importance of maintaining and developing these links and the changing nature of the debate about the global economy.

Critics often blame globalisation for the rising inequality in some industrialised countries. Empirical studies show that other factors, mainly technology, have played a bigger role. It is true that the burden of adjustment often weighs heavily on specific sectors or regions. But sound domestic policies can help those who are negatively affected overcome these obstacles.

Another criticism is that financial openness makes economies more vulnerable to ebbs and flows in global finance, and allows spillovers from one country to another. We should recognise that the global financial system is subject to procyclicality and excesses, just as domestic financial systems are. But the right answer is not to roll back financial openness. Rather, it is to put in place the necessary safeguards, just as the policy community has done in response to domestic financial liberalisation. This will allow us to reap the benefits while addressing the challenges involved. The role of global currencies such as the US dollar, and of globally active banks, calls for close international cooperation in this regard.

Indeed, as we show in the chapter, real globalisation entails financial globalisation – the two are inseparable, in that it is not possible to reap the benefits of trade and investment without international finance. One can think of globalisation as consisting of three layers. That real and financial globalisation go hand in hand is obvious in the first layer, where cross-border payments and credit are needed to facilitate trade of commodities and finished goods. But it is also true for the second, which involves more complex international trade. Financial openness allows the financing of cross-border investments and whole global value chains that distribute production across countries. It also allows hedging of the corresponding financial risks. It is only in the third layer that financial links are established solely for financial purposes.

The analysis in the special chapter we release today should serve as a reminder of how globalisation has boosted economic welfare. Instead of retreating from the ties of global trade and finance, we should reinforce them. Instead of loosening them, we should make them more resilient. We must work together to create well designed policies, both domestically and internationally. Only then can we make sure that globalisation will continue to lift economic growth and living standards around the world for generations to come.

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