Globalisation: real and financial

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Real globalisation and financial globalisation

Can we draw a sharp distinction between the two?

- Real globalisation entails substantial financial globalisation
- But the global financial system is subject to procyclicality and excesses, like the domestic financial system
  - Durable benefits of globalisation reaped through a more resilient global financial system
  - Crises exacerbate elements (eg inequality) that have undermined support for globalisation
Trade and financial openness

- Measure of trade openness

\[
\frac{\text{Exports} + \text{imports}}{\text{GDP}}
\]

- Measure of financial openness

\[
\frac{\text{External assets} + \text{external liabilities}}{\text{GDP}}
\]
Financial openness increases with trade openness and GDP per capita.

Advanced economies have higher financial openness beyond GDP per capita or trade

Trade openness has grown with manufactured goods trade

Composition of trade

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufactures</th>
<th>Other merchandise</th>
<th>Fuel</th>
<th>Ores and metals</th>
<th>Food</th>
<th>Agricultural raw materials</th>
<th>Services</th>
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<tbody>
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<td>1965</td>
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Trade openness reflected in global value chains (GVCs)

Country links in GVCs

Percentage of total trade

- Emerging market economies to emerging market economies
- Emerging market economies to advanced economies
- Advanced economies to advanced economies

<table>
<thead>
<tr>
<th>Date 1</th>
<th>Date 2</th>
<th>Date 3</th>
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<tbody>
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<td>Stage 1</td>
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<td>Stage 3</td>
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</tbody>
</table>
Stage 1

Stage 2

Stage 3
Stage 1

Stage 2

Stage 3
Date 1

Stage 1

Date 2

Stage 2

Date 3

Stage 3
Inventories and trade
GVC of four links needs funding of \(4v + 3v + 2v + v\).
Funding need grows rapidly – at rate of **square** of length of GVC.
If GVC crosses the boundary of the firm, then receivables are financed with payables and external debt.
Global role of the dollar

- Layer 1: Invoicing currency for trade
- Layer 2: Funding currency for investment
  - Oil and gas sector, for example
  - Currency denomination of diversified global portfolio
- Layer 3: Dollar liabilities of global banks
  - Hedging for investors who hold diversified global portfolio

How easy is it to draw a line between real and financial globalisation?
Cross-border US dollar-denominated credit, all sectors

By residence

USD trn

By nationality

USD trn

Claims (+) and liabilities (−) of:

- Euro area
- Japan
- United Kingdom
- United States
- Switzerland
- Other

1 The break in series between Q1 and Q2 2012 is due to the Q2 2012 introduction of a more comprehensive reporting of cross-border positions. For more details, see www.bis.org/publ/qtrpdf/r_qt1212v.htm.

Source: BIS locational banking statistics, Tables A5 (by residence) and A7 (by nationality).
Deglobalisation? Locational vs consolidated perspectives

**Locational cross-border bank claims**

<table>
<thead>
<tr>
<th>Percentage of world GDP</th>
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<tbody>
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<td>2005</td>
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- **Banks**
- **Non-banks**
- **Inter-office**
- **Unallocated**

**Foreign claims by banking system**

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</table>

- **Euro area banks**
- **Japanese banks**
- **Other European banks**
- **US banks**
- **Other banks**

Real globalisation and financial globalisation

We cannot draw a sharp distinction between the two

- Real globalisation entails substantial financial globalisation
- But the global financial system is subject to procyclicality and excesses, like the domestic financial system
  - Durable benefits of globalisation reaped through a more resilient global financial system
  - Importance of international cooperation towards resilience is undiminished
- Need to transcend “islands” view of global economy to that of the matrix of balance sheets