BANK FOR INTERNATIONAL SETTLEMENTS

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

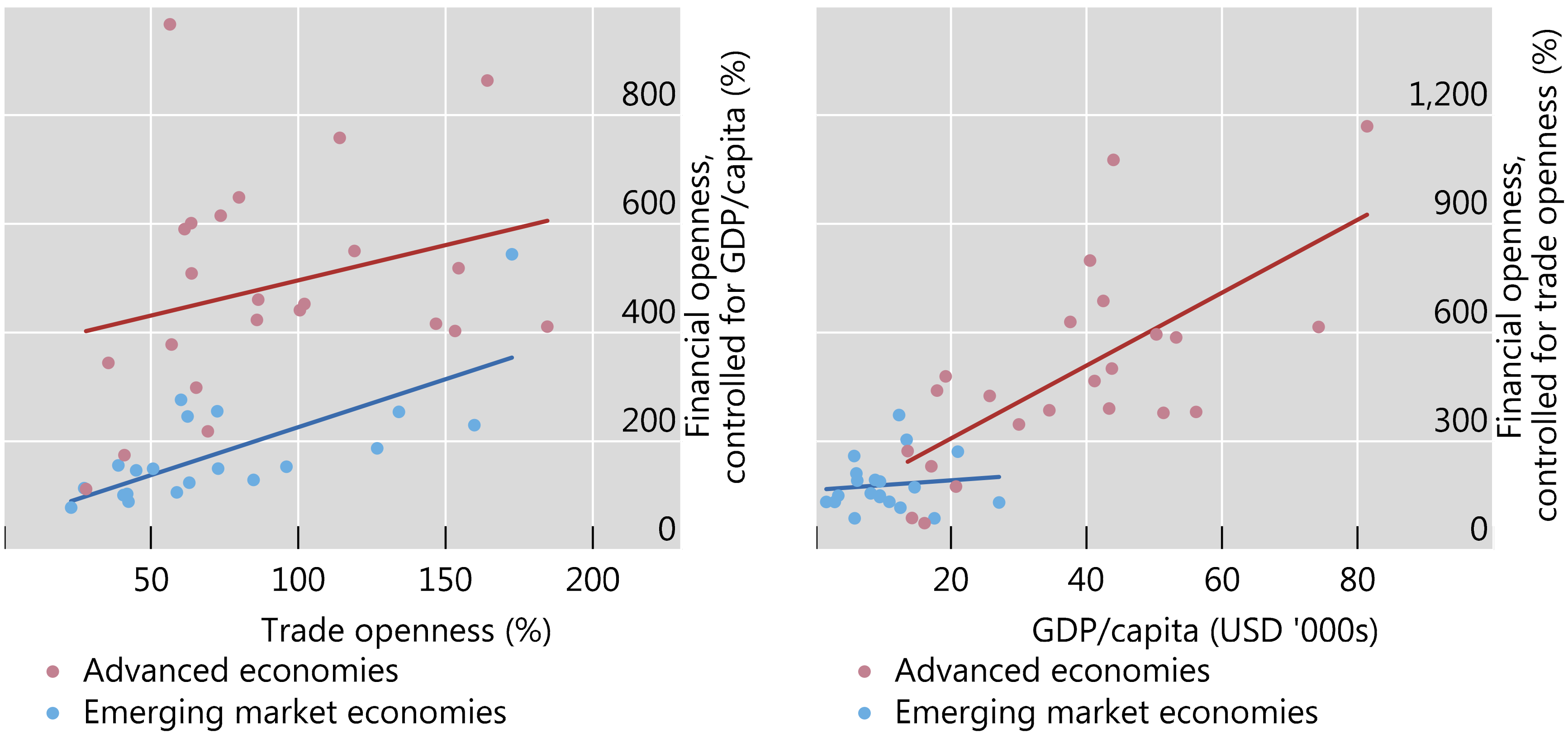
- Measure of trade openness

$$\frac{\text{Exports + imports}}{\text{GDP}}$$

- Measure of financial openness

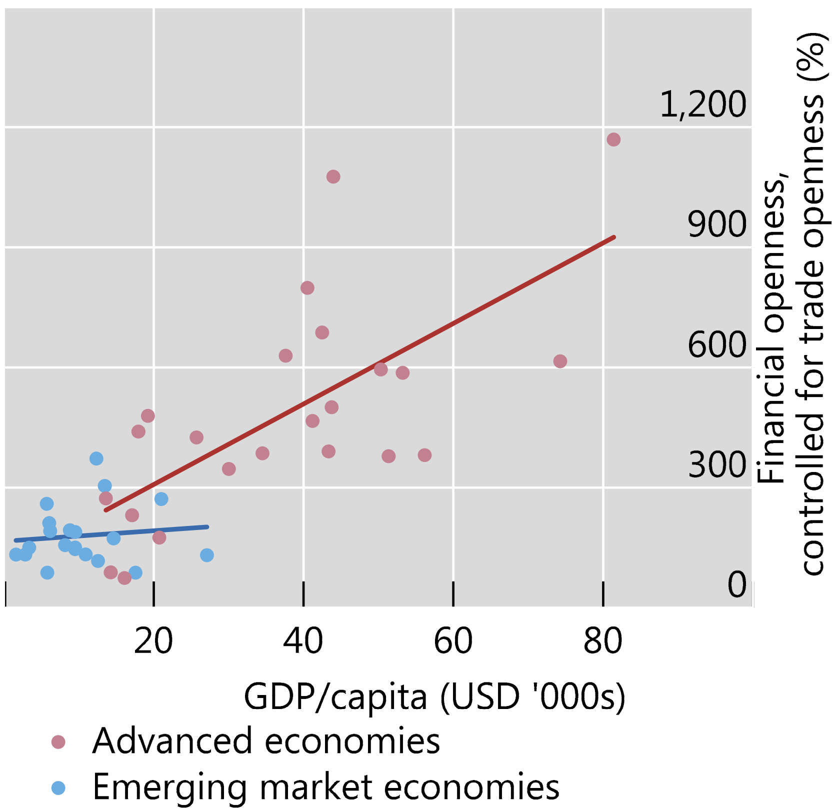
$$\frac{\text{External assets + external liabilities}}{\text{GDP}}$$

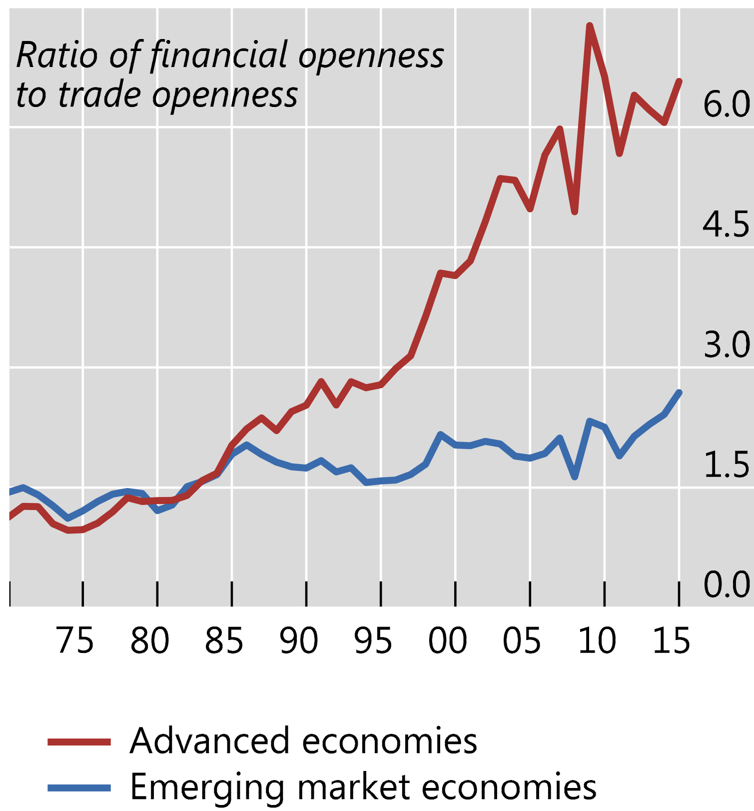
Financial openness increases with trade openness and GDP per capita



Source: 87th Annual Report.

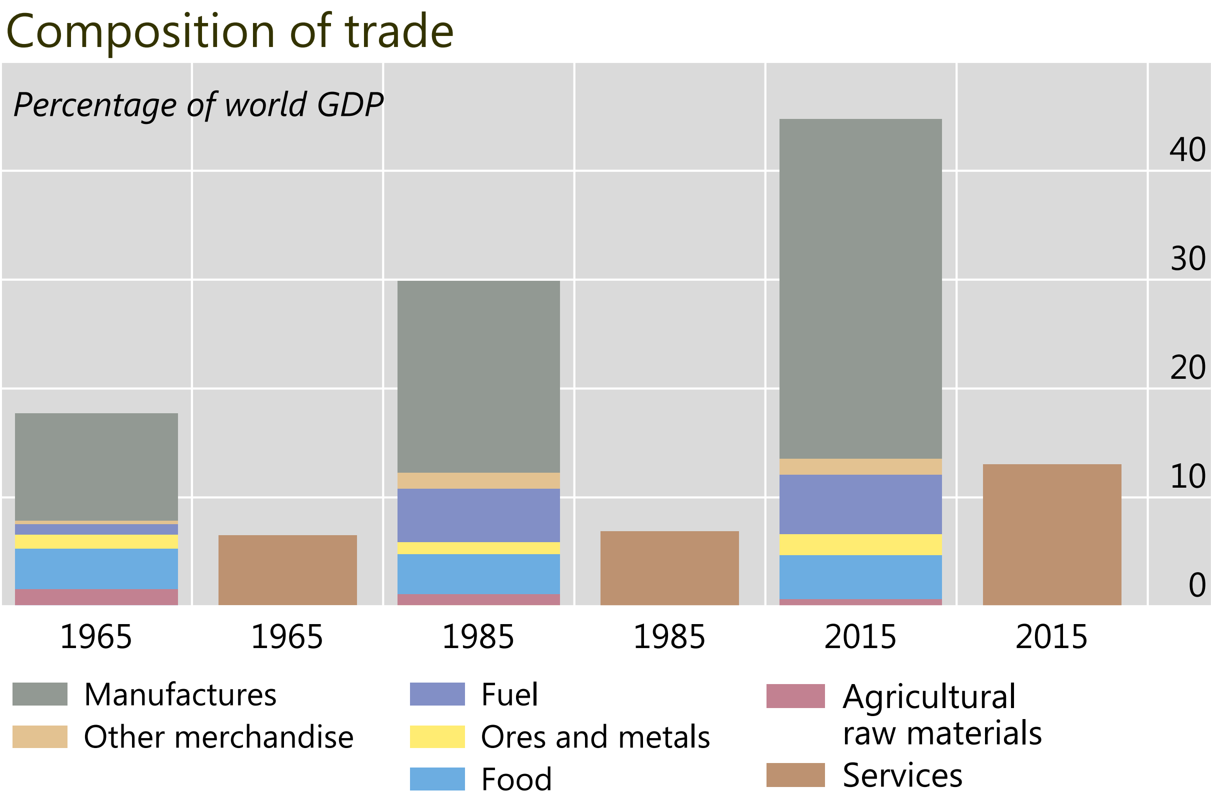
Advanced economies have higher financial openness beyond GDP per capita or trade





Source: 87th Annual Report.

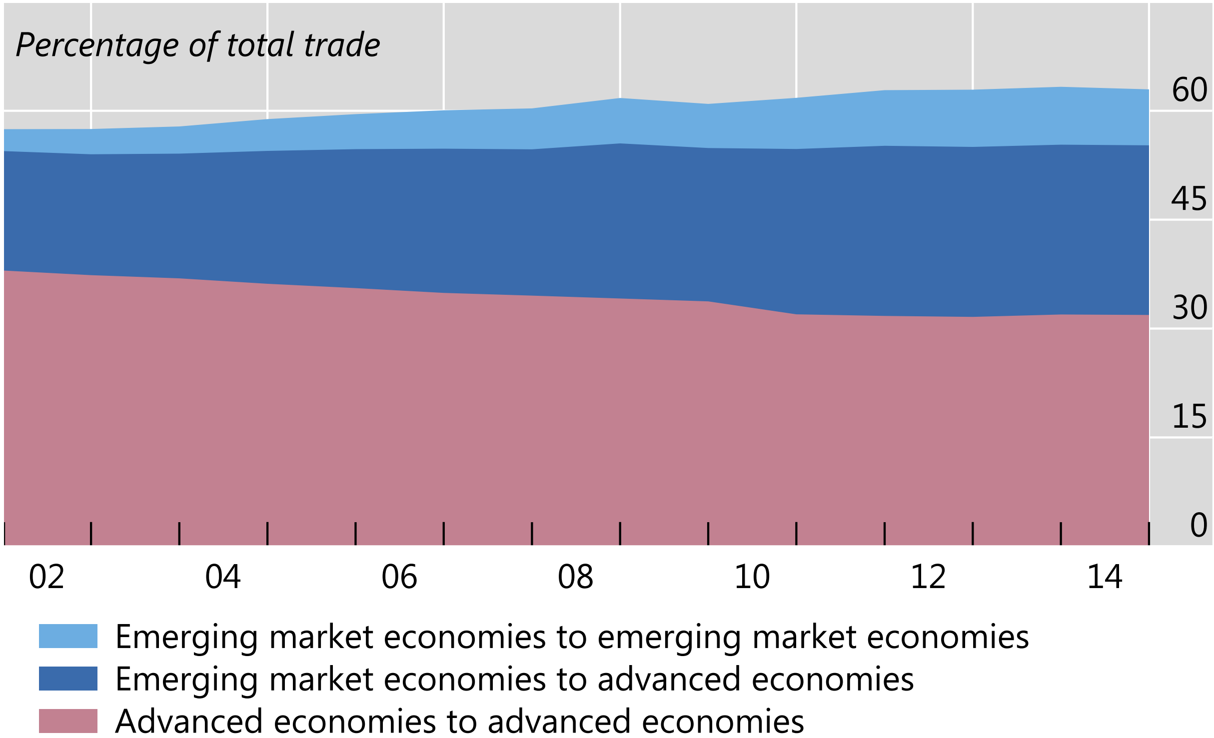
Trade openness has grown with manufactured goods trade



Source: 87th Annual Report.

Trade openness reflected in global value chains (GVCs)

Country links in GVCs



Source: 87th Annual Report.

	Date 1	Date 2	Date 3
Stage 1			
Stage 2			
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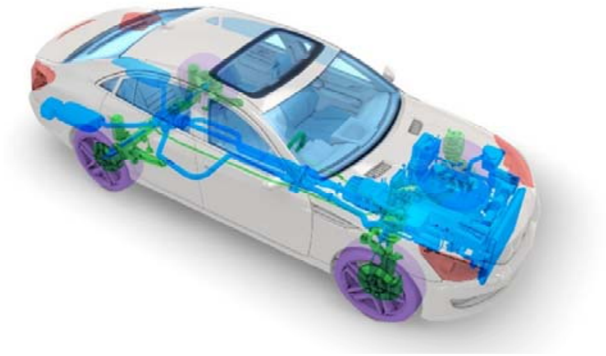
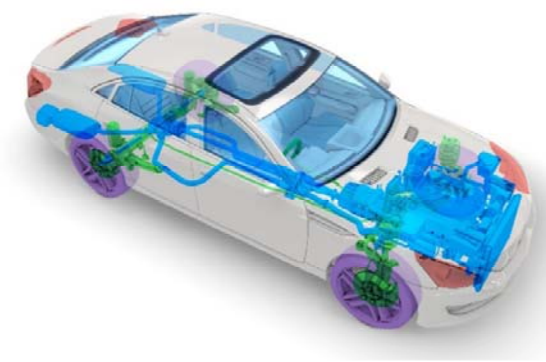
Stage 3			

Date 1 Date 2 Date 3

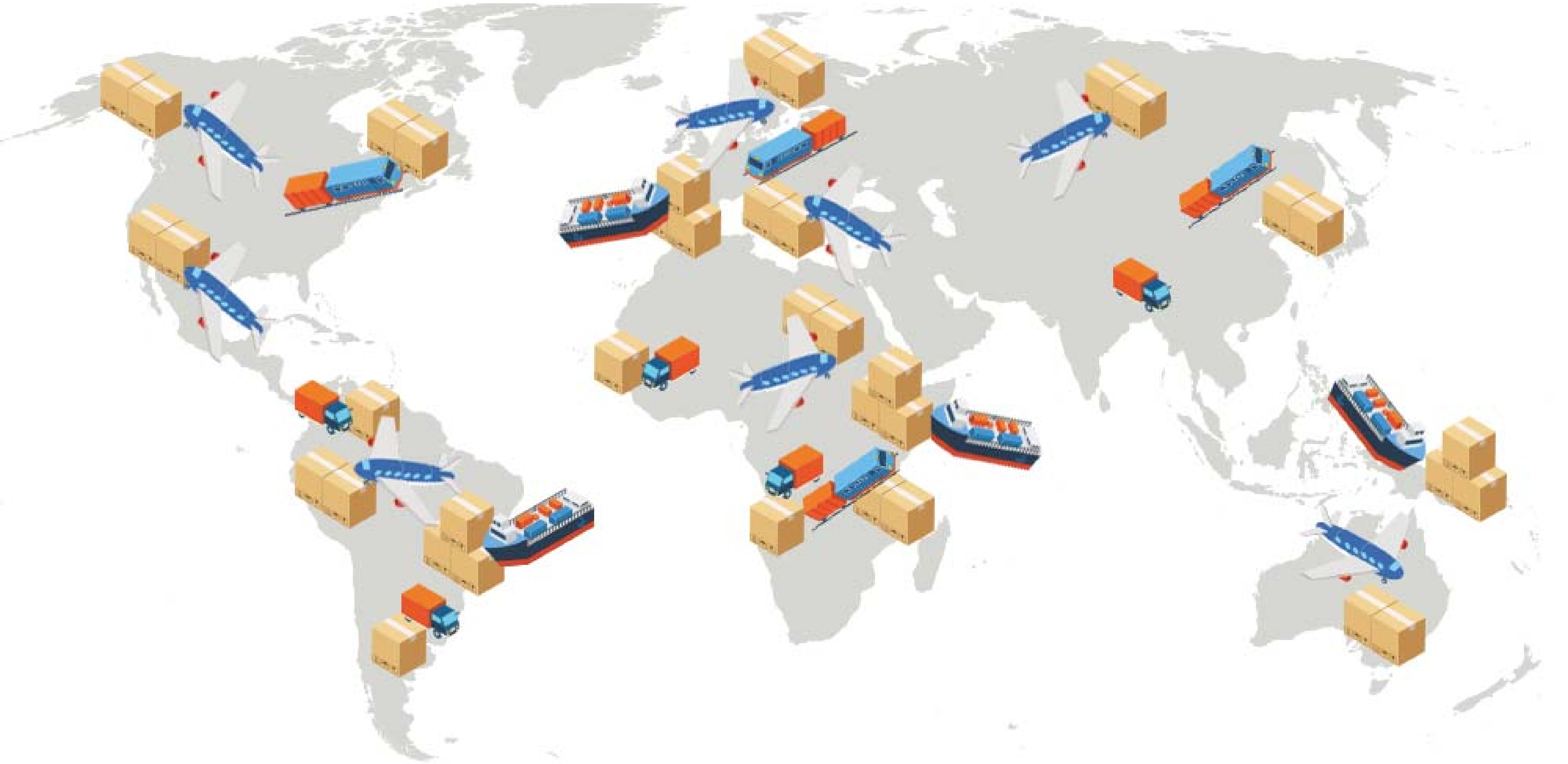
Stage 1

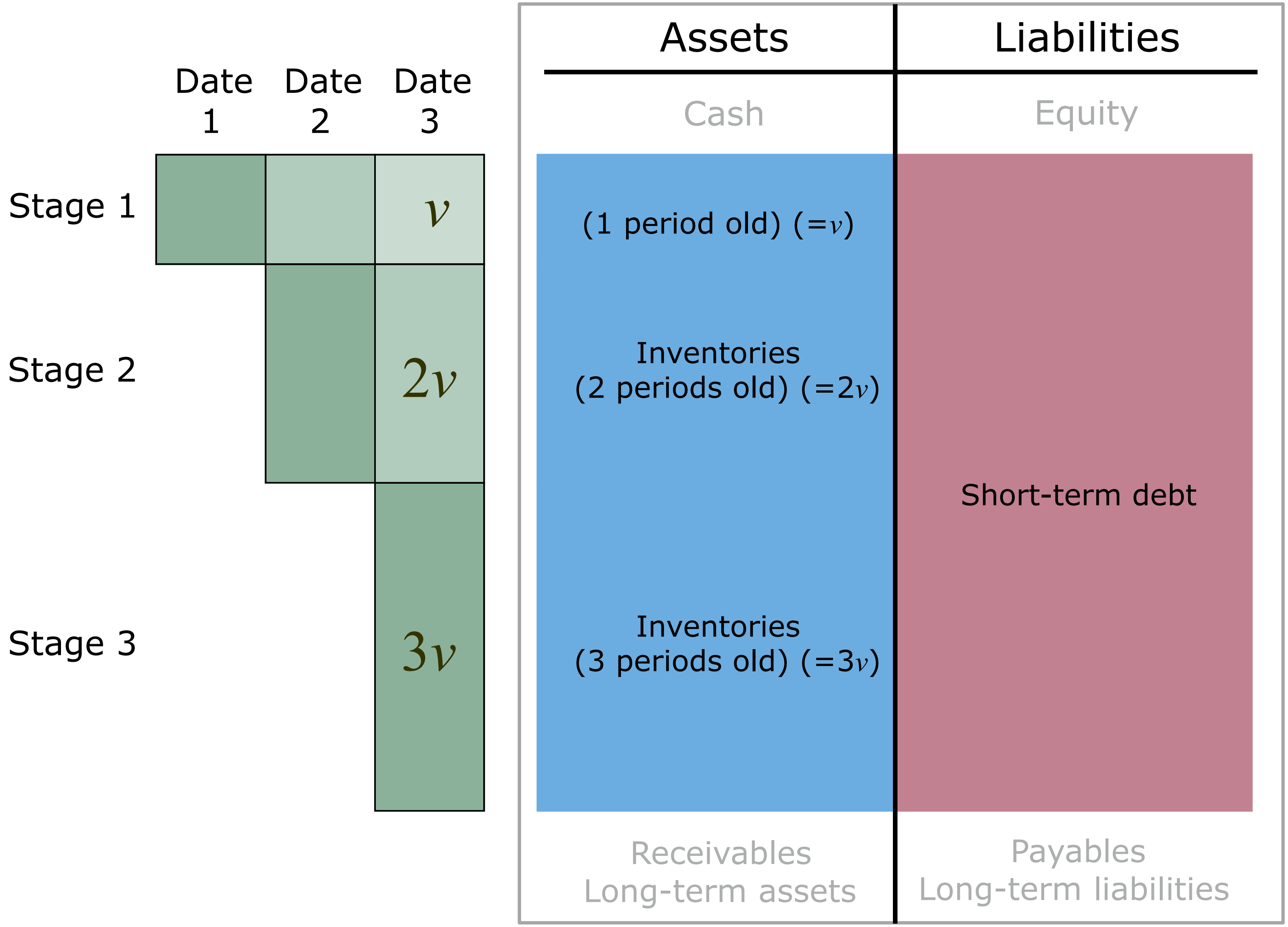
Stage 2

Stage 3

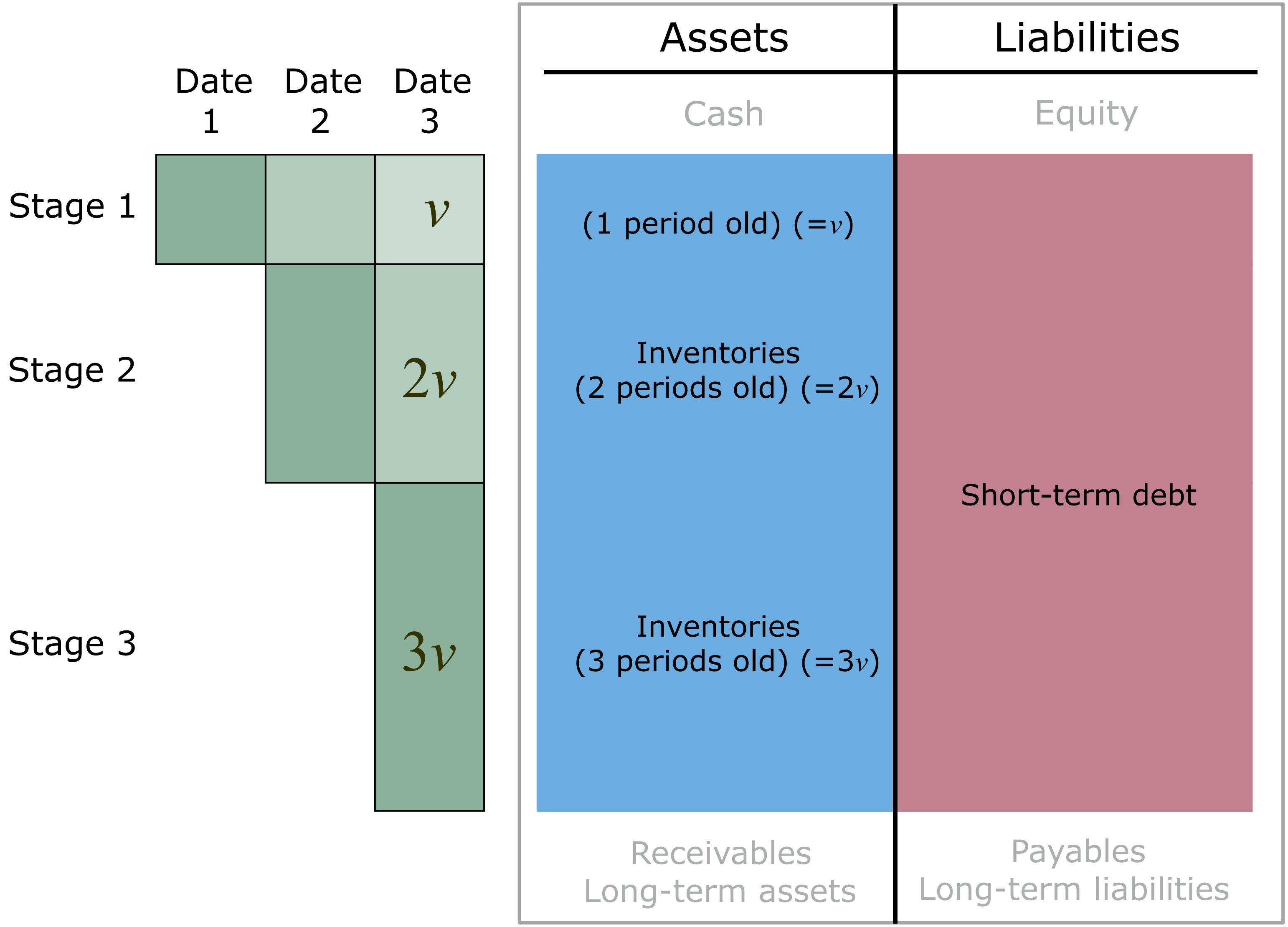


Inventories and trade





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.

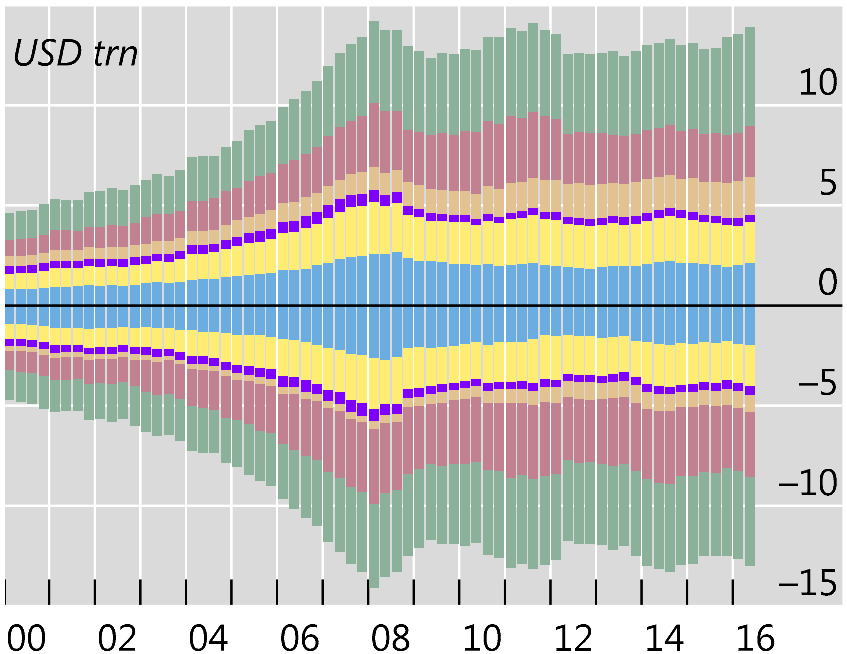
Global role of the dollar

- 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

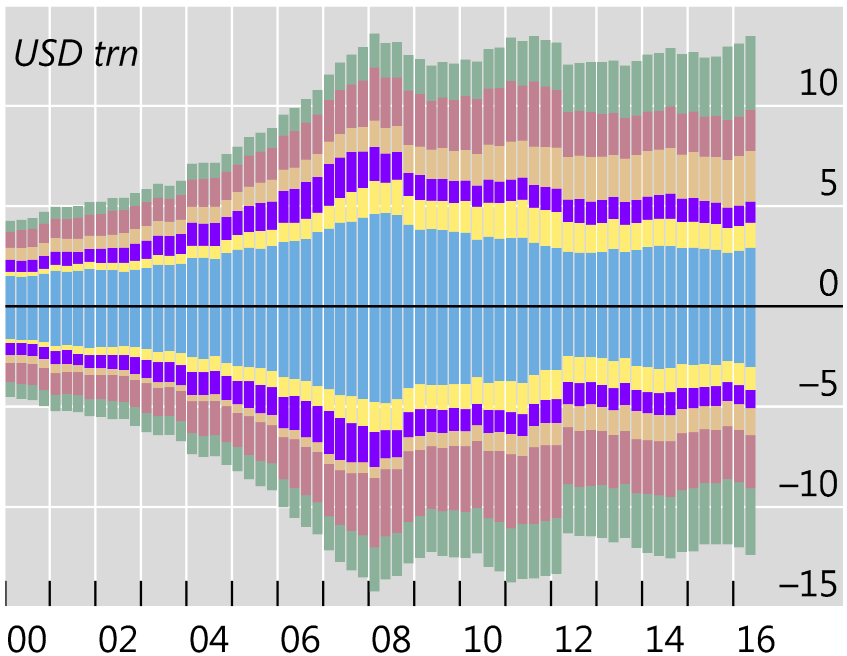
How easy is it to draw a line between real and financial globalisation?

Cross-border US dollar-denominated credit, all sectors

By residence



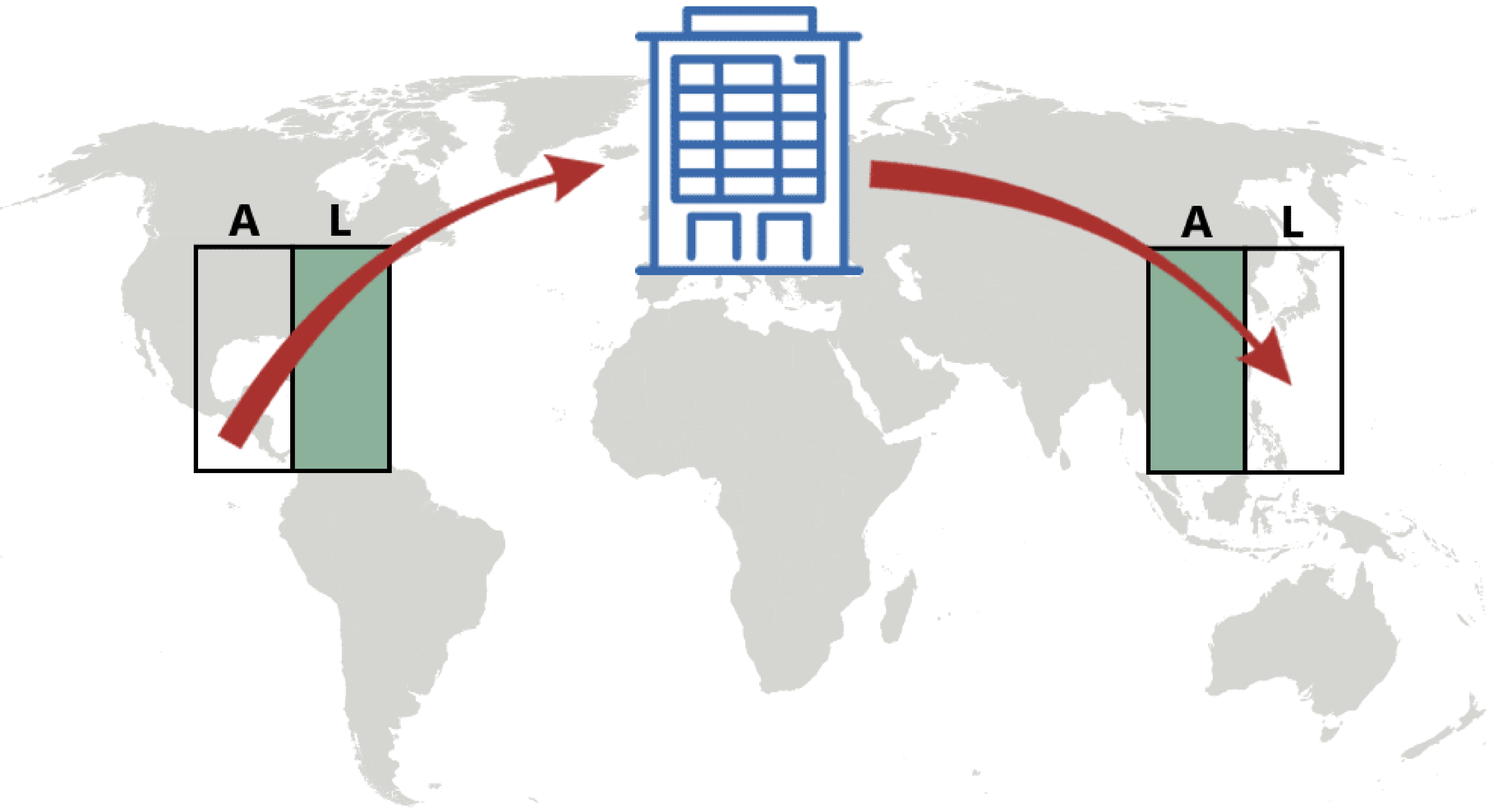
By nationality[1]



Claims (+) and liabilities (–) of:

Euro area
United Kingdom
Switzerland
Japan
United States
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).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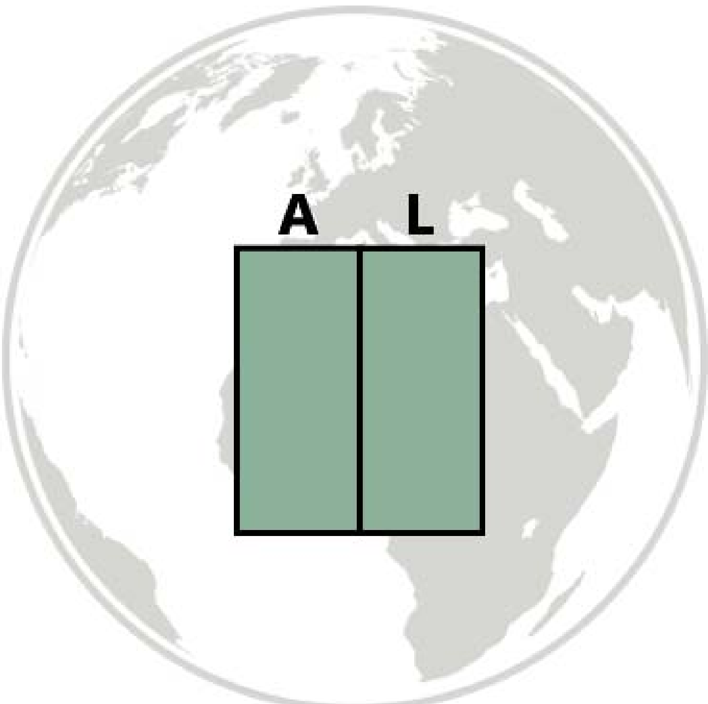
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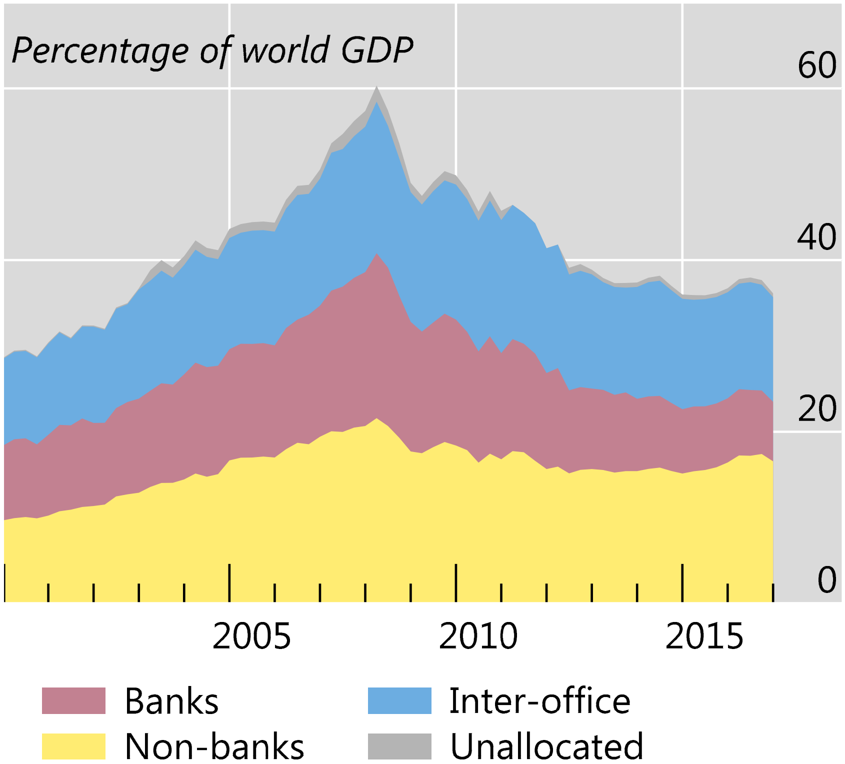
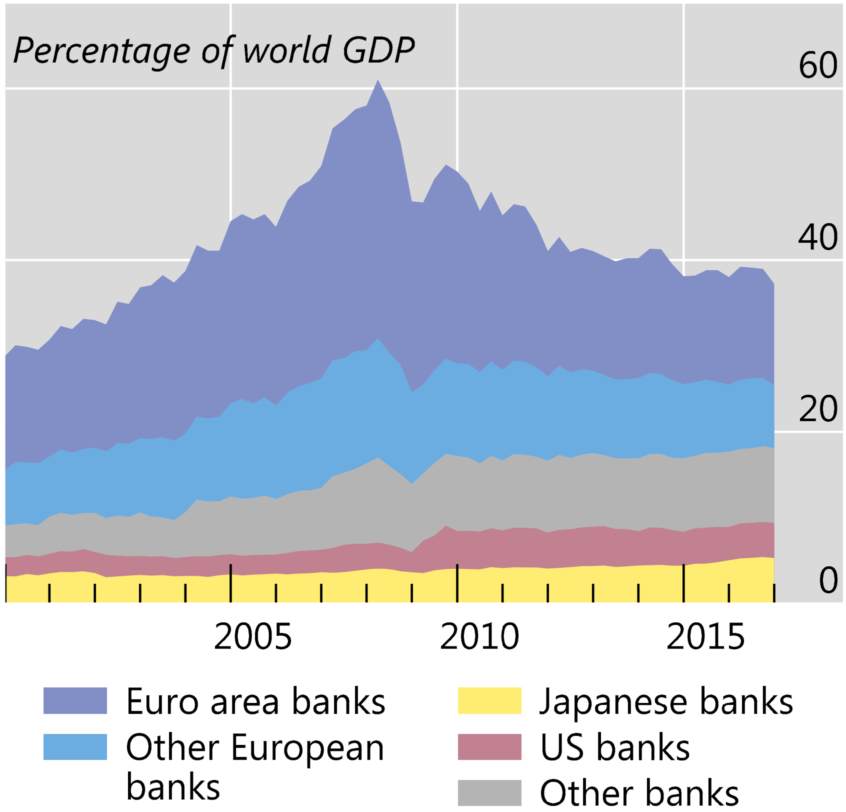
Deglobalisation? Locational vs consolidated perspectives

Locational cross-border bank claims



Foreign claims by banking system



Source: 87th Annual Report.

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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