

Comments on “Resisting Financial Globalization in Asia” By McCauley and Ma

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Summary

- Very nice in adding texture and granularity to “financial globalization”
- Measuring financial globalization through
 - Foreign bank presence and activity
 - Wedges between onshore and offshore markets in exchange rates, money, bond, and equity markets
- Measures broadly correlate with financial contagion in current crisis
 - Korea and India versus China

Foreign Bank Claims

- Show foreign bank share in total credit; loan deposit ratio; and foreign funding of local assets
- Question: From the financial globalization perspective of vulnerability to sudden stop:
 - What is the most relevant measure?
 - What is the right scaling? Absolute, reserves, GDP
- Consistency between comparative experience of 4 Asian countries and foreign bank numbers:
 - Yes, Korea but difference between India and Thailand (especially if scaled)?
 - Vulnerability depends on total foreign currency liability: all banks not just foreign banks plus liabilities of corporates; and liabilities of corporates headquartered abroad (example of India).
 - False positive?
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Cross-Border arbitrage: Forward Exchange rates

- Show wedge between onshore and offshore forward rate
- Wedge lowest for Korea: consistent with
- Wedge is mostly positive (offshore more appreciated than onshore)
- In recent crisis, wedge turns negative in all countries
- Question: From an efficiency perspective, are wedges large? Don't seem so.

Cross-Border arbitrage: Money and Bond Markets

- Show wedge between onshore and offshore forward rate
- Correlation between interest rate wedges and exchange rate wedges not perfect: e.g. Thailand. What should we infer?
- India suffered episodes of sharp liquidity shortage, resulting in spike in call rates. How would this appear?
- Korea spikes in both directions during crisis. What does this mean?
- Bond market wedges and money market wedges similar for China and Thailand but very different for India and Korea. Why?

Cross-Border arbitrage: Equity Markets

- Very interesting and illuminating pattern
- Chinese shares traded at a discount overseas and Indian shares at a premium.
Why?

The Price of Granularity

- Are finer measures consistent with more aggregate measures of capital account openness? Correlation between aggregate and finer measures
- Just as banking data is an imperfect measure of vulnerability, so too are wedge data.
- A country could have a large wedge and yet be highly vulnerable (India). Or, small wedge and not vulnerable (Thailand) Wedge and gross flows need not be correlated.
- So, what is it measuring? Something narrower and less informative of vulnerability

More general Issues

- Why are emerging markets more open to portfolio equity flows than portfolio fixed income flows despite former being prone to sudden stops (Graph 10)?
- In the recent crisis, and unlike in 1990s, residents have not fled local currency assets even in Korea and India. Why?