Financial Development and Globalization in Emerging Economies by Tatiana Didier and Sergio Schmukler

Some Observations and Comments
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Highlights

- Focus on domestic financial development, and capital markets.
- Compare to globalization process.
- Contains a vast wealth of information.
- I will focus my comments on 3 issues
  - Domestic and International Markets: Complements or Substitutes?
  - International Financial Integration: How to Measure?
    - Periphery – center and / or periphery – periphery?
  - Trends in Domestic Debt Markets in EMs
I. Complements or Substitutes?

- Paper finds a transition in EMs from a mostly bank-based model to a more complete and interconnected model where non-bank markets (bonds and equities) have increased in absolute and relative sizes.

- Are changes in the composition of external financing related to this? If so, what is cause and what is effect? Issue is worth exploring further. I don’t have the answers.

- But what have been the changes in the composition of external private financing? Let’s look at Asia.
I. Complements or Substitutes: Inflows during “surge” episodes (percent of GDP)
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II Measuring Financial Integration: Standard Measures Show Significant Increase in De Facto Financial Integration

Foreign Assets and Liabilities

Source: Lane and Milesi-Ferretti (2007)
II a. Measuring Financial Integration: macroeconomic adjustment

- A link between financial integration and external current account dynamics: Given that external current account deficits are financed by financial inflows,

  - High financial integration → Slow current account adjustment
  - Low financial integration → Fast current account adjustment

- Can do something similar for *Regional Financial Integration*
II a. Measuring Financial Integration: macroeconomic adjustment: Mixed picture on regional financial integration

![Graph showing half-life of intra-regional trade balance adjustment](image-url)
II b. Measuring Financial Integration Equity: Foreign Markets Significant for Trading

Value Traded Abroad Over Total Value Traded

Source: Bank of New York and Bloomberg
II b. Measuring Financial Integration

Price convergence

<table>
<thead>
<tr>
<th></th>
<th>Threshold (in percent)</th>
<th>Half-life of price convergence (in the number of trading days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM-USA</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>GER-FRA</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>ARG-BRA</td>
<td>1.8</td>
<td>3.1</td>
</tr>
<tr>
<td>HKG-SGP</td>
<td>4.7</td>
<td>5.6</td>
</tr>
<tr>
<td>T&amp;T-JAM</td>
<td>8.1</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Source: Country authorities and Fund staff estimates
III. Trends in Domestic Debt Markets

Relative Size of Foreign and Domestic Bond Markets: Public Sector

- Domestic markets are gaining importance

Relative Size of Bond Financing for The Public Sector

International Outstanding Bonds as % of Total Bonds

Source: BIS
III. Trends in Domestic Debt Markets
Foreign Holdings of Local Government Bonds (percent outstanding)

Source: Asian Bonds Online.
Thank You