

Financial Globalization, Economic Growth, and the Crisis of 2007-09

William R. Cline

Peterson Institute for
International Economics

Empirical growth impact studies examined

Category	Number
General financial openness	21
Financial development	5
Foreign direct Investment	12
Portfolio equity liberalization	4
Crisis Effects	8
Institutions / policy discipline	3
Sectoral and firm-level evidence	6
Theoretical/ calibrated studies	10
Summary surveys	7
Total	76

Framework Issues

- Measurement: de Jure, de Facto
- Theory: capital deepening; dynamic TFP gains; crisis effects
- Endogeneity
- Statistical meta-analysis

Impact of complete financial openness versus closedness on annual growth (%)

Study	Years	Ctries	Type	Tests	Signif	% sig	Meta
Quinn 97	60-89	58	J	3	1.61	100	1.58
Kraay 98	85-97	117	F	3	1.4	33.3	...
Edwards 01	73-87	60	J	2	3.18	50	1.82
Edison et al 02	80-00	57	J, F	14	1.17	21.4	0.7
Arteta Eichengr. Wypł. 03	73-92	58	J	4	3.37	50	3.37
Fratzscher Bussiere 04	80-02	45	F	6	1.61	16.7	0.15
Tornell Wstrmn Martinez 04	80-99	52	J	2	2.03	100	2.07
IMF 07	75-04	87	J, F	9	0.68	44.4	0.43
Quinn Toyoda 08	55-04	85	J	2	2.9	100	2.45
Average		69		5	1.99	57.3	1.57
Meta-average				42	...	42.2	0.56

Impact of FDI on growth (percentage points for increase by 1 percent of GDP)

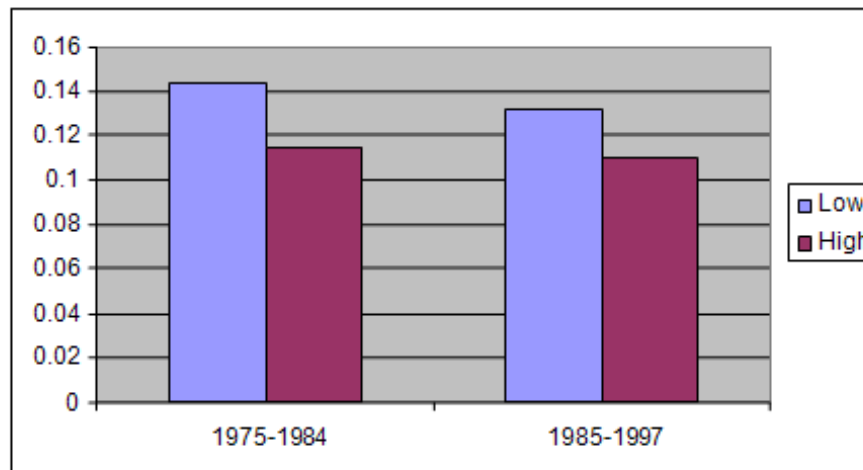
Study	Ctries, yrs	Impact
Balasubramanyam et al 96	46; 70-85	0.20
Borensztein et al 98	69; 70-90	0.60
Haveman et al 01	74; 70-89	1.0
Reisen Soto 01	44; 86-97	0.10
Carkovic Levine 05	67; 60-95	1.74 sig 0.44 meta
Hermes Lensink 03	67; 70-95	0.45
Blonigan Wang 05	88; 70-89	0.37 (58 th pctl education)
Lensink Morrissey 06	87; 75-97	1.50
IMF 07	87; 75-04	0.50

Impact of Financial Openness on Growth in Manufacturing (% per year)

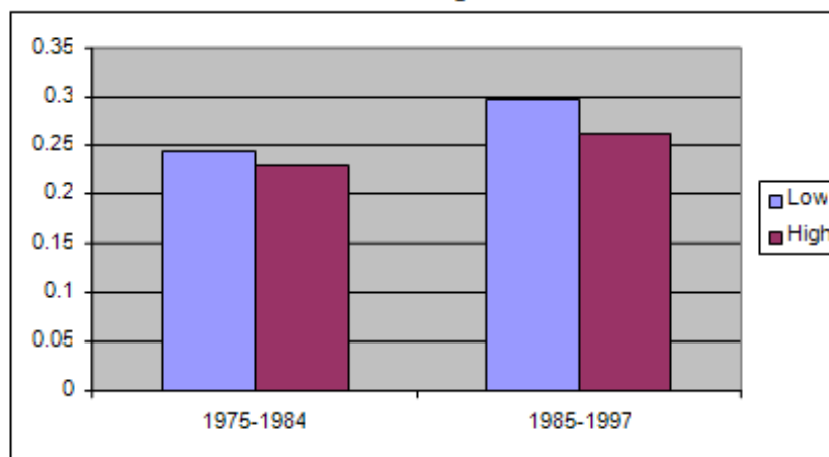
Study	years	ctries	sectrs	Impact /
Vlachos Wadenstrom 02	80-90	42	36	0.8 closed to open
Vanassche 04	80-97	45	27	0.88 average to complete open
Gupta Yuan 06	81-98	31	27	1.1 after stock mkt liberalization
Mitton 06	80-00	28	1,140	2.3 sales increase after openness
Levchenko et al 07	63-03	56	28	1.2 increase of cap inflows/GDP by one std dev

Proportion of years in crisis and degree of financial openness, 22 EMEs

A. Currency crisis



B. Banking crisis



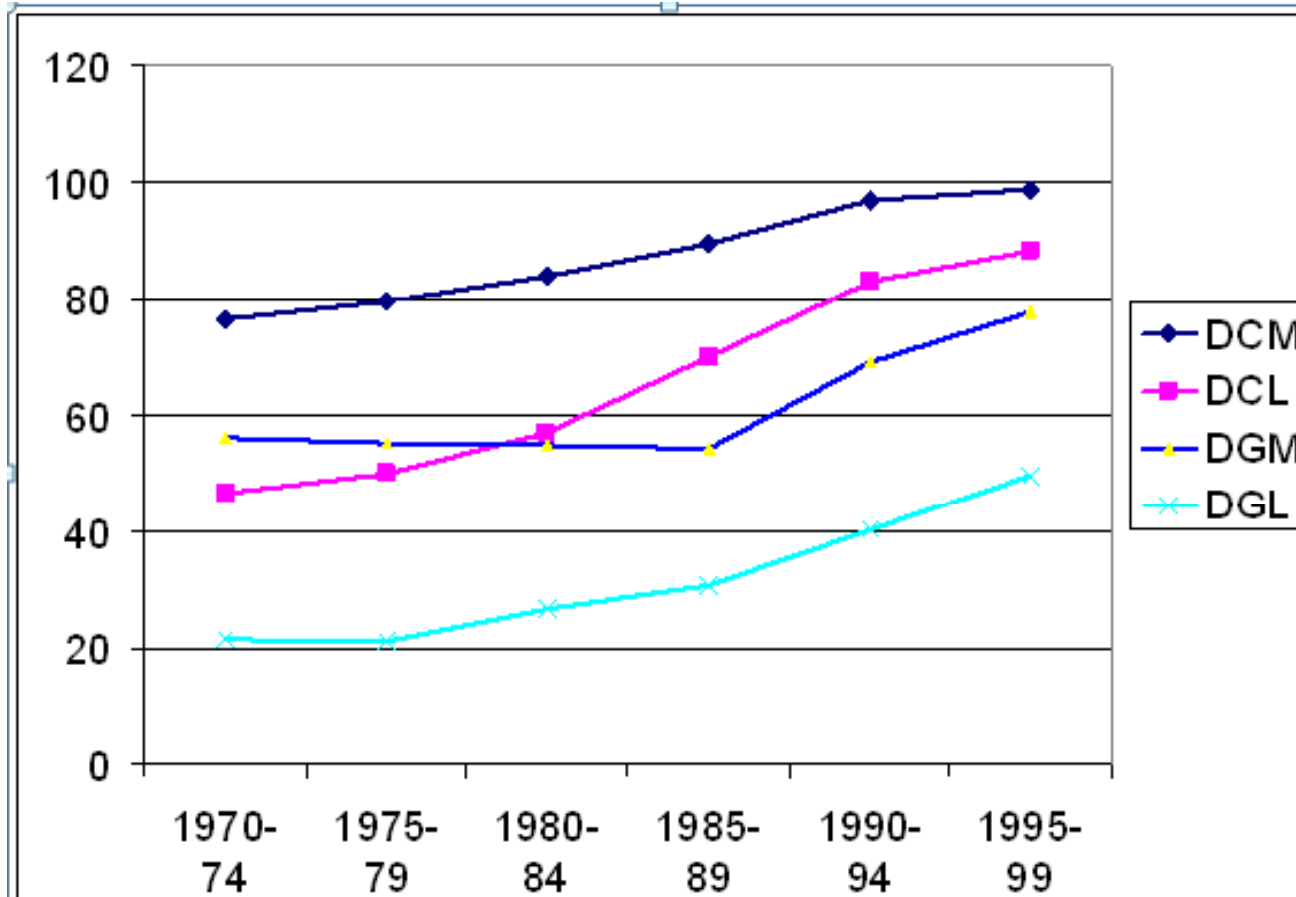
Expected annual crisis impact of financial openness

$$W = \Delta_g - \pi_c d_c \phi_c - \pi_b d_b \phi_b$$

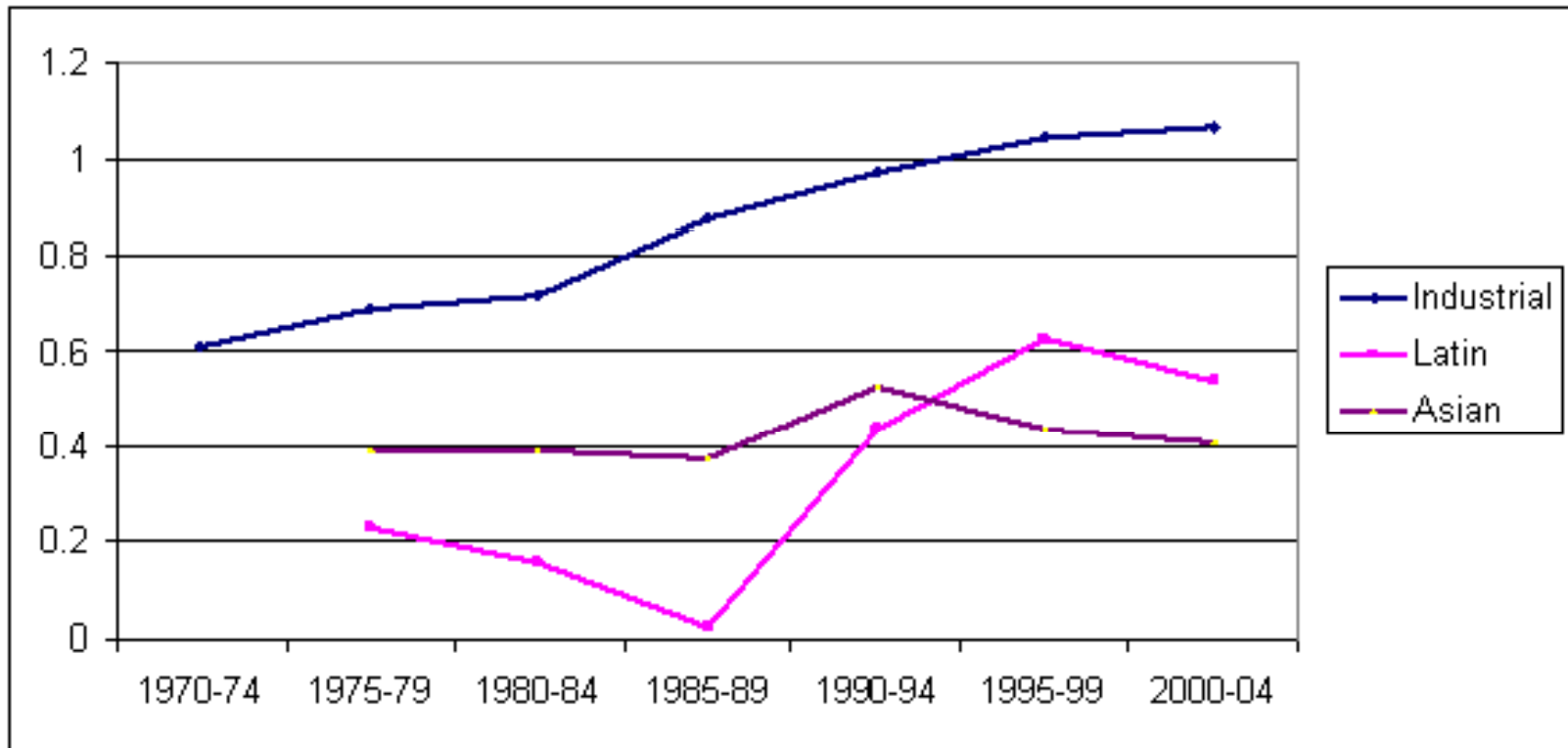
Concept	Symbol	Value:	
		adverse	favorable
General incidence of currency crisis	ϕ_c	0.12	0.08
General incidence of banking crisis	ϕ_b	0.065	0.024
Damage from currency crisis (fraction of GDP)	d_c	0.08	0.05
Damage from banking crisis (fraction of GDP)	d_b	0.10	0.04
Proportional increase in probability of currency crisis from financial openness	π_c	0.4	-0.05
Proportional increase in probability of banking crisis from financial openness	π_b	0.4	-0.15

Quinn Openness

(More and Less open Developed and Developing Countries)



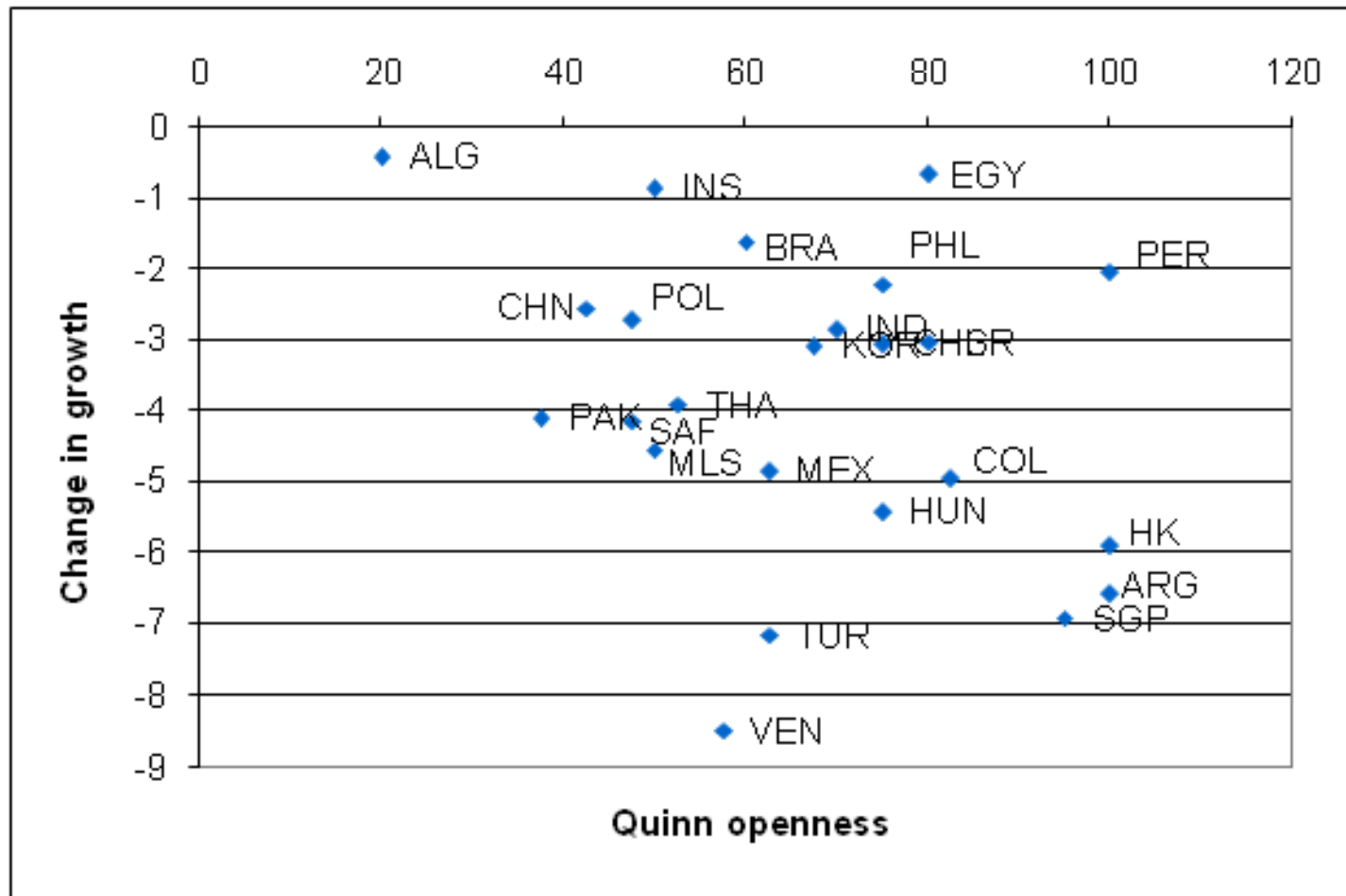
Growth impact from general financial openness, high variant (% per year)



Contribution of 1980-2004 cumulative growth effects of financial openness to 2008 GDP (%)

Economy	Low	High	Economy	Low	High
Industrial countries	8.2	21.4	Brazil	1.8	4.9
Developing Asia	2.1	5.8	China	1.6	4.3
Latin America	2.4	6.7	India	1.5	4.2
MENA	2.3	6.1	Korea	3.7	9.9
Developing Europe	2.1	5.9	Malaysia	4.0	10.8
US	8.8	22.9	Mexico	3.2	8.7
Japan	6.6	17.6	South Africa	1.9	5.4
Germany	8.9	23.0	Thailand	3.0	8.1
UK	9.4	24.3	Turkey	2.9	8.0

Change in growth, 05-07 to 08-10 (percent) and Quinn Openness Index



Real change in stock prices, end-2007 to March 2009 (%), and financial openness

