

Effects of Financial Globalization on Developing Countries: Some Empirical Evidence

Eswar S. Prasad, Kenneth Rogoff, Shang-Jin Wei, and M. Ayhan Kose

Contents

Preface Summary		vii ix
	Definitions and Basic Stylized Facts Does Financial Globalization Promote Growth in Developing Countries? What Is the Impact of Financial Globalization on Macroeconomic	2 2
	Volatility? Role of Institutions and Governance in Effects of Globalization Summary	3 4 4
II	Basic Stylized Facts	6
	Measuring Financial Integration North-South Capital Flows Factors Underlying the Rise in North-South Capital Flows	6 8 9
Ш	Financial Integration and Economic Growth	13
	Potential Benefits of Financial Globalization in Theory Empirical Evidence Synthesis	13 14 17
IV	Financial Globalization and Macroeconomic Volatility	21
	Macroeconomic Volatility Crises as Special Cases of Volatility Has Financial Globalization Intensified the Transmission of Volatility? Some Factors That Increase Vulnerability to Risks of Globalization	21 24 25 27
٧	Absorptive Capacity and Governance in the Benefits/Risks of Globalization	29
	Threshold Effects and Absorptive Capacity Governance as an Important Element of Absorptive Capacity Domestic Governance and the Volatility of International Capital Flows Summary	29 29 31 32
Арр	endixes	
1	The First Era of International Financial Integration, 1870–1913	35
II	Estimating the Benefits of International Financial Integration on Income Levels for Developing Countries Using a Neoclassical Economic Model	36
ļIII	Calculating the Potential Welfare Gains from International Risk Sharing	38

IV	Contingent Securities for International Risk Sharing	42
٧	Small States and Financial Globalization	43
۷I	Data	45
Bibli	ography	46
Boxe	es ·	
	3.1. Effects of Different Types of Capital Flows on Growth3.2. Do Financial and Trade Integration Have Different Effects on Economic Development? Evidence from Life Expectancy	18
	and Infant Mortality 4.1. Effects of Globalization on Volatility: A Review of Empirical Evidence	19 22
	4.2. Herding and Momentum Trading by International Investors 5.1. Transparency and International Mutual Funds	27 32
Text	Figures	
	2.1. Measures of Financial Integration2.2. Gross Capital Flows2.3. Net Private Capital Flows	7 8 9
	2.4. Foreign Ownership Restrictions in More Financially Integrated Developing Economies3.1. Channels Through Which Financial Integration Can Raise	11
	Economic Growth 3.2. Increase in Financial Openness and Growth of Real Per	13
	Capita GDP 3.3. Increase in Financial Openness and Growth of Real Per	16
	Capita GDP: Conditional Relationship, 1982–97 3.4. Differential Effects of Financial and Trade Integration on Improvements in Health	16 20
	4.1. Volatility of Income and Consumption Growth 5.1. Corruption and Foreign Direct Investment 5.2. Difference Between Actual International Mutual Fund Investment	24 30
	and MSCI Benchmark: Transparent Versus Opaque Countries 5.3. Herding and Opacity	. 31 33
	5.4. Corruption Tilts the Composition of Capital Flows Toward Borrowing from Foreign Banks	33
Арр	endix Figure	
	A3.1. Potential Welfare Gains from International Risk Sharing	39
Text	Tables	
	2.1. Volatility of Different Types of Capital Inflows3.1. Fastest- and Slowest-Growing Economies During 1980–2000 and Their Status of Financial Openness	10 15
	3.2. Summary of Recent Research on Financial Integration and Economic Growth	17
	4.1. Volatility of Annual Growth Rates of Selected Variables	23
Арр	pendix Tables	
	A2.1. Non-OECD Countries: Gains from International Financial Integration	37