Discussion of ‘Do implicit barriers matter for globalisation?’

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The key idea

- An old message: There is a difference between *de jure* and *de facto* capital account integration.
- The old argument has been: Even if a country tries to hang on to capital controls, these controls are leaky, and the true *de facto* integration that comes about is greater than intended owing to evasion.
- This message: Even if a country tries to remove capital controls, the true *de facto* integration will be less than complete owing to other factors which impede true integration.

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Capital controls	Financial regulation	Information costs, corporate governance, information disclosure.

Example: India

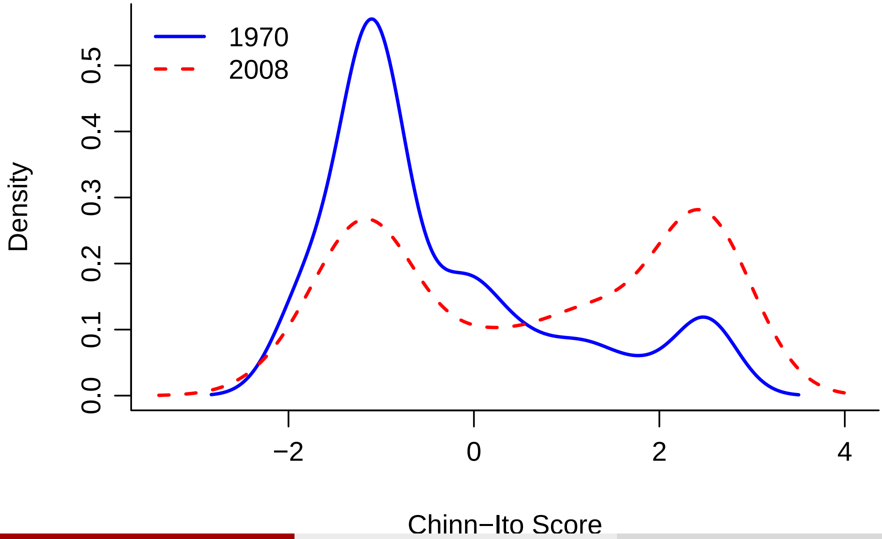
When India switches from lakh/crore to million/billion/trillion, or to calendar years, *de facto* integration will go up.
But some aspects are good:

- Size: Encourages foreigners to pay the fixed cost of learning
- English
- Presence of Indians in global financial firms
- High quality accounting data (though not IFRS)
- Democracy and freedom of speech
- Sophisticated firms.

So this is an environment conducive to financial integration, as long as the government will not impede this.

The shift in *de jure* capital controls

The Chinn Ito Measure



Who cares?

- Key message for policy: If a country wants to reap the full benefits of financial integration, it has to do more than to just remove all capital controls. (Exactly as with full trade integration).
- Informs the empirical literature which has been looking for the impact of capital account liberalisation upon economic outcomes: Maybe the treatment effect is weak because, by itself, this treatment isn't all there is to integration.

Measure of integration

- Key idea: Is the investable index priced by local factors or global factors?
- A request: Better exposition.
- Example: GOI permits foreigners to only own 25% of the shares of SBI. Now how will SBI's stock price behave?
- Key finding: There is a group of 'Leaders' who have always been quite integrated, and there is a group of 'Laggards' with low integration.
  But there is a group of 7 'Movers' who were like the Laggards in 1992 but by 1998 were like the Leaders.

A sanity check

- Let's build an island with zero capital account integration and full trade integration
- Let everything be tradeable
- Global shocks will matter, through trade.
- This will appear to generate integration.

Another sanity check

- The European Union is the Great Lab of Globalisation
- A mutual fund product produced in Spain can be sold in Germany without any barriers: Much deeper integration than is suggested by the mere removal of capital controls.
- So do you get much higher integration values in Europe?

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Overall average	0.545	0.666
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Hungary	0.721	0.827
Poland	0.229	0.556

Concerns on estimation

- To see a measure of the extent to which this measure of integration agrees with other integration measures such as Bekaert, Harvey, Lundblad, Siegel, NBER WP, December 2010.
- When explaining the integration measure using institutional, governance and information proxies, explicitly utilise the standard error of the integration measure as a measure of observed measurement error.

Conclusion

- An interesting and important dimension of understanding financial globalisation
- The basic idea is good, the story is persuasive
- Some concerns about estimation.

Thank you.