

Governance & Globalization

Challenges for Emerging Markets



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- 1. Introduction;**
- 2. Globalization and its Impact;**
- 3. Governance in a Globalized World;**
- 4. Implications for Emerging Markets.**

Exchanges across Asia, Europe, Latin America and the United States staged recoveries after big losses triggered by a plunge in Chinese equities ...

Reuters, 6 March 2007

Yen rally hits vulnerable emerging stock markets ...

March 2007

The Nikkei climbed to a three-week high, buoyed by renewed optimism about the US economy.

Financial Times, 22 March 2007

U.S. stocks rose sharply as a flurry of deal news, including talk that Britain's Barclays Plc was eyeing a takeover of Dutch bank ABN AMRO ...

Reuters, 19 March 2007

Was it Alan Greenspan's statement warning of recession in the U.S. which was responsible for the February 2007 tumble across the world's stock markets? Or the 9 percent fall in Chinese stocks?

Gulf New, March 2007

Increasing integration of financial markets means the Federal Reserve has to pay much greater attention to global forces when setting monetary policy ...

The Fed must take into account the various effects of foreign capital flows on U.S. yields and asset prices, a task that can be quite challenging ...

Ben Bernanke, Chairman of the US Fed, March 2007

It is the challenges of joining the WTO and the free trade agreement with the USA that have prompted this merger to form a big banking entity for the Emirate of Dubai ...

(on the merger of Dubai National Bank and Emirates International Bank).

Abdullah M. Saleh

Chairman, Dubai National Bank, March 2007

Why U.S. stocks react to banks' takeover in Europe?

Why global exchanges tumble after a 9 percent decline in Chinese stocks?

Why the U.S. Federal Reserve has to pay much greater attention to global forces when setting monetary policy?

Why DNB and EIB had to merge?

The answer to all of the above is

Globalization

Implications ...

Globalization has made economic policy making a more intricate and challenging task ..

Globalization Prompts Overhaul at IMF

IMF Survey, April 2006

Globalization

Amazingly for so widely used a term, there does not appear to be any precise, widely-agreed definition. ..

the most common or core sense of economic globalization refers to the observation that in recent years a quickly rising share of economic activity in the world seems to be taking place between people who live in different countries ..

Globalization

.. refers to the increasing integration of economies around the world, particularly through trade and financial flows.

.. sometimes also refers to the movement of (labor) and knowledge (technology) across international borders. ..

IMF

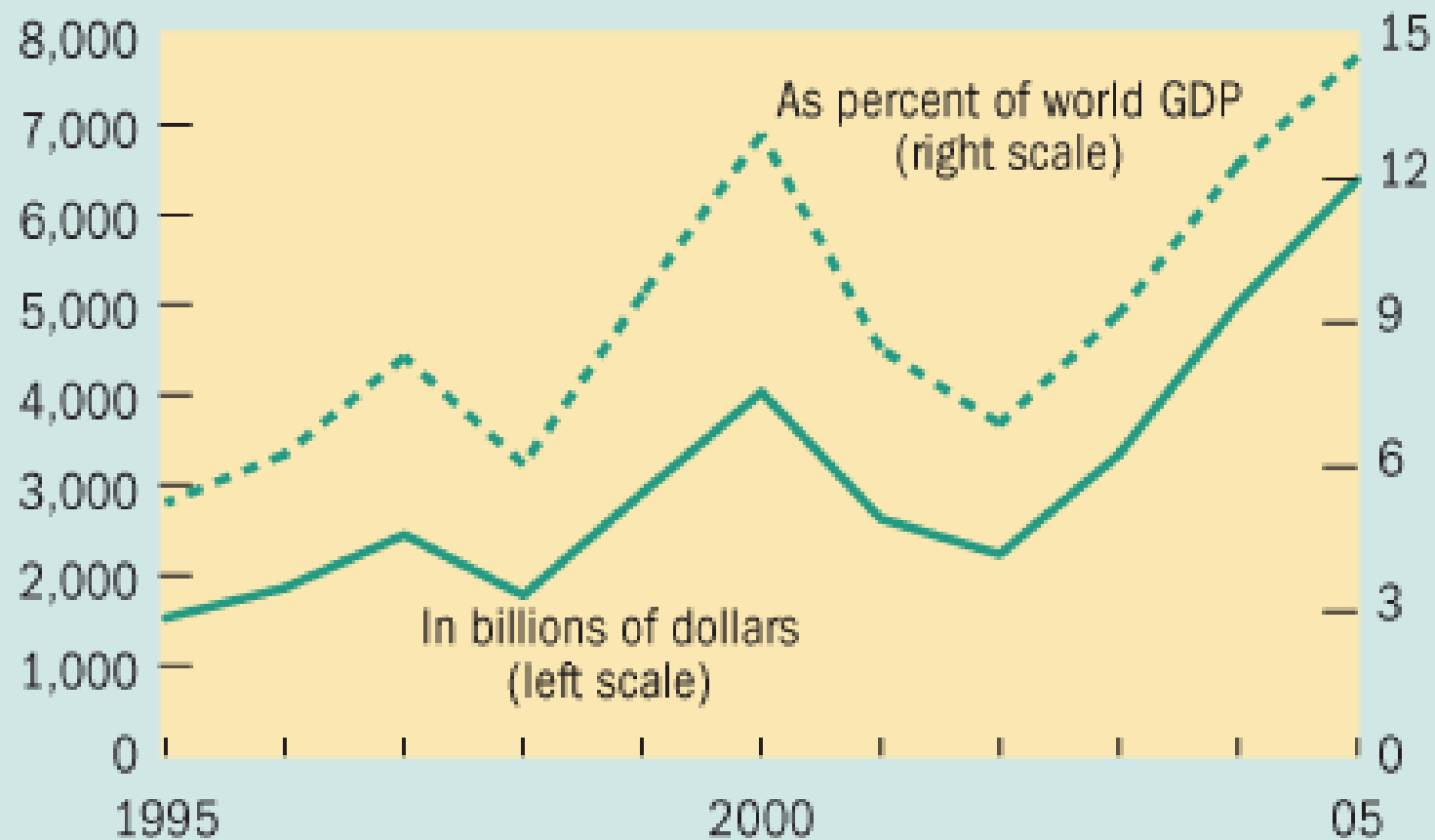
Globalization

Globalization can be defined as a historical stage of accelerated expansion of market capitalism It is a fundamental transformation in societies because of the recent technological revolution which has led to a recombining of the economic and social forces on a new territorial dimension.

WTO

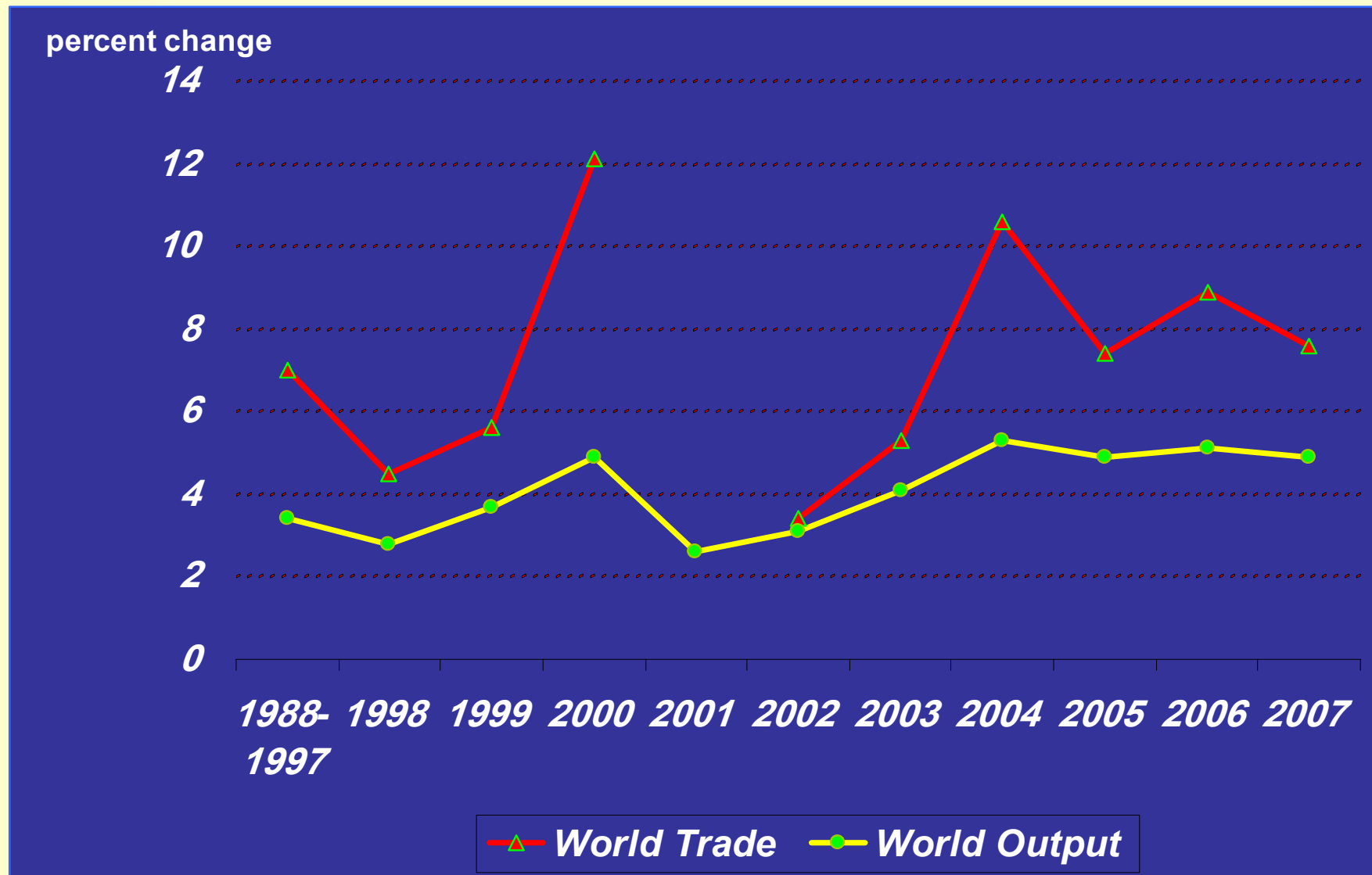
Globalization measured ..

Gross global capital flows have surged since 1995.



Source: IMF, *International Financial Statistics*.

Globalization measured ..



Globalization

- **Good *or* Bad for developing economies ?**
- **Challenges for Governance.**

Globalization

**... delivered impressive results;
... helped most countries enjoy
greatly improved macroeconomic
performance, which has translated
into better living standards—for
almost everyone, and almost
everywhere...**

IMF

Globalization

... There is compelling evidence that increased openness to trade and investment has played an important facilitating role in accelerating growth and poverty reduction ... and hence in reducing overall global inequality.

World Bank

Globalization

... The benefits of globalization have been less than its advocates claim, the price paid has been greater, as the environment has been destroyed, as political processes have been corrupted, and as the rapid pace of change has not allowed countries time for cultural adaptation ..

Joseph Stiglitz

Research findings ..

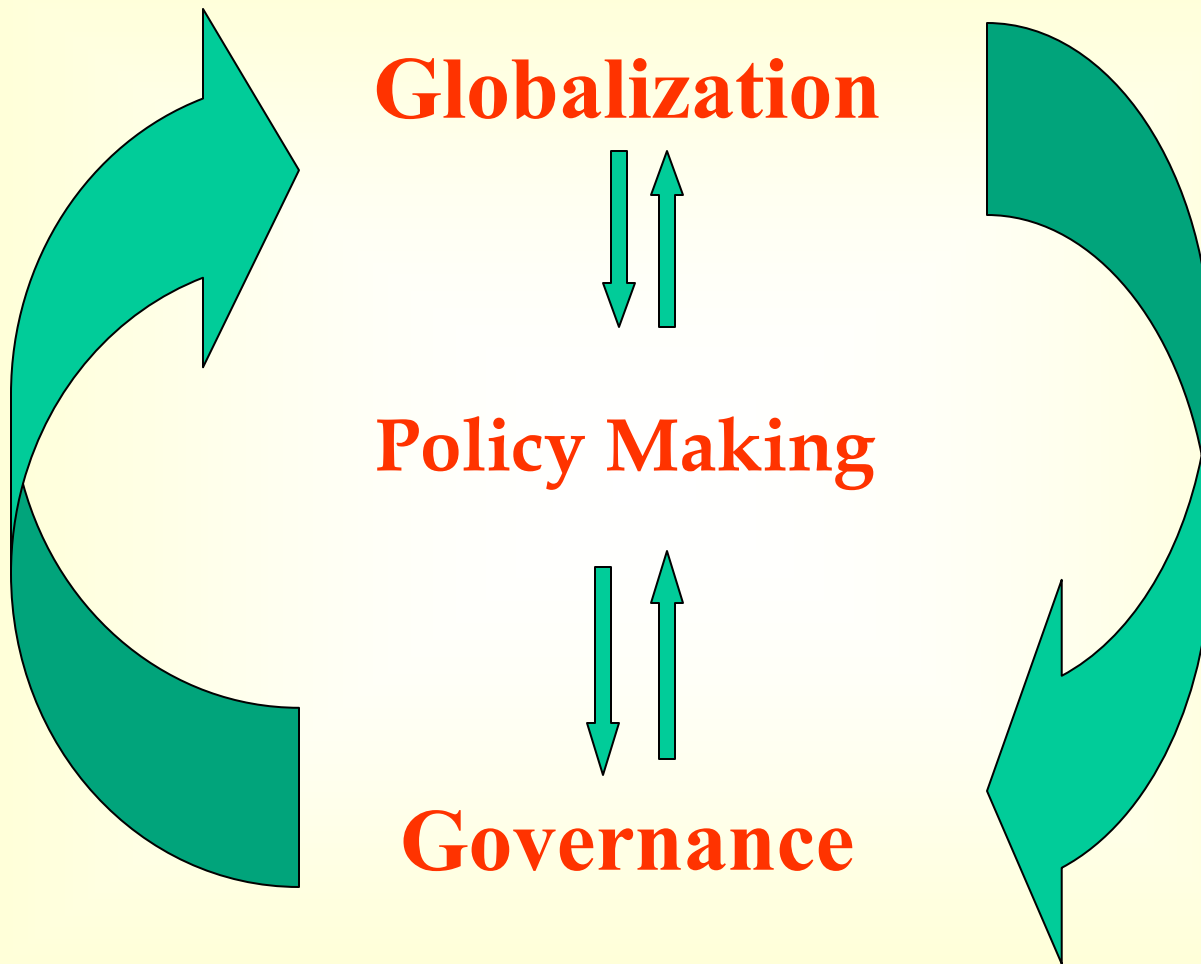
... The majority of studies using cross-country growth regressions to analyze the relationship between growth and financial openness

...unable to show that capital account liberalization produces measurable growth benefits.

Globalization

... The successful economies of East Asia, far from illustrating the virtue of rapid liberalization and unfettered global market forces, confirm the complexities of policy making in an interdependent world..

UNCTAD



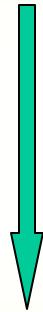
Q: has globalization rendered domestic determinants of growth subordinate to international economic forces and that it is the primary factor of income convergence across the global economy ...

not quite, says UNCTAD research

..the forces driving capital accumulation retain strong domestic roots and remain open to the influence of various types of policy initiatives...

Challenge

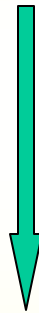
The notion of a sovereign state in the traditional sense has changed



Compliance with international standards & codes and best practices

Challenge

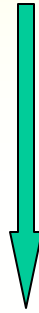
Increased interdependence has reinforced the potential for contagion across national borders



Better risk management to avert and/or deal with swift movements of financial resources

Challenge

Exposure to global competition



- Macroeconomic policy
- Trade policy
- Corporate governance

Financial Globalization

Challenges

- * Competition**
- * Capital flight**
- * Money laundering**
- * Financial volatility**

Opportunities

- * Foreign investment**
- * Growth**
- * Financial market development**

- * Regulatory framework**
- * Monetary policy**
- * Fiscal policy**

Financial Globalization & Monetary Policy

Open Capital Account

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graph TD; A[Open Capital Account] --> B[Independent Monetary Policy]; A --> C[Fixed Exchange Regime]; B --> D[Exchange Rate Instability]; C --> E[No Sovereign Monetary Policy]
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**Independent
Monetary Policy**

**Fixed Exchange
Regime**

**Exchange Rate
Instability**

**No Sovereign
Monetary Policy**

Conclusion

Governance is a complicated process, the more so in a globalized world.

Globalization has introduced an added dose of complexity to the task of decision makers at all levels.

Conclusion

As economies open up, they need to:

.. brace themselves for tougher competition;

.. comply with international standards & codes, thereby, becoming subject to new forms of accountability.

Conclusion

To improve governance in a globalized world:

1. Redress the serious imbalances in economic structures.
2. Combat corruption.
3. Promote productive and socially beneficial use of resources.

Thank you.