Capital Flows and Macroeconomic Considerations in Asia

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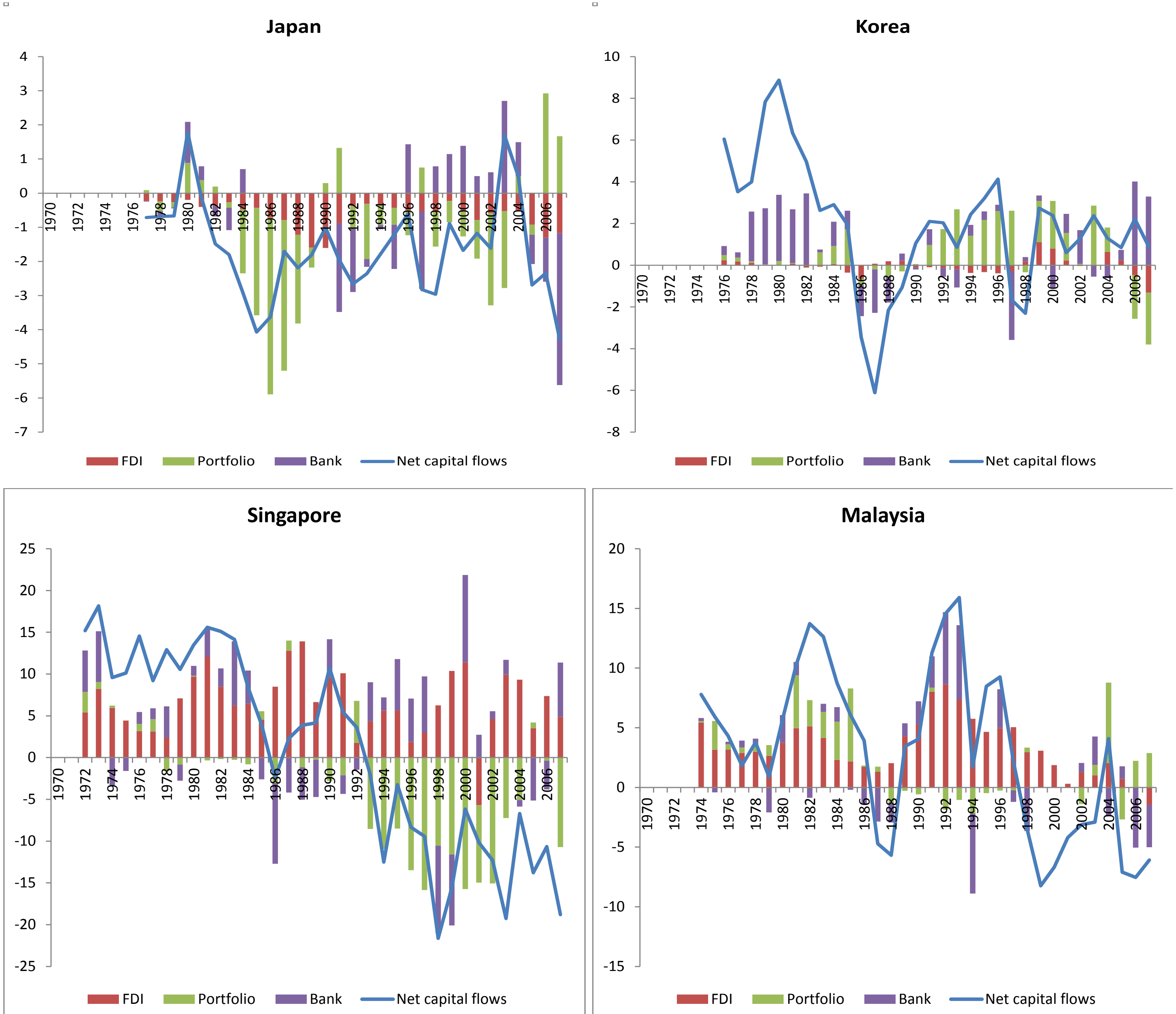
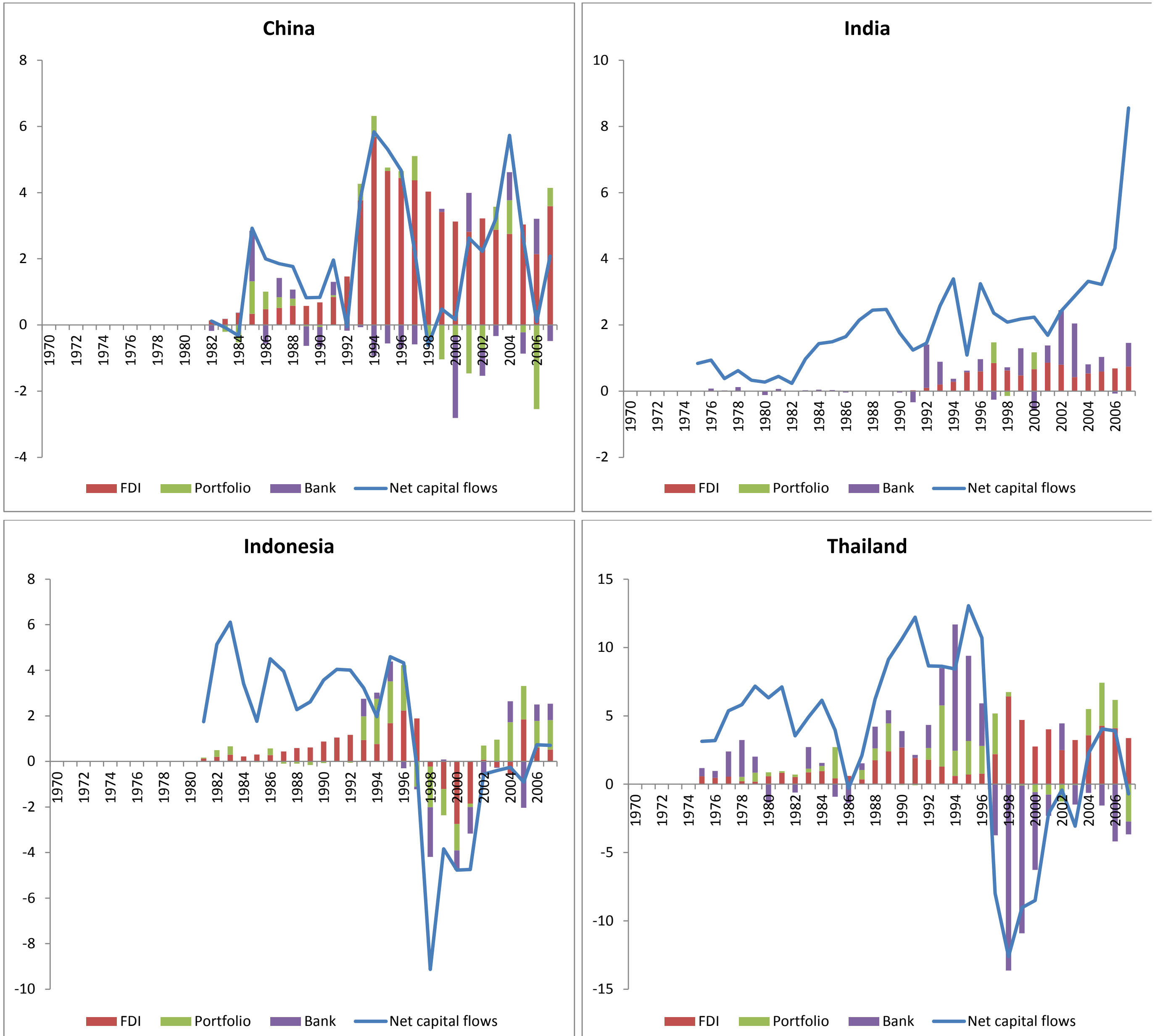
Capital Flows to Selected Asian Countries, 1970-2007



Capital Flows to Selected Asian Countries, 1970-2007 (Cont.)



Financial Globalization and Asia

- Financial globalization can be defined in de jure (absence of legal or regulatory controls on cross-border financial flows) or de facto (centrality of cross-border financial flows) terms.
- Meta analysis indicates little evidence of positive long-term impact between financial globalization and growth, globally.
- More instances of a negative relationship between financial globalization and growth in Asia.
- Particularly true for loan finance; KCMI correct to promote capital market development.

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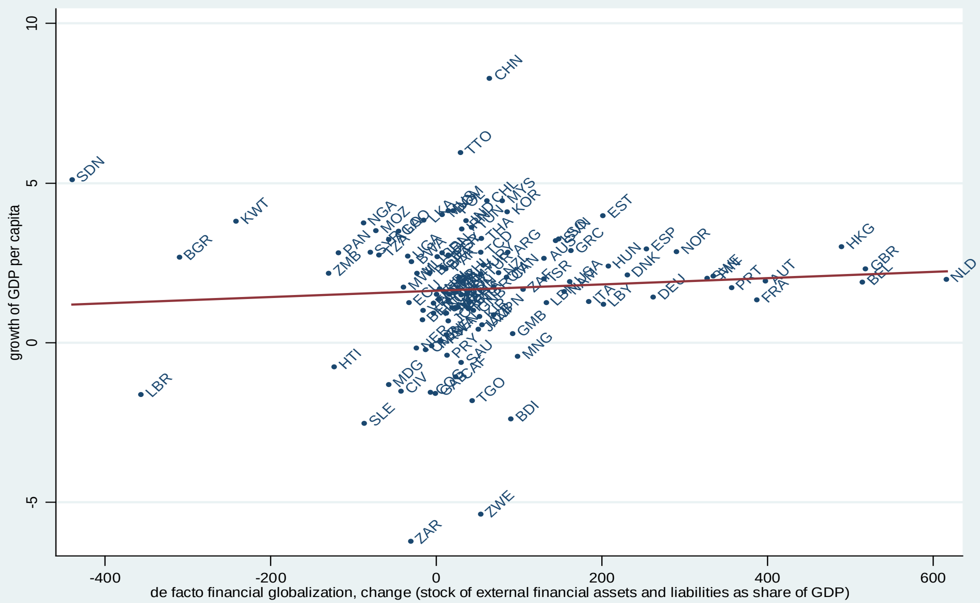
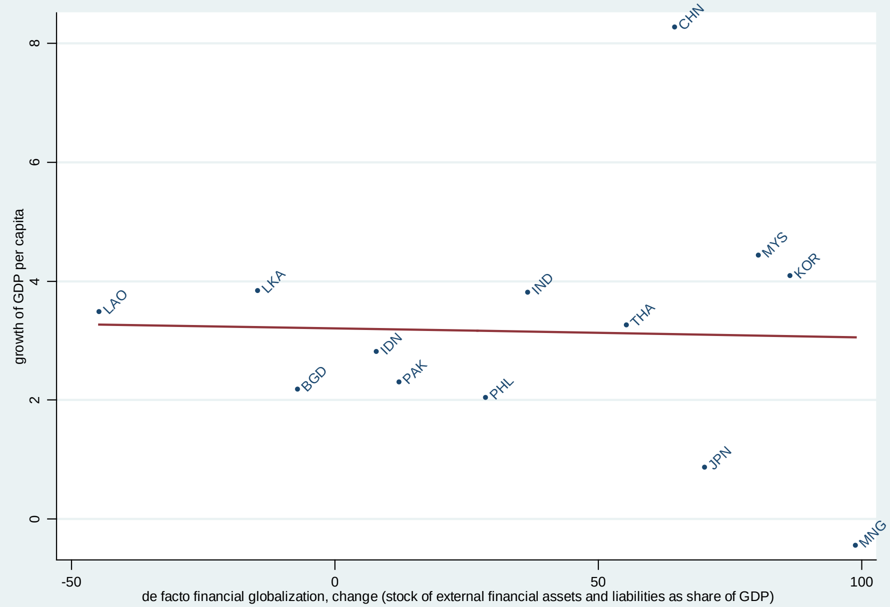
Growth and De facto Globalization

All Countries (1990-2007)



Outliers removed.

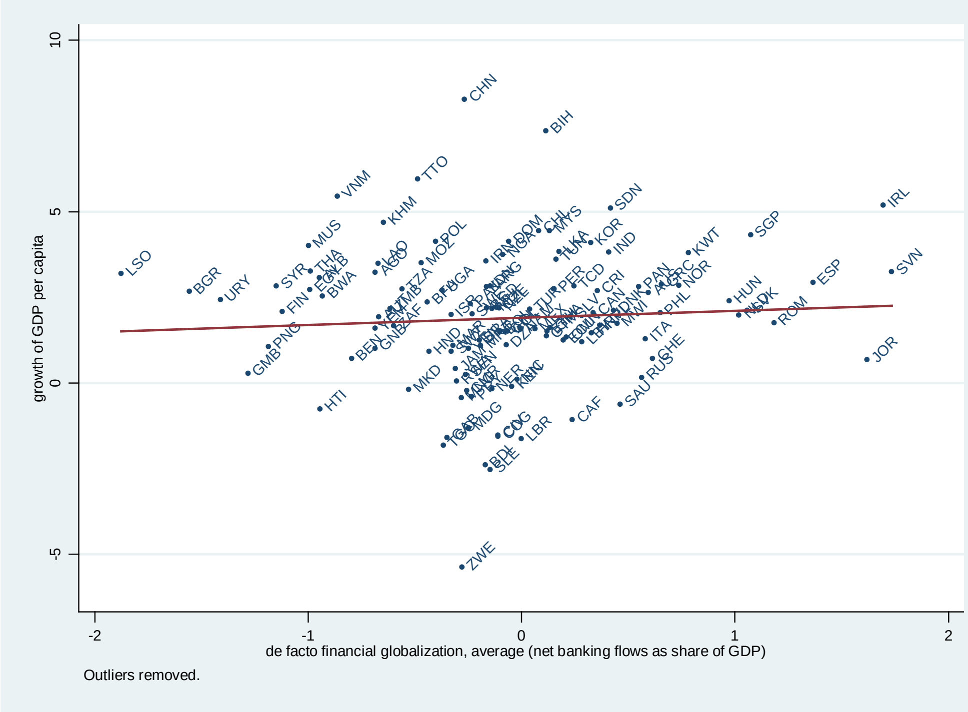
Asian Countries (1990-2007)



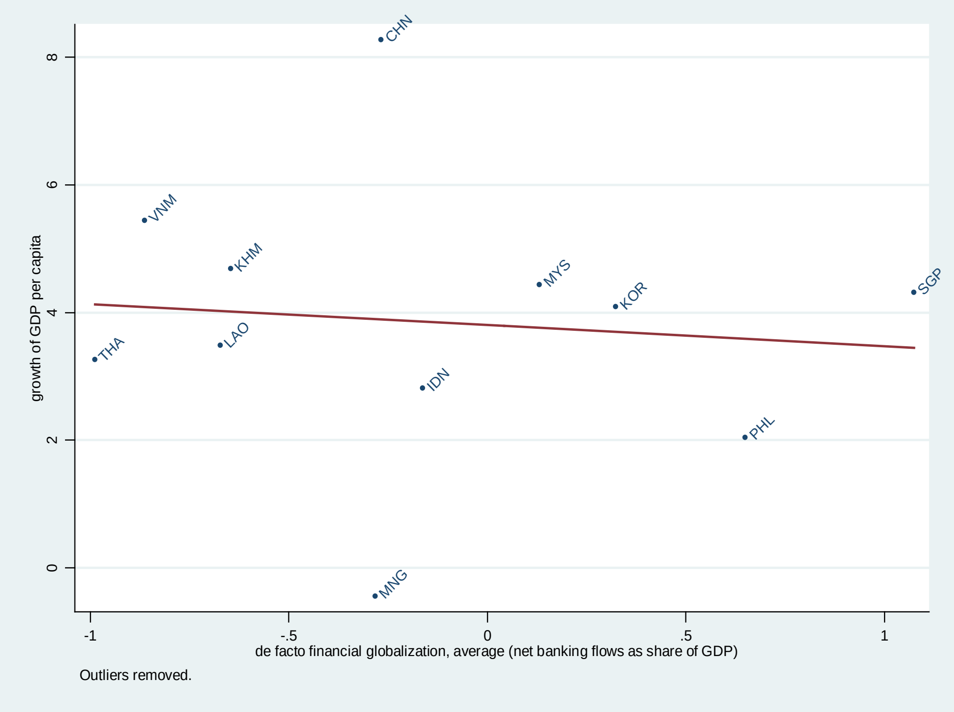
13 countries with missing data for Myanmar, Cambodia, and Vietnam. Outliers removed.

Growth and Net Debt (Bank) Flows

All Countries, 1990-2007



Asian Countries, 1990-2007



Selected Financial Globalization and Growth Results

	All Countries		17 Asian Countries		
	% Positive and significant (10%)	**% Negative and significant (10%)**	**% Positive and significant (10%)**	**% Negative and significant (10%)**	**Number of Regressions**
1. Total	**16**	**5**	**16**	**11**	**2340**
2. Specification of FG Variable					
De jure	12	6	16	10	156 x 3 = 468
De facto	18	5	17	12	156 x 12 = 1872
3. Disaggregation of FG Variable					
Portfolio debt	10	6	10	15	156 x 2 = 312
Other Investment (OI)	11	8	8	19	156 x 2 = 312
OI Bank	16	3	11	22	156 x 1 = 156
Non-debt	28	3	24	6	156 x 4 = 624

Selected Financial Globalization and Growth Results (Cont.)

	10 Emerging Asian Countries		13 East Asian Countries		
	% Positive and significant (10%)	% Negative and significant (10%)	% Positive and significant (10%)	% Negative and significant (10%)	Number of Regressions
1. Total	**17**	**8**	**16**	**14**	**2340**
2. Specification of FG Variable					
De jure	16	3	15	16	156 x 3 = 468
De facto	18	9	16	13	156 x 12 = 1872
3. Disaggregation of FG Variable					
Portfolio debt	13	11	9	16	156 x 2 = 312
Other Investment (OI)	13	14	8	22	156 x 2 = 312
OI Bank	18	9	9	24	156 x 1 = 156
Non-debt	21	6	24	6	156 x 4 = 624

So What Explains the Asian Results?

- Statistical artifact of sample period—dominated by 1997-98 Asian financial crisis?
- Currency and maturity mismatches greatly reduced in last 15 years
- But still noticeable in some countries

Modified Foreign Currency Share of Total Debt (FC%TD)

	China	India	Indonesia	Korea	Malaysia	Philippines	Taiwan	Thailand
2002	7	5	53	16	19	35	5	22
2003	7	6	26	11	18	43	11	9
2004	7	6	27	10	18	38	12	9
2005	7	7	27	10	16	45	11	10
2006	7	8	25	11	15	43	9	9
2007	7	10	26	12	14	40	10	7
2008	6	11	29	13	12	39	8	6
2009	6	9	27	13	11	39	7	6
2010	7	9	28	12	10	39	9	6
2011	7	10	29	13	11	38	10	6

Note: Modified FC%TD is defined on pp. 6-7.
Sources: 2002, Goldstein and Turner (2004); 2003-2011, private correspondence with Bilyana Bogdanova, Emese Kuruc, and Philip Turner, BIS, using upgraded underlying data.

Currency and Maturity Mismatches in the Corporate Sector

Korean and Malaysian Corporate Bonds, 2011

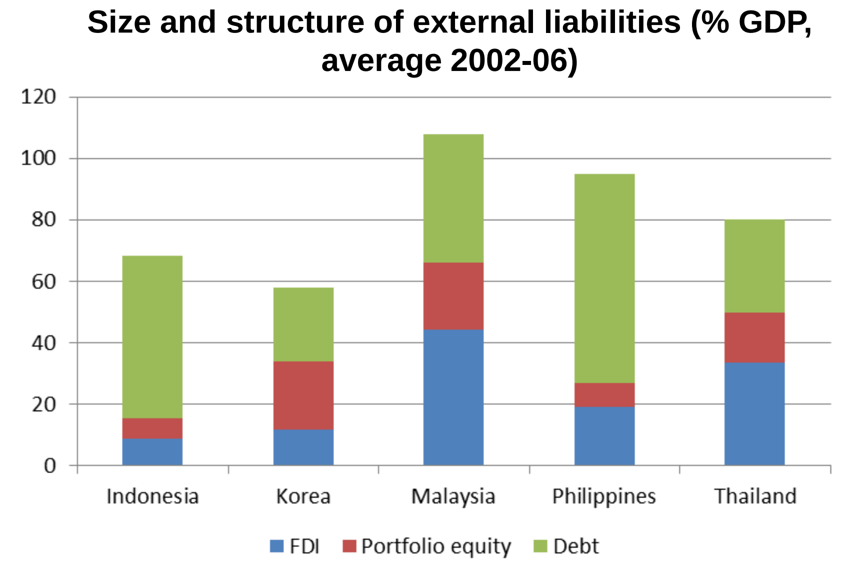
	Korea	Malaysia
1. Local currency corporate bonds outstanding		
US dollars, billions	294*	106
Percent of GDP	25*	43
2. Financial corporation foreign currency bonds outstanding		
US dollars, billions	63	8
Percent of GDP	5	3
3. Nonfinancial corporation foreign currency bonds outstanding		
US dollars, billions	56	15
Percent of GDP	5	6
4. Share of nonfinancial foreign currency bonds issued by nontradables firms		
Percent	53	40

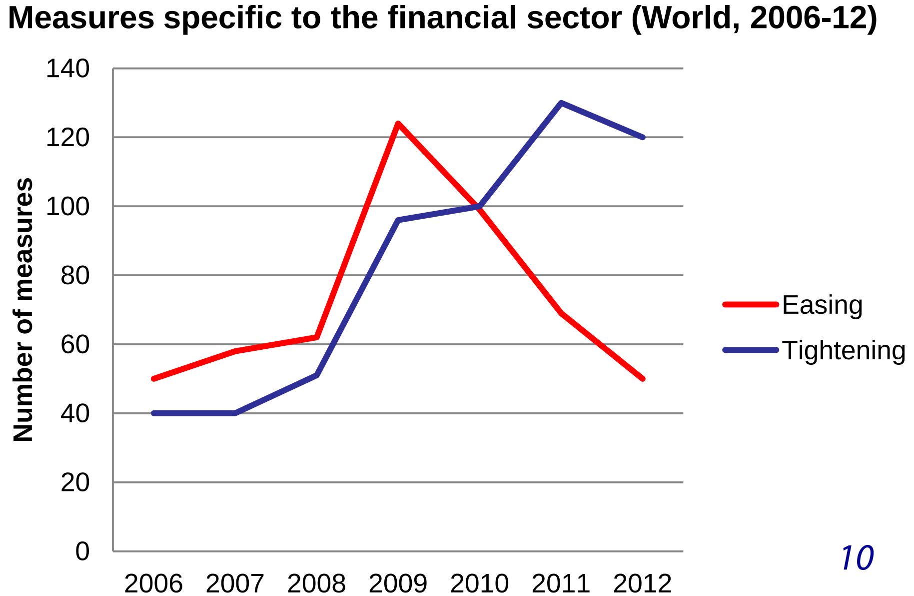
* Private corporations only. Public corporations (non-government) have $425 billion in local currency bonds outstanding.
Note: Local currency and foreign currency bond data are from ADB for December 2011. Nontradables firms are in the services sector, mainly telecommunications and utilities. Nontradables share is based on individual bond issues from Thomson Reuters as of March 2012.
Sources: ADB Bonds Online, Thomson Reuters Eikon, IMF *World Economic Outlook*, and author's calculations.

- Korea and Malaysia have the most developed corporate bond and derivatives markets.
- Some foreign currency debt issued by nontradables firms.
- Korean authorities have limited access to foreign borrowing by non-exporters and reduced maturity mismatches by local banks.

What is to be Done?

- Economic diversity, no one-size-fits-all solution
- Be aware of mismatches, including indirect; Korean regulators proactive in this regard
- Capital controls have a role
  - Apply to inflows
  - Calibrate tax rates wrt contribution to systemic risk: higher on loans, short-term, foreign currency denominated; little or nothing on FDI
  - Could vary countercyclically
- Bank loans particularly salient for Korea
  - More volatile than other forms of capital inflows
  - Correct to build up capital markets





Thank you for your attention

More detail can be found in:

- Jeanne, Noland, Subramanian, and Williamson, "Financial Globalization and Long-Run Growth: Is Asia Different?"
- Gagnon, "Currency and Maturity Mismatches in Asia."
- Jeanne, "Capital Flow Management and Macroprudential Policies in Asia."