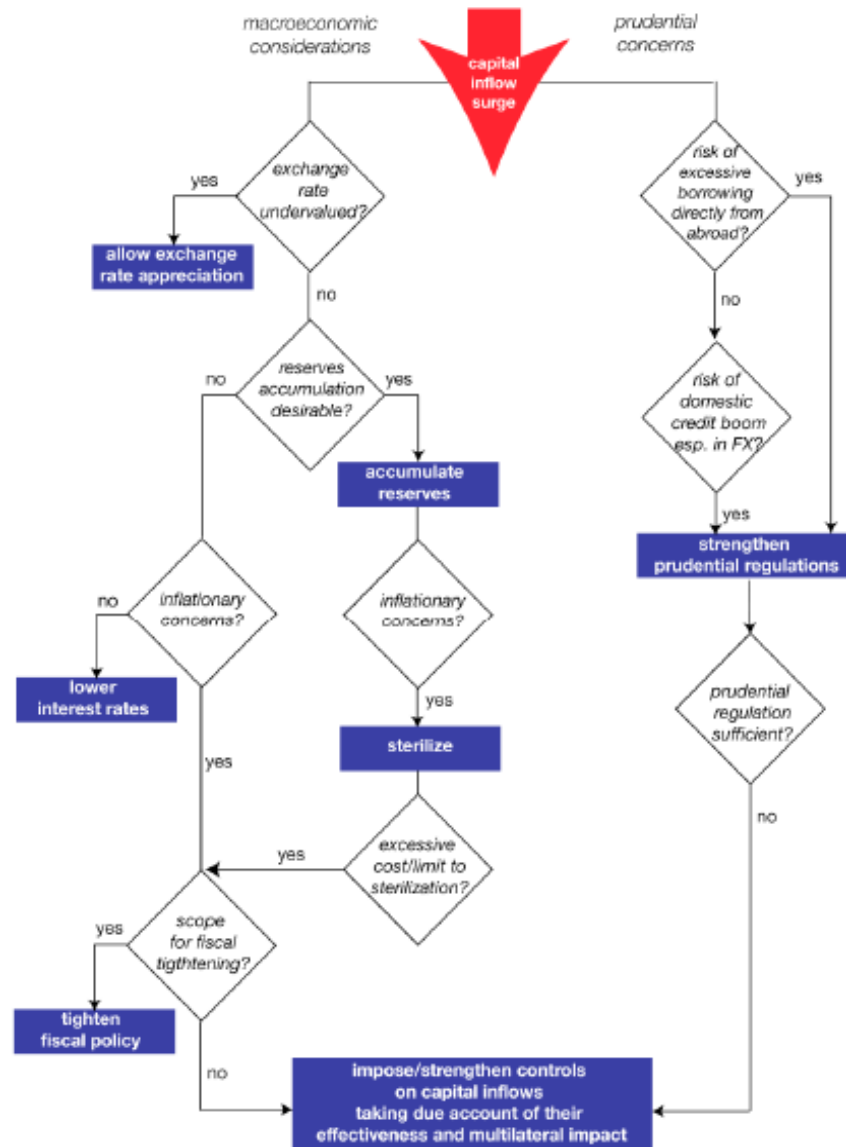


Comments:
Creating an Integrated Market by 2015:
Capital Account Liberalization in ASEAN

Ulrich Bartsch

Figure 1. Coping with Surges in Capital Inflows: Macroeconomic and Prudential Considerations 1/



1/ From the perspective of an individual country, without taking account of multilateral considerations; on the effectiveness of controls, see Section III.

When Would Capital Controls be Deployed?

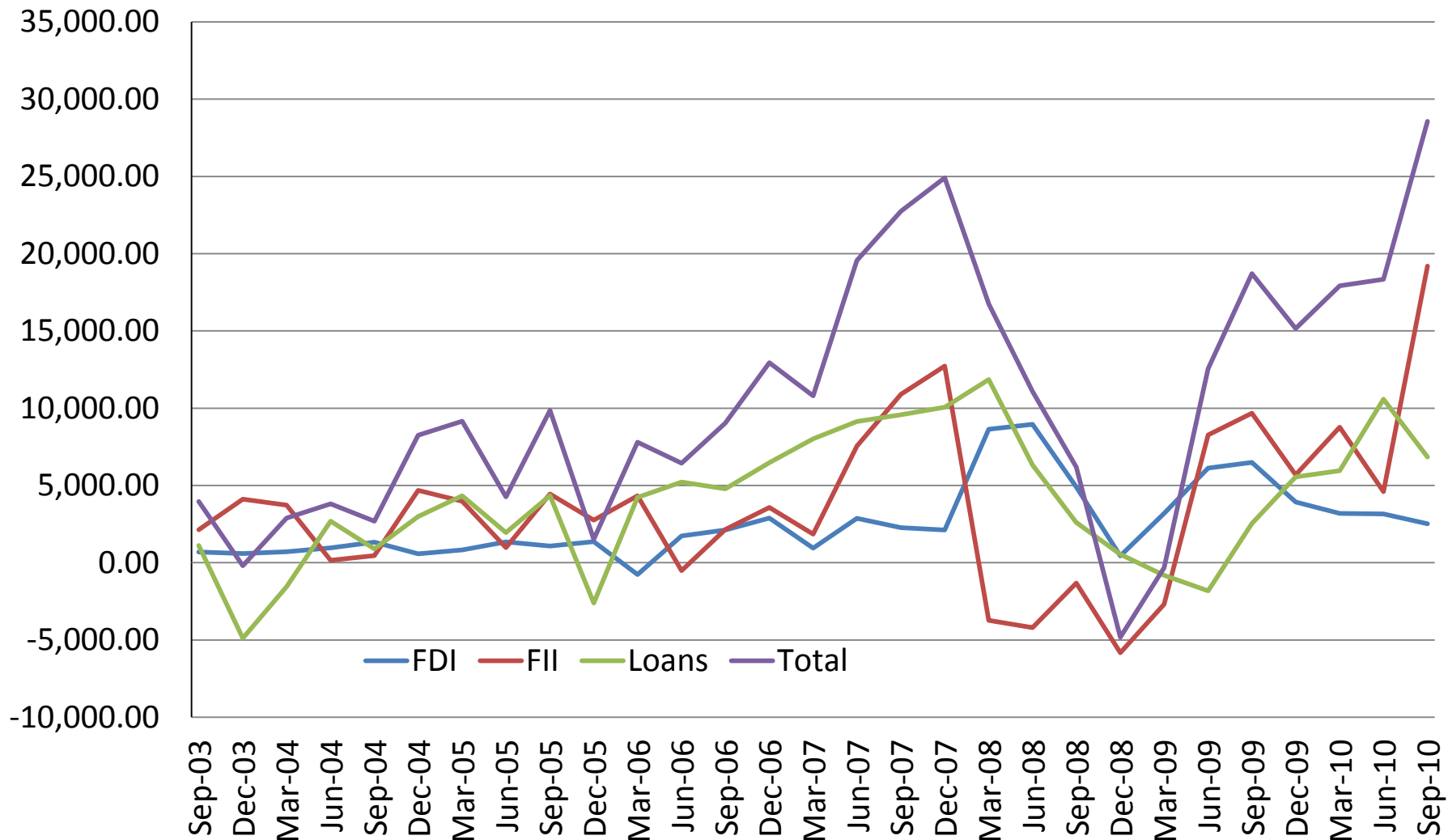
- “There are two main reasons why governments might want to impose capital controls—to limit the appreciation of the exchange rate and to limit crisis vulnerability due to excessive or particularly risky forms of foreign borrowing.
- While other tools—macroeconomic policies and prudential regulations—should always be deployed, logic suggests that appropriately designed controls on capital inflows could usefully complement them in certain circumstances, especially in the face of temporary inflow surges.
- Controls would normally be temporary, as a means to counter surges.
- More permanent increases in inflows tend to stem from more fundamental factors and will require more fundamental economic adjustment—though of course it is not always easy to tell whether a surge is temporary or portends a persistent trend. “

Are Capital Controls Potentially Useful?

“The lack of convincing evidence on the effectiveness of controls in reducing the total volume of inflows therefore likely reflects

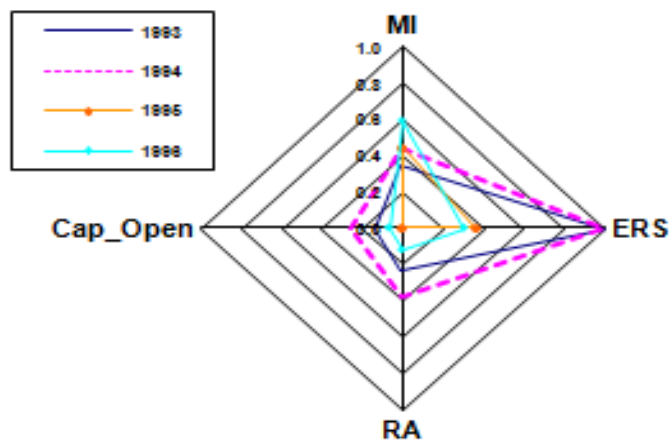
- (1) the relatively marginal control measures adopted by EMEs in recent years;
- (2) the fact that capital controls are often imposed or strengthened as part of an overall package of policy responses, making it difficult to isolate their effect;
- (3) difficulty in measuring the intensity of capital controls; and
- (4) econometric identification problems—for instance, if countries that are facing large inflows are the ones that impose controls, it is not surprising that econometric studies find no, or even a positive, relationship between controls and the magnitude of capital inflows.”

India: Capital Inflows, Sept. 2003-2010 (in US\$ millions)

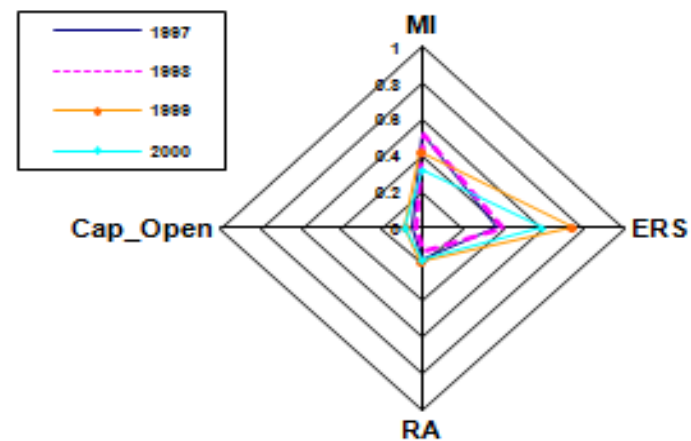


Source: RBI.

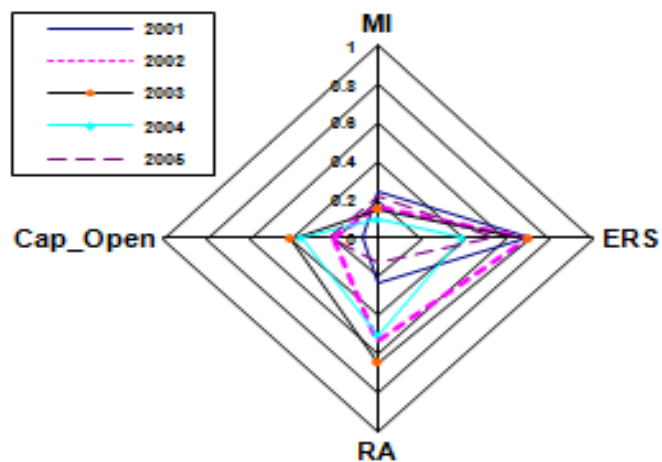
Figure 7: Configurations of the Impossible Trinity and Reserve Accumulation



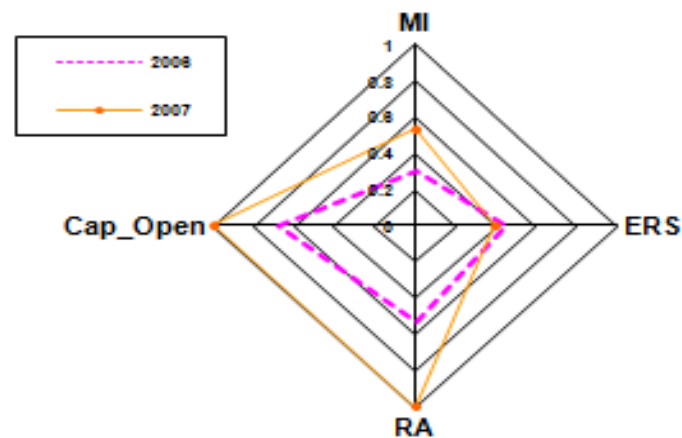
(a) 1993-96



(b) 1997-2000



(c) 2001-05



(d) 2006-07