EMERGING VOICES

VOL. 22

2011
SPECIAL
EDITION

Emerging Voices Vol. 22

2011 Special Edition

KOREA: ENERGY AND ECONOMY

From "Cardinal Sin" to Policy Agenda?

The Role of Capital Controls in Emerging Market Economies: A Study of the Korean Case, 1997–2011

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Abstract

Korea's economic development since the 1980s has occurred in the context of capital controls and a strong governmental role in achieving sustained growth. The experiences of two financial crises—the Asian financial crisis (1997–98) and the global financial crisis (2008–09)—confirm the impression of a highly responsive state, although different pictures emerge as to how the Korean government sought to abolish or deploy capital controls in accordance with global consensus and intellectual trends in international political economy. Contrary to the policies of financial liberalization by the Korean government in the aftermath of the Asian financial crisis, the Korean government shifted to a policy direction favoring capital controls following the global financial crisis, as seen in recent Group of 20 proclamations. However, given the necessity of capital inflows for an outward-oriented economy such as Korea's, which is heavily dependent on foreign capital inflows for investment, it is questionable to what extent Korea can effectively take advantage of capital controls, what the goals of such controls should be, whether there will be strong political backing for implementation of such policies, and what political risks the current government faces in implementing new capital controls. This paper seeks to provide answers to these questions by examining Korea's initiatives for capital controls in light of its history and the surge of capital inflows to emerging market economies since the global financial crisis.

Introduction: Capital Inflows and Capital Controls

The Increase of Capital Inflows in Emerging Market Economies

In the course of recovery from the global financial crisis, there has been an ongoing surge of capital inflows into emerging market economies (EMEs). What explains the sudden inflow of capital into EMEs after the financial crisis? A significant factor appears to be the carry trade: because of quantitative easing, interest rates and demand are low in the developed world, and many investors are choosing to make quick returns by investing in countries with higher interest rates than pulling back the money to the United States, Japan, or Europe. There are also country-specific factors that have been playing an important role in attracting capital inflows, including fewer capital account restrictions, the existence of large, well-developed, and actively traded securities markets, and transparent regulatory frameworks. Korea, along with Brazil and South Africa, has attracted significant capital inflows from overseas investors based on these favorable market conditions.[1] Because these flows allow countries with limited savings to attract financing for productive investment projects, diversify investment risks, promote intertemporal trade, and contribute to the development of financial markets, countries can benefit from free capital inflows just as they benefit from free trade.[2] When such inflows become too large, they can cause havoc in developing countries as they create high demand for local currency, lead to currency appreciation, and encourage bubbles in assets, housing, and stock markets. Two key questions, then, are (1) what regulatory

measures are EMEs seeking to adopt in response to the increasing inflows of capital and (2) whether these regulatory measures are worth pursuing?

The History of Capital Controls—from "Cardinal Sin" to Policy Agenda?

In response to the recent surge of capital inflows, governments of EMEs have expressed concerns regarding potential problems that may arise from absorbing capital inflows. A considerable share of the inflows appear to be temporary, reflecting interest rate differentials, and thus may be reversed when policy interest rates in more advanced economies return to more normal levels. Capital controls have therefore entered the policy agendas of the EMEs in order to regulate the inflow of capital into their economies. Capital controls are measures taken by a government, central bank, or other regulatory body to limit the flow of foreign capital in or out of the domestic economy. Controls include taxes, tariffs, outright legislation, and volume restrictions as well as market-based forces. Capital controls can be targeted to specific asset classes such as equities, bonds, or foreign exchange swaps, or they may affect many asset classes. Tight capital controls are most often found in developing economies where the capital reserves are lower and currencies are more susceptible to volatility.

Since the inception of capital controls in the history of the global economy, economic views have varied considerably on the effects of capital controls. Although there had been little need for the implementation of capital controls before the two world wars, capital controls were initially introduced in the 1920s and were strengthened following the Great Depression in 1929. During the Bretton Woods era (1945–71), capital controls were perceived as tools to protect the interests of ordinary people and the wider economy. John Maynard Keynes, a principal architect of the Bretton Woods system, envisaged capital controls as a permanent feature of the international monetary system. During the transitional period from the Bretton Woods system to the Washington Consensus (1980–2009), however, Keynesianism was displaced in favor of free market–oriented policies. Countries began abolishing capital controls, and it was widely held that the absence of controls would allow capital to flow freely where it was needed most, to help investors enjoy good returns and also help ordinary people to benefit from economic growth. The orthodox and mainstream view of economists was that capital controls were a "cardinal sin."

Tracing the past history and evolution of capital controls and their deployment by economies helps us to better understand the current context in which countries opt for capital controls. The global economy that we are living in today is a ubiquitous and fast-paced economy, in which one country's economic phenomena can severely impact another's via spillover effects. It is a highly sophisticated economy in terms of the degree of development of financial systems and the flow of private capital, but it is also one that encompasses the unpredictable risks of reciprocal damages caused by certain economic behaviors in the course of economic transactions. Public officials are keen to adopt policies in their countries that are consistent with global norms in order to acquire reputations as reliable and responsible international actors or because they have

been persuaded by international trends to change their beliefs.[3] Accordingly, as will be elaborated in the following section, the Korean government's great leap forward of deploying capital controls signifies that it cautiously seeks to pursue along the lines of the drifts from the previous context in the global economy. In other words, Korea's decision to launch capital controls is not a choice based on the Washington Consensus, but a choice made by Korea as a participant in the global economy in order to adhere to the general consensus on capital controls in accordance with the difficulties that ensued from the global financial crisis.

Capital Controls and the Asian Financial Crisis

The mainstream view that capital controls were bad was challenged to a certain extent during the Asian financial crisis (1997–98). Although each country in East Asia was facing different challenges, the common factor before the crisis was that all these economies had been in an exuberant state, with fast growth and considerable inflows of foreign capital. Long-term capital needs for funding vibrant domestic capital investment had, on net, been financed by short-term debt from overseas. In addition, domestic investments in local currencies were funded by foreign currencies, creating a double mismatch of maturity and currency. Moreover, foreign capital had flowed in large amounts into East Asian real estate and stock markets, contributing to local asset bubbles. Because many East Asian countries had yet to develop a financial and capital system equipped with sufficient prudential safeguards, the double mismatch made them vulnerable to vicious cycles of capital inadequacy and currency depreciation if the confidence of foreign lenders and investors was to be undermined by any triggering event. In such an instance, the foreign capital (hot money) that had previously flowed into the country would exit rapidly. This could lead to a fast depletion of the country's foreign currency reserves and a resultant plummeting of the exchange rate, leaving borrowers with obligations in foreign currencies unable to repay, saddling domestic banks with unrecoverable nonperforming assets, and creating a credit crunch for the entire economy.

Capital controls reemerged in the spotlight of policy discussions during the course of the management of the Asian financial crisis. The fact that countries that retained high capital controls—such as India and China—could avoid extreme conditions of the crisis and the evidence from Malaysia's implementation of capital controls in the early phase of the crisis suggest that capital controls could have positive effects in preventing and managing crises.[4] Nonetheless, capital controls remain the subject of much debate; some argue that they inherently limit economic progress and efficiency while others see them as prudent, adding a measure of safety to the economy. Many of the largest emerging economies have adopted liberal capital regimes, having phased out stricter rules from the past. But most of these same economies have basic stopgap measures in place to prevent a mass exodus of capital (outflows) during a crisis or massive speculative assault on the currency.

In the aftermath of the global financial crisis (2008–10), capital controls gradually resurfaced on policy agendas around the world. The policy discussions on capital controls as tools for macroeconomic management have, for the most part, focused on restricting capital inflows, given the scale of potential capital

outflows and their negative effects on the domestic economy. In the belief that perhaps free flow of capital has led to the unraveling of the global financial situation, countries have begun to deploy capital controls to defend against speculators. In the midst of a growing global policy consensus that capital controls may be necessary tools under certain circumstances, the International Monetary Fund (IMF) also reversed its long-held position that capital controls should be implemented only in time of crisis.[5]

Korea's Unparalleled Experiences: Financial Crises and Liberalization, Capital Inflows and Controls

Korea's Financial Liberalization in the 1990s

Before the Asian financial crisis, Korea had experienced rapid economic growth in the presence of capital controls. Delinking domestic and international financial markets was an essential component for Korea's state-led development strategy. This changed in the 1990s. In the face of U.S. macroeconomic policies and U.S. pressure on Korea for improved market access for U.S. financial services providers beginning in the late 1980s, several multiyear financial sector policy plans were promulgated in 1995 through 1999, coupled with additional reforms as part of Korea's 1996 accession to the Organization for Economic Cooperation and Development (OECD) under the Kim Young-sam administration.[6]

Foreign pressures for further financial deregulation compelled the Korean government to unveil the new Foreign Exchange System Reform Plan in December 1994. Under this plan, the Korean government sought a gradual and staged liberalization process in capital accounts and trade. Regardless, there were setbacks. The Korean government made many exceptions to the OECD's Code of Liberalization of Capital Movements and Current Invisible Operations, and it was also hesitant to liberalize the capital account out of concern for dramatic increases in foreign capital inflows caused by interest rate differentials and excess demand for investment.[7] The reluctance to launch strong reforms during this phase of liberalization was prevalent among many domestic actors: central bankers sought to circumscribe and restrict foreign participation in the Korean financial markets, and policymakers believed that the bureaucratized and highly inefficient South Korean financial services could not compete. Naturally, the general public saw that the movement of foreign capital into the domestic market would lead to foreign control of Korean financial markets if weakness in domestic financial institutions could not be improved.[8]

Korea's Experiences of Financial Crises—The Asian Financial Crisis and the Global Financial Crisis

Pressures from abroad for Korea's capital liberalization reached their peak when the IMF laid out a list of conditionalities in response to Korea's request for IMF assistance in December 1997. At the time, they were structural measures meant to reinforce Korea's domestic financial institutions as well as provide access to Korean markets for foreign financial institutions.[9] The IMF's Executive Board was

to support the assistance program for Korea with a three-year stand-by credit in the amount of $21 billion (approximately SDR 15.5 billion). In the assistance package, Korea followed guidelines on monetary policy and exchange rate policy, fiscal policy, and financial sector restructuring as well as other structural measures on trade liberalization, capital account liberalization, corporate governance and structure, labor market reforms, and information provisions.[10] Among the list of conditions, the policy measures related to capital account liberalization paved the way for deregulation in Korea's financial markets (Table 1). In the course of Korea's three-year stand-by arrangement with the IMF, which expired on December 3rd, 2000 with Korea's early repayment of its IMF drawings, much progress was made in Korea's financial sector, but problems persisted owing to remaining weaknesses in the corporate sector. The push for further reprivatization of nationalized financial institutions for a sound commercial banking system and a thriving capital market continued.

Table 1. IMF Stand-By Arrangement: Section on Korea's Capital Account Liberalization
1. Liberalize foreign investment in the Korean equity market by increasing the ceiling on aggregate ownership from 26 percent to 50 percent by end-1997 and to 55 percent by end-1998. The ceiling on individual foreign ownership will be increased from 7 percent to 50 percent by end-1997.
2. Effective immediately, for foreign banks seeking to purchase equity in domestic banks in excess of the 4 percent limit requiring supervisory authority approval, the supervisory authority will allow such purchases provided that the acquisitions contribute to the efficiency and soundness of the banking sector; legislation will be submitted to the first special session of the National Assembly to harmonize the Korean regime on equity purchases with OECD practices (with due safeguards against abuse of dominant positions).
3.Allow foreign investors to purchase, without restriction, domestic money market instruments.
4. Allow foreign investment, without restriction, in the domestic corporate bond market.
5. Further reduce restrictions on foreign direct investment through simplification of procedures.
6. Eliminate restrictions on foreign borrowings by corporations.
Source: International Monetary Fund, "IMF Stand-By Arrangement, Summary of the Economic Program, Republic of Korea," December 5, 1997.

Experiencing the Asian financial crisis transformed the Korean financial market and environment, but questions remain as to whether the policies were directed at the core of the crisis. Inevitably, Korea's long-standing traditions of the government role as part-owner and supervisor of financial institutions coupled with the government's significant role as a guarantor of corporate debt were seen to bear much of the

blame for the moral hazard and lack of transparency that eventually escalated to the crisis. The Asian financial crisis endowed the Korean government with a turning point in policy and an opportunity for economic and financial reforms. Nonetheless, reforms without sufficient improvement in regulatory capacity left Korea's financial markets vulnerable to further external economic shocks or another financial crisis that would create systemic risks. The more open and internationalized Korea's financial and capital markets became, the more the lack of appropriate regulatory measures and capacity would endanger the Korean economy.

The lessons learned in the Asian financial crisis were crucial in the construction of the economic and financial agenda in the decade of the 2000s. It was an inevitable juncture in which the Korean government had to undergo a huge financial overhaul. Nevertheless, even after mending bits and pieces of the financial system, certain flaws in the system remained. Apparently, the Korean economy is still susceptible to any external shocks or speculative attacks by foreign investors and shareholders. The experience of another financial crisis in 2008, albeit with a lesser impact and on a smaller scale, prompted the Korean government to be fully alert about its financial situations and policy choices. Compared with the consequences that Korea had to face during the Asian financial crisis, the consequences of the global financial crisis for Korea were quite different. The Korean government did have to secure additional dollars from the U.S. Federal Reserve, but it certainly did not need another IMF rescue package, nor did Korean public opinion allow the government to be subdued by the harsh guidelines of the IMF. More importantly, the government had learned to accumulate foreign exchange reserves for emergency use.

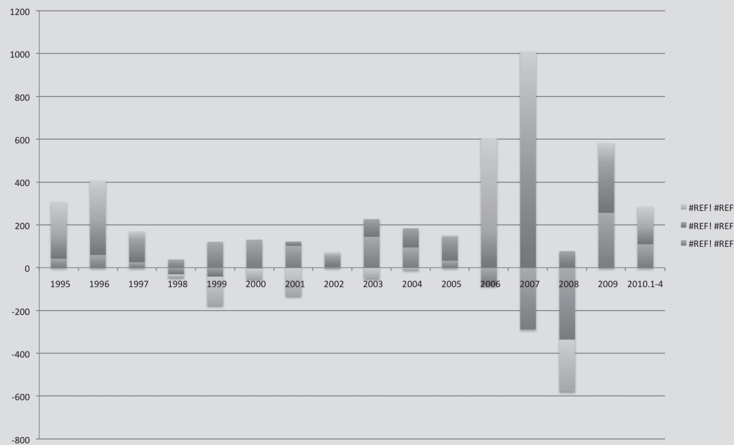
The recent reversal of the IMF's position on capital controls may on the surface appear to be a significant change in the aftermath of the global financial crisis. Nevertheless, strictly speaking, it is not advocating capital controls, but rather a conditional policy guideline. The IMF reports suggest limiting capital flows only when the economic circumstances are met. Furthermore, without domestic legalization and public support so as to deploy capital controls, countries that have thus far adhered to free flows of capital—such as the United States as the key currency holder—will choose to continue with its previous policies. Since Korea's ratification and signature of the U.S.-Korea Free Trade Agreement (KORUS FTA) in November 2011, concerns have risen regarding the possible policy clash between Korea's deployment of capital controls (macroprudential levy) and the contents in the foreign investment and service chapters in the KORUS FTA. A policy clash is probable in the event that foreign investors in Korea file a lawsuit based on the Investor State Dispute clause stipulated in the KORUS FTA to claim for losses that have been incurred owing to Korea's restrictions on capital inflows.[11]

Korea's Capital Controls: Detailed Evaluations on Policy Implementation

Korea's Move for Capital Controls

During the global financial crisis, Korea experienced sudden capital outflows in late 2008 (Figures 1 and 2), and a general consensus was reached at home and abroad on the need for measures on volatile capital flows.

Figure 1. Capital Flows to and From Korea (1995-2009, Unit: 10 Billion USD)



Source: Ministry of Strategy and Finance, Republic of Korea, June 2010

At the G-20 Seoul summit hosted by the Korean government (November 11-12, 2010), Korea welcomed the policy suggestions raised by participating countries on capital controls. Korea published press releases regarding its policy objectives of deploying capital controls before and after the G-20 summits (June 2010 and December 2010) as well as statements of policy implementation in April 2011. In the Joint Leaders Declaration of the G-20 summit, countries came to a consensus on strengthening global financial safety nets by providing countries with practical tools to overcome sudden reversals of international capital flows in order to help them cope with financial volatility.[12]

The political risks that Korea could face in implementing capital controls would be external rather than domestic ones. Along with the Chinese yuan, the Korean won was said to be undervalued by at least 15–20% in 2009, according to World Bank and IMF calculations. Many of the debates following the Lehman Brothers shock were about currency wars and the notion of an Asian savings glut: that Asian countries with high saving rates and low consumption rates may have contributed to the global financial crisis. Because the G-20 meeting in Seoul was held largely to focus on currency issues, and Korea had also been criticized on the basis that it was maintaining currency controls to keep the Korean won undervalued, Korea took careful steps before the meeting to create support for capital controls in order to avoid contentious encounters with other participating G-20 members, particularly Japan.[13]

Figure 2. Foreign Capital Inflows and Outflows to Korea (1995-2010)

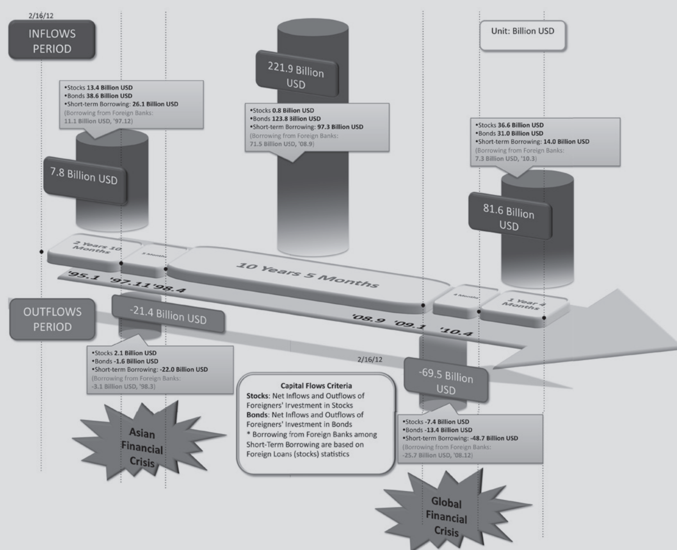


Figure 2. Foreign Capital Inflows and Outflows to Korea (1995-2010)
Source: *Ministry of Strategy and Finance, Republic of Korea, December 2010*

Source: Ministry of Strategy and Finance, Republic of Korea, December 2010

Meanwhile, the Bank of Japan intervened in currency markets for the first time in six years to control the strengthening of the yen in September 2010, but to no avail. This proved that effective currency management was beyond the capabilities of any single market-participating country. The stronger the yen became, the more it was a disadvantage to Japan's exports, while Korea's customary interventions in the value of the won gained Korean firms advantages in export and trading. Had it not been for the general consensus on the implementation of capital controls that had been built on policy suggestions related to the Tobin tax initiated by France, the United Kingdom, and Germany at the G-20 summits in Seoul and Pittsburgh, as well as the overall trend toward experimentation with capital controls around the globe, Korea's newly taken actions for capital controls would likely have met with significant international criticism. But in the new policy context, other G-20 participants were more willing to accept them despite the effects on the value of the won. Meanwhile, capital controls did not bring about serious criticisms at home.

Korea's Launch of Capital Controls: Limitation of Nondeliverable Forwards Markets (2004)

Before the recent launch of capital controls in 2011, the Korean government had previously implemented capital controls via imposing limitations on nondeliverable forwards markets (NDFs)—a short-term, cash-settled currency forward between two parties. On the contracted settlement date, the profit or

loss would be adjusted between the two parties on the basis of the difference between the contracted NDF rate and the prevailing spot foreign exchange (FX) rates on an agreed notional amount. In 2004, the Korean Ministry of Finance and Economy (which is now the MOSF, the Ministry of Strategy and Finance) introduced new regulations aimed at limiting activity in the NDF market by onshore banks. The move was aimed at reducing the volatility in the Korean won exchange rates with other currencies.

Korea's Launch of Capital Controls: Macroprudential Stability Levy (2011)[14]

The specific policies that the government of Korea has announced for implementation are mainly macroprudential measures to reduce capital flows volatility. Vulnerability to such volatility results from Korea's heavy reliance on foreign trade as well as its open and liberalized capital market since the resolution of the Asian financial crisis. The Partial Amendment Law to the Foreign Exchange Transactions Act was passed by the Korean National Assembly on April 5th, 2011 and came into force on August 1st, 2011.[15]

Macroprudential measures:

- Ceilings on FX derivatives positions of banks. For Korean banks, there would be a limit on currency forwards and derivatives positions at 50% of their equity capital. These banks include all banks established under the Korean banking law, the Industrial Bank of Korea, the Export Import Bank of Korea, credit project sectors of the National Agricultural Cooper-ative Federation, and the Korea Finance Corporation. For foreign banks, the ceilings will be set at 250% of their equity capital, against the current level of approximately 300%. Under this measure, there would be a tightening of the ceilings on companies' currency derivatives trades to 100% of underlying transactions, down from the current 125%.

- Regulations on foreign currency bank loans. Bank loans in foreign currency are allowed for purchase of raw materials, foreign direct investment, and repayment of debts. Only in certain cases may such loans be used for domestic purposes. Under the new rules, such loans will be restricted to overseas use only. As an exception, only small-and medium-size enterprises have been allowed to use foreign currency financing for domestic use, to the extent that total foreign currency loans remain within the current levels.

- Prudential regulations for improving FX soundness of financial institutions. A 20-basis-point levy would be imposed on overseas debt maturing in less than one year. The levy would initially be applied to banks, although it could be expanded to all financial institutions, if needed.

- New policies under consideration. It was announced by Deputy Finance Minister Choi Jong-ku on April 28th, 2011 that Korea will study additional measures to discourage short-term borrowing abroad as a surge in such debt could undermine financial stability. This will be in addition to the aforementioned three types of capital controls aimed at mitigating capital inflows.[16]

In comparative perspective, Korea's capital controls appear to be in line with similar measures and approaches taken by other EMEs. Since the global financial crisis, countries such as Brazil, Colombia, Thailand, Taiwan, and Iceland have implemented capital controls. Brazil deployed a 6.38% tax on inflows, referred to as the "IOF tax" (Imposto Sobre Operações de Crédito), on conversion of foreign currency into Brazilian reals related to equity or debt investments by foreign investors on the Brazilian stock exchange or the over-the-counter market, as well as private investment funds, Brazilian treasury notes, and other fixed-income securities.[17] Colombia and Thailand have deployed unremunerated reserve requirements in the second half of the decade.[18] Also, Taiwan has imposed capital controls against speculating on the Taiwanese dollar.[19] While highly financially liberalized economies such as Singapore and Hong Kong are the least likely countries to adopt capital controls, EMEs such as China and India have retained their strict policy on capital controls; it is very likely that their policy implementation of capital controls will continue for the time being.[20] Evidently, the effectiveness of capital controls imposed in these countries differs by case. While Korea's policy direction is leaning toward following the current global trend on capital controls, it is required in the process of Korea's policy implementation that the government will put in collaborative efforts with the private sector via various channels and information sharing to minimize the possible side effects and ripple effects deriving from the implementation of capital controls.

Concluding Remarks and Policy Recommendations

In the case of Korea's deployment of capital controls after the global financial crisis, it is not hard to see that the mix of global factors, such as globalization and the integration of financial markets, has contributed to an overall easing of capital controls. Opening up an economy to foreign capital generally allows for companies to have easier access to capital and can raise overall demand for domestic stocks. But Korea was one of many EMEs that needed a policy framework with regulatory means to control inflows. Past experiences and recent experiments in other countries regarding capital controls also gave the Korean government an incentive to propose its own capital controls in the context of policy consensus created in international institutions such as the G-20, the IMF, and the Financial Stability Board.[21]

Korea's Capital Controls—Will They Be Effective?

Since the Korean government's announcement of its decision to deploy capital controls, many at home and abroad have questioned whether the decision will inhibit Korea's dreams of making Seoul a financial hub. Envisioning Korea as a financial hub of Asia in the presence of other prominent competitors—such as Japan, Hong Kong, and Singapore—appears to be a long shot at the moment. It is apparent that with the current launch of capital controls, Korea has no choice but to cope with multiple agendas and tasks—financial liberalization and opening the doors for trade and investment while aiming for smart applications of capital controls. Upon the Korean government's decision for launching capital controls, the private sector has been responding by acting in accordance with the new policy.

Despite the recent efforts of the Korean government on capital controls, the actual effects of capital controls remain to be seen. It is not certain whether Korea's capital controls will remain temporary measures. However, as much as the Korean economy depends on foreign capital for investment, it will not go beyond controlling systemic risks to cope with sudden surges in foreign capital inflows and increasing volatility in the international financial markets. At this stage, it is very difficult to gauge for certain the extent that the recently deployed Korean capital controls will be effective. With legislation amended in April 2011 and actual implementation of capital controls in force since August 2011, a thorough evaluation of the policy remains to be seen in terms of time lag. Thus far, the IMF has suggested the effectiveness of Korea's recent capital controls—ceilings on Korean banks' foreign derivatives positions to reduce the short-term external debt that resulted from the banks' provision of forward contracts to corporates. According to the IMF assessment, these measures appear effective in curbing the banks' short-term external borrowing.[22]

In exploring the prospects of the policy, it is important to look into the unanticipated vulnerabilities of the capital controls policy that Korea has chosen, such as downside risks and perceptions in the market. Also, in addition to its efforts to control inflows from abroad, further Korean efforts to strengthen its financial monitoring and advisory system are strongly required. Korea still lacks sufficient supervisory capabilities with regard to its domestic financial institutions and banks. The recent credit failures of Busan Savings Bank and security failures after cyber attacks on the National Agricultural Cooperative Federation have revealed that Korea needs not only regulatory measures on foreign capital, but also thorough enforcement of monitoring mechanisms on its own banks to provide sound and sustainable financial services. Many of the bailouts of other private banks such as Woori and Kookmin Bank could have been avoided had there been sufficient domestic regulatory measures taken by the Financial Supervisory Service under the broad oversight of the Financial Services Commission. Rescuing banks because they are too big to fail is a mistake that the U.S. made to contribute to the global financial crisis, and one that Korea does not want to repeat.

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4. Malaysia's then prime minister, Mahathir bin Mohamad, imposed capital controls as an emergency measure in September 1998, both strict exchange controls and limits on outflows from portfolio investments. These policies were found to be effective in containing the damage from the crisis.
5. Ostry et al., "Capital Inflows."
6. Marcus Noland, "South Korea's Experience with International Capital Flows," Working Paper Series no. WP 05-04, Institute for International Economics, Washington, D.C., 2005. The initiation of Korea's financial liberalization can be dated back to the 1980s, when deregulation of interest rates began. Interest rate liberalization was conducted in three phases from November 1991 to November 1995. Liberalization of foreign exchange occurred later in 1994. For further details, see Thomas Kalinowski and Hyekyung Cho, "The Political Economy of Financial Liberalization in South Korea: State, Big Business, and Foreign Investors," *Asian Survey* 49, no. 2 (2009): 221–42.
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10. Constant debates remain and are still ongoing regarding the effectiveness of the IMF conditionalities imposed on East Asian countries after the Asian financial crisis. See Joseph Stiglitz, *Globalization and Its Discontents* (New York: W. W. Norton & Company, 2002), and Joseph Stiglitz, *Freefall: America, Free Markets, and the Sinking of the World Economy* (New York: W. W. Norton & Company, 2010.
11. The Investment Chapter (Chapter 11) of the KORUS FTA—on national treatment and most favored-nation treatment in Articles 3 and 4; on minimum standard agreement (Article 5); on expropriation and compensation (Article 6); on transfers relating to a covered investment (Article 7); and on performance requirements (Article 8)—strictly restrict the deployment of capital controls by both parties to the agreement. See KORUS FTA final text at Office of the United States Trade Representative, "Final Text," www.ustr.gov/trade-agreements/free-trade-agreements/korus-fta/final-text. Although both parties will be subject to the conditions, concerns based on the lack of Korea's experience and precedence (zero cases as of December 2011) in the International Centre for Settlement of Investment Disputes at the World Bank have stirred controversies among the Korean public regarding the negative effects of the investment chapters in the KORUS FTA. The apprehension may be attributed to the fact that Korea's capital volatility is much higher than developed countries.
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14. Supplementary Material to "New Macro-Prudential Measures to Mitigate Volatility of Capital Flows," official press release, Ministry of Strategy and Finance, Seoul, June 2010.

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18. Kevin P. Gallagher, "Capital Controls and 21st Century Financial Crises: Evidence from Colombia and Thailand," Working Paper no. 213, Political Economy Research Institute, Amherst, Mass.,2010.
19. Taiwan's official stance denies that Taiwan imposes small control measures on capital inflows. Taiwan's Central Bank authority has recently stated that Taiwan did not enforce capital controls but instead was simply implementing a statute governing securities investment by expatriate and foreign investors.According to the statute, capital inflows into Taiwan must be used for the stated purpose of investing in securities, not for currency speculation. See *Focus Taiwan*, "Taiwan Does Not Impose Capital Controls: Central Banker," 6 May 2011.
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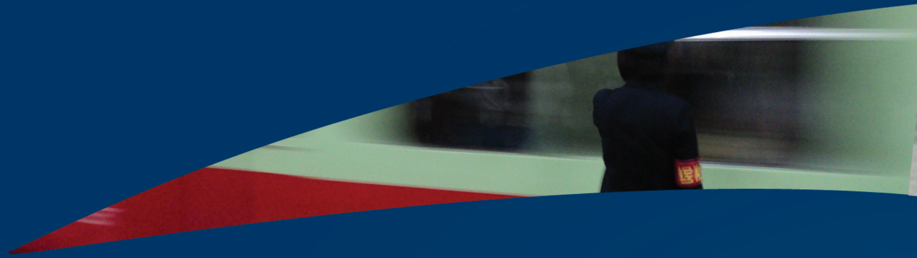

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