

This PDF is a selection from a published volume from the  
National Bureau of Economic Research

Volume Title: Preventing Currency Crises in Emerging Markets

Volume Author/Editor: Sebastian Edwards and Jeffrey A.  
Frankel, editors

Volume Publisher: University of Chicago Press

Volume ISBN: 0-226-18494-3

Volume URL: <http://www.nber.org/books/edwa02-2>

Conference Date: January 2001

Publication Date: January 2002

Title: Front matter, acknowledgment, table of contents

Author: Sebastian Edwards, Jeffrey A. Frankel

URL: <http://www.nber.org/chapters/c10631>



National  
Bureau of  
Economic  
Research

# **PREVENTING CURRENCY CRISES IN EMERGING MARKETS**

**EDITED BY**

**SEBASTIAN EDWARDS AND JEFFREY A. FRANKEL**

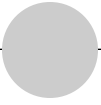
---

# **Preventing Currency Crises in Emerging Markets**



---

**A National Bureau  
of Economic Research  
Conference Report**



---

# **Preventing Currency Crises in Emerging Markets**

---

Edited by

**Sebastian Edwards and  
Jeffrey A. Frankel**

**The University of Chicago Press**

Chicago and London

---

SEBASTIAN EDWARDS is the Henry Ford II Professor of International Business Economics at the Anderson Graduate School of Management at the University of California, Los Angeles (UCLA) and a research associate of the National Bureau of Economic Research. JEFFREY A. FRANKEL is the James W. Harpel Professor of Capital Formation and Growth at the Kennedy School of Government and director of the International Finance and Macroeconomics program at the National Bureau of Economic Research.

To Rudiger Dornbusch, from whom  
we have learned so much.

---

The University of Chicago Press, Chicago 60637  
The University of Chicago Press, Ltd., London  
© 2002 by the National Bureau of Economic Research  
All rights reserved. Published 2002  
Printed in the United States of America  
11 10 09 08 07 06 05 04 03 02 1 2 3 4 5  
ISBN: 0-226-18494-3 (cloth)

Library of Congress Cataloging-in-Publication Data

Preventing currency crises in emerging markets / edited by Sebastian Edwards and Jeffrey A. Frankel.

p. cm. — (A National Bureau of Economic Research conference report)

Papers presented at a conference held in Islamorada, Fla., in Jan. 2001.

Includes bibliographical references and index.

ISBN 0-226-18494-3 (cloth : alk. paper)

1. Currency question—Developing countries—Congresses.
2. Financial crises—Developing countries—Congresses.

I. Edwards, Sebastian, 1953– II. Frankel, Jeffrey A. III. National Bureau of Economic Research. IV. Series.

HG1496 .P74 2002

332.4'91724—dc21

2002018128

---

## National Bureau of Economic Research

### Officers

Carl F. Christ, *chairman*  
Kathleen B. Cooper, *vice-chairman*  
Martin Feldstein, *president and chief executive officer*  
Susan Colligan, *vice president for administration and budget and corporate secretary*

Robert Mednick, *treasurer*  
Kelly Horak, *controller and assistant corporate secretary*  
Geraldine Johnson, *assistant corporate secretary*

### Directors at Large

Peter C. Aldrich	George C. Eads	Alicia H. Munnell
Elizabeth E. Bailey	Martin Feldstein	Rudolph A. Oswald
John H. Biggs	Stephen Friedman	Robert T. Parry
Andrew Brimmer	George Hatsopoulos	Peter G. Peterson
Carl F. Christ	Karen N. Horn	Richard N. Rosett
John S. Clarkeson	Judy C. Lewent	Kathleen P. Utgoff
Don R. Conlan	John Lipsky	Narina v. N. Whitman
Kathleen B. Cooper	Michael H. Moskow	Martin B. Zimmerman

### Directors by University Appointment

George Akerlof, <i>California, Berkeley</i>	Joel Mokyr, <i>Northwestern</i>
Jagdish Bhagwati, <i>Columbia</i>	Michael J. Brennan, <i>California, Los Angeles</i>
William C. Brainard, <i>Yale</i>	Andrew Postlewaite, <i>Pennsylvania</i>
Glen G. Cain, <i>Wisconsin</i>	Nathan Rosenberg, <i>Stanford</i>
Franklin Fisher, <i>Massachusetts Institute of Technology</i>	Michael Rothschild, <i>Princeton</i>
Saul H. Hymans, <i>Michigan</i>	Craig Swan, <i>Minnesota</i>
Marjorie B. McElroy, <i>Duke</i>	David B. Yoffie, <i>Harvard</i>
	Arnold Zellner, <i>Chicago</i>

### Directors by Appointment of Other Organizations

Mark Drabenstott, <i>American Agricultural Economics Association</i>	Richard D. Rippe, <i>National Association for Business Economics</i>
Gail D. Fosler, <i>The Conference Board</i>	John J. Siegfried, <i>American Economic Association</i>
A. Ronald Gallant, <i>American Statistical Association</i>	David A. Smith, <i>American Federation of Labor and Congress of Industrial Organizations</i>
Robert S. Hamada, <i>American Finance Association</i>	Josh S. Weston, <i>Committee for Economic Development</i>
Robert Mednick, <i>American Institute of Certified Public Accountants</i>	Gavin Wright, <i>Economic History Association</i>
Angelo Melino, <i>Canadian Economics Association</i>	

### Directors Emeriti

Thomas D. Flynn	Franklin A. Lindsay	Bert Seidman
Lawrence R. Klein	Paul W. McCracken	Eli Shapiro

Since this volume is a record of conference proceedings, it has been exempted from the rules governing critical review of manuscripts by the Board of Directors of the National Bureau (resolution adopted 8 June 1948, as revised 21 November 1949 and 20 April 1968).





---

# Contents

---

Acknowledgments	xi
<b>Introduction</b>	1
Sebastian Edwards and Jeffrey A. Frankel	
I. THE CURRENT ACCOUNT AND VULNERABILITY TO CRISIS	
<b>1. Does the Current Account Matter?</b>	21
Sebastian Edwards	
<i>Comment:</i> Alejandro M. Werner	
<i>Discussion Summary</i>	
<b>2. Are Trade Linkages Important Determinants of Country Vulnerability to Crises?</b>	77
Kristin J. Forbes	
<i>Comment:</i> Federico Sturzenegger	
<i>Discussion Summary</i>	
II. INTERNATIONAL FINANCIAL PLAYERS AND CONTAGION	
<b>3. What Hurts Emerging Markets Most? G3 Exchange Rate or Interest Rate Volatility?</b>	133
Carmen M. Reinhart and Vincent Raymond Reinhart	
<i>Comment:</i> Joshua Aizenman	
<i>Discussion Summary</i>	

- 4. When Is U.S. Bank Lending to Emerging Markets Volatile?** 171  
Linda S. Goldberg  
*Comment:* Simon Johnson  
*Discussion Summary*
- 5. The Role of Large Players in Currency Crises** 197  
Giancarlo Corsetti, Paolo Pesenti, and Nouriel Roubini  
*Comment:* Jaume Ventura  
*Discussion Summary*
- 6. Contagion: How to Measure It?** 269  
Roberto Rigobon  
*Comment:* Enrique G. Mendoza  
*Discussion Summary*
- 7. Credit, Prices, and Crashes: Business Cycles with a Sudden Stop** 335  
Enrique G. Mendoza  
*Comment:* Joshua Aizenman  
*Discussion Summary*

### III. CAPITAL CONTROLS: THE MALAYSIAN EXPERIENCE

- 8. Did the Malaysian Capital Controls Work?** 393  
Ethan Kaplan and Dani Rodrik  
*Comment:* Liliana Rojas-Suarez  
*Discussion Summary*
- 9. Malaysia's Crisis: Was It Different?** 441  
Rudi Dornbusch  
*Comment:* Michael P. Dooley  
*Discussion Summary*

### IV. BALANCE SHEETS AND "CRONY CAPITALISM"

- 10. Negative Alchemy? Corruption, Composition of Capital Flows, and Currency Crises** 461  
Shang-Jin Wei and Yi Wu  
*Comment:* Martin Feldstein  
*Discussion Summary*
- 11. Domestic Bank Regulation and Financial Crises: Theory and Empirical Evidence from East Asia** 507  
Robert Dekle and Kenneth Kletzer  
*Comment:* Paolo Pesenti  
*Discussion Summary*

<b>12. Dollarization of Liabilities, Net Worth Effects, and Optima Monetary Policy</b>	559
Luis Felipe Céspedes, Roberto Chang, and Andrés Velasco	
<i>Comment:</i> Nouriel Roubini	
<i>Discussion Summary</i>	
<b>13. Chaebol Capitalism and the Currency-Financial Crisis in Korea</b>	601
Anne O. Krueger and Jungho Yoo	
<i>Comment:</i> Jorge Braga de Macedo	
<i>Discussion Summary</i>	
<b>14. Living with the Fear of Floating: An Optimal Policy Perspective</b>	663
Amartya Lahiri and Carlos A. Végh	
<i>Comment:</i> Eduardo Borensztein	
<i>Discussion Summary</i>	
<b>15. Policy in an Economy with Balance Sheet Effects</b>	705
Aaron Tornell	
<i>Comment:</i> Charles W. Calomiris	
<i>Discussion Summary</i>	

## V. OVERVIEW

<b>16. A Primer on Emerging-Market Crises</b>	743
Rudi Dornbusch	
Contributors	755
Author Index	759
Subject Index	765



---

## Acknowledgments

---

This volume consists primarily of papers that were presented at a National Bureau of Economic Research Conference held in Islamorada, Florida, in January 2001, together with comments and discussion. A preconference held in Cambridge, Massachusetts, in July 2000 kept everyone on track. The main purpose of the conference was to bring together a group of academics, officials in the multilateral organizations, and public- and private-sector economists to discuss issues related to the prevention of financial crises in the emerging market countries.

A companion conference was held two months later to discuss the management of crises in emerging market countries, once they occur. The corresponding volume is *Managing Currency Crises in Emerging Markets*, edited by Michael Dooley and Jeffrey A. Frankel.

These two conferences were part of a larger NBER project on Exchange Rate Crises in Emerging Markets, directed by Frankel together with Martin Feldstein. The editors would like to thank the Ford Foundation for support and Feldstein for originating the entire project.

