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International Capital Flows



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Edited by
Martin Feldstein

Capital Flows to Latin America

Sebastian Edwards □ **Francisco Gil Diaz** □ **Arminio Fraga**

Capital Flows to Eastern Europe

Hans Peter Lankes and Nicholas Stern □ **W. Michael Blumenthal** □
Jiří Weigl

Capital Flows to East Asia

Takatoshi Ito ■ **Kathryn M. Dominguez** □ **Mocen Qureshi** □
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The Evolving Role of Banks

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The Role of Equity Markets

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Risks to Lenders and Borrowers

Benjamin E. Hermalin and Andrew K. Rose ■ **Peter M. Garber** ■
Andrew Crockett □ **David W. Mullins, Jr.**

Currency Crises

Paul Krugman ■ **Kenneth Rogoff** □ **Stanley Fischer** □
William J. McDonough

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International Capital Flows



A National Bureau
of Economic Research
Conference Report

International Capital Flows

Edited by **Martin Feldstein**



The University of Chicago Press

Chicago and London

MARTIN FELDSTEIN is the George F. Baker Professor of Economics at Harvard University and president of the National Bureau of Economic Research.

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Preface

Although much has been written about international capital flows, this volume may be unique in the scope of its analysis and in the range of the individuals who have contributed to its content. The different parts of the volume look at the main channels of international capital flows (through banks, equity markets, and direct investment), the major new destinations of such capital flows (eastern Europe and the former Soviet Union, Latin America, and Asia), and the benefits and risks associated with such international capital flows. The thirteen background papers written by distinguished economists provide a rich empirical and analytic picture of these different aspects of international capital flows. These background papers are complemented by seventeen personal essays by individuals who have been or currently are actively involved in the various aspects of international capital flows, including Federal Reserve officials, senior corporate executives, and officials from foreign countries and international organizations.

The authors of the background papers and the personal essays met to discuss these issues in Woodstock, Vermont. Summaries of the discussion at the conference appear in the volume.

The conference was held on 17–18 October 1997, a few months after the Asian financial crisis began. The experience in Thailand and Indonesia was reflected in some of the discussion at the conference. But the background research papers were generally written before the crisis began, and the meeting occurred before the full magnitude of the crisis became clear. The focus of the papers was therefore not on the recent events in Asia but on the more fundamental aspects of international capital flows.

This volume is part of a broader recently completed NBER project on international capital flows that includes three specific academic subprojects: Capital Flows and the Emerging Economies, organized by Sebastian Edwards; Currency Crises, organized by Paul Krugman; and International Taxation,

organized by James R. Hines, Jr. Separate NBER volumes will be published reporting the research in each of these three subprojects.

Support for this entire project was provided by the Ford Foundation, the Starr Foundation, and the Center for International Political Economy. I am grateful to them for making this work possible.

I am grateful also to the authors of the background papers for their extensive and valuable analyses and to the officials and executives who took time from very busy schedules to share their insights and experience on the process of international capital flows. I also want to thank several members of the NBER staff for their assistance in the planning and execution of the project reported in this volume and the associated conference and preconference meetings, in particular Kirsten Foss Davis and the other members of the NBER Conference Department, Helena Fitz-Patrick, Gerri Johnson, and Norma MacKenzie. I am also grateful to Mihir Desai for preparing the excellent summaries of the discussion.

This project came at a particularly important time because of the problems that have developed in Asia and Latin America and because of the relation between those problems and international capital flows. The NBER will now extend the work in this project with a new study of International Financial Crises that will explore the reasons for the international financial crises that have occurred in Asia and Latin America, the effects of the postcrisis programs that these countries have adopted, and the policies that industrial countries might adopt to reduce the likelihood and severity of such crises in the future.

Martin Feldstein