Unexpected Outcomes

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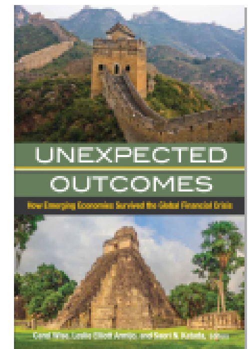

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9 Lessons from the Country Case Studies

This book investigates an unexpected outcome: the quick rebound of most emerging economies around the Pacific Rim (which we define expansively to include Brazil, Argentina, and India) from the 2008–09 global financial crisis. The previous seven chapters delved into economic policy choices and outcomes in key countries. In this concluding chapter we combine insights from those country case studies with quantitative data on 14 emerging economies in Asia and Latin America. We begin with a brief roundup of the findings from the case studies; we then revisit the four hypotheses laid out in chapter 1 to explain the quick rebound in the countries analyzed.

In general, the lessons from the country case studies suggest that one reason why these emerging economies (EEs) recovered much more quickly from the 2008–09 global financial crisis (GFC) than they did from crises during the previous three decades was the near universal willingness of governments to implement standard, Keynesian, countercyclical policies in response to a shock that originated unexpectedly from the richest industrial economy in the world. There were at least two components to this greater willingness to implement stimulus policies in 2008–09. First, pro-market structural reforms undertaken prior to the GFC (often in response to previous international financial crises and frequently imposed by fiat from abroad) had indeed improved the underlying fiscal, monetary, and banking sector fundamentals in many developing economies around the Pacific Rim. In other words, the macroeconomic conditions in those countries gave most governments the fiscal leeway and hence the policy space needed to implement countercyclical policies.

Second, governments in many of these EEs had learned from previous crises that two closely related pitfalls were to be avoided at all costs. The first was a run on the currency, which governments prepared for by building up their foreign currency reserves and moving away from the mostly fixed exchange rates of earlier eras. More flexible currencies, combined with greater willingness to intervene to support the exchange rate, did indeed fend off the usual currency crises associated with large external financial shocks. The second situation to be avoided, if at all possible, was the need to borrow from international financial institutions (IFIs), which could then be expected to impose conditions on borrowing governments—conditions that almost inevitably were at odds with governments' wishes.

A Quick Review of the Country Findings

In the introductory chapter we suggested that the ability of the emerging economies as a group to resist the initial financial contagion of the global financial crisis depended—as a necessary if not sufficient condition—on the extensive macroeconomic, financial sector, and trade reforms implemented by these governments since the early 1990s. We also observed that countervailing factors in the international environment during 2000–14 had, on balance, favored both the economic resistance of the EEs to financial contagion in 2008–09 and their recovery in the wake of the crisis. The combination of prior market reforms and fortuitous countervailing factors provided unprecedented policy leeway, especially in the Latin American cases, to pragmatically tackle the challenge of the GFC in more flexible, nondoctrinaire ways. The country case study evidence generally supports this conclusion.

China has come a long way since launching its more market-oriented economic reforms in the late 1970s, transitioning from a highly state-controlled economy to a bona-fide emerging economy by the advent of the 2000s. But Breslin cautions that China's market economy is a far cry from the neoliberal model earlier advocated by the Washington Consensus. The government still maintains vast influence over prices, particularly those for the factors of production. Despite a decrease in the number of state-owned enterprises, strategically important sectors still remain in the hands of the military and state bureaucracy. Moreover, public sector banks control most financial intermediation and still respond to official pressure, despite their greater use of commercial criteria to assess loans. Nonetheless, the 1990s and the 2000–14 period saw some significant reforms, such as recapitalization of the banks and the

reduction of bad bank debt. Fiscal reform allowed the central government to regain fiscal control, permitting China to run a budgetary surplus by 2007. With little debt at the national or household level, this boosted government and household consumption. The country, moreover, had accumulated the astonishing sum of close to US$2 trillion in foreign exchange reserves by the time that the global financial crisis hit.

In South Korea, the Asian financial crisis (AFC) was the catalyst for deep financial sector reform. During the Korean economic miracle from the late 1960s through the 1990s, policymakers liberalized financial markets slowly in order to avoid the vulnerabilities to which rapid liberalization would expose the economy. The AFC forced Korea to turn to the International Monetary Fund (IMF) for a rescue package, an experience that simultaneously enforced market-oriented reforms and instilled a determination among politicians and economists across the political spectrum to never again allow conditions imposed from abroad to dictate crucial policy reforms. Although Korea had always been relatively cautious in its macroeconomic policymaking, Stallings shows that it became even more so after the AFC. For example, policymakers shifted from a fixed to a more flexible exchange rate, partly to forestall the kinds of excessive volatility typically associated with rapid financial and capital account liberalization. Banks were recapitalized and bank regulations strengthened.

Echeverri-Gent argues that despite India's limited financial sector reform prior to the global financial crisis, the country's fiscal, monetary, and foreign exchange positions as of 2008 were reasonably robust. India reformed its monetary policy approach in the 1990s and cut the fiscal deficit after 2003. The liberalization of India's foreign exchange market, which had proceeded incrementally in the 1990s, provided flexibility in the value of the rupee. That, in turn, allowed India's central bank, the Reserve Bank of India (RBI), greater scope to manage inflows of foreign capital and to intervene strategically in the foreign exchange market.

In contrast, Beeson's discussion of the Southeast Asian countries confirms that the level of pre-crisis reform across these countries was quite uneven. In fact, with the possible exception of the larger economies such as Indonesia and Thailand, the ability of domestic policy reforms to head off a significant international financial crisis was quite limited. Still, two pre-crisis shifts in the economic structure of most Southeast Asian countries bear mentioning. First, governments across Southeast Asia gleaned the same lesson from the AFC as policymakers did in the rest of East Asia: that they needed to build up foreign exchange reserves in order to survive financial contagion. Second, the 2000–14

period saw economies throughout Southeast Asia becoming more dependent on China, so much so that China's economic performance would become perhaps the most important determinant of how those economies responded to externally generated crises. In this instance, China's ability to successfully weather the global financial crisis was a boon to its much smaller regional neighbors.

In comparing the Latin American emerging economies with those in Asia, Hershberg notes the following themes. First, the majority of countries in both regions had reasonably good macroeconomic fundamentals going into the crisis. While that also had been true for some East Asian countries prior to the Asian financial crisis, it emphatically had not been the case for most Latin American countries before the 1982–83 debt crisis. Second, financial liberalization, including external opening, was much more extensive in most countries in Latin America than in their East Asian counterparts. Third, while both regions saw a substantial buildup of foreign exchange reserves for insurance reasons, the buildup was greater in East Asia than in either Latin America or India. Finally, most Latin American countries, with the exception of Mexico, are mainly commodity exporters, while most emerging economies in Asia are commodity importers. Interestingly, due to China's rising demand for commodity imports during 2000–14, the South American economies have become less engaged with the United States both politically and economically. This greater distancing from the U.S. market served the South American countries well in surviving the financial shocks of the GFC, in contrast to Mexico, which relies heavily on the U.S. market.

Other significant factors are highlighted by Wise and Lins in their chapter on Brazil and Argentina, including the substantial bank restructuring and recapitalization that followed the end of hyperinflation in both countries in the mid-1990s. In Brazil, in 2000–14 policymakers made a conscious decision to substitute domestic for foreign debt, even if the amount of public debt remained high. In Argentina, what stands out is the extremely dramatic, even draconian, fiscal and monetary policies embodied in the Convertibility Plan, implemented in 1991, although those policies were loosened considerably in the wake of Argentina's 2001–02 financial meltdown. Finally, Esquivel's analysis of Mexico suggests that external factors—including a strong U.S. economy, rising petroleum prices, and high levels of remittances—played a strong role in Mexico's favorable pre-crisis conditions, which included an improvement in the balance of payments, significant exchange reserves, and positive fiscal accounts (see table 9-1).

Table 9-1. *Summary of Country Cases*

Country	*Prior reforms*	*Crisis transmission*	*Crisis response*
China	Bank recapitalization Expanded foreign exchange reserves Increased space for private sector	Trade	Fiscal and monetary expansion, relying on state banks
South Korea	Bank liberalization and recapitalization Expanded foreign exchange reserves	Mainly financial	Fiscal and monetary expansion
India	Trade liberalization and diversification Modest financial liberalization Expanded foreign exchange reserves	Mainly financial (reduced capital inflows; Indian firms lack credit) Falling remittances from abroad	Monetary expansion Exchange rate flexibility Emergency capital controls to halt excessive inflows
Brazil	Macroeconomic stabilization Bank recapitalization Substitution of domestic for foreign debt Expanded foreign exchange reserves	Mainly financial (Brazilian transnational firms lack credit)	Fiscal and monetary expansion, using state banks Emergency capital controls to halt excessive inflows
Argentina	Macroeconomic stabilization, partly reversed from 2002 Expanded foreign exchange reserves	Financial (massive capital flight)	Amplification of previous expansion Emergency capital controls to halt outflows
Mexico	Macroeconomic stabilization; integration with U.S. economy	Trade; remittances from abroad	Initially procyclical monetary policy, reversed in 2009

Source: Authors' illustration.

Each of the country chapters also analyzes the main transmission mechanisms of the global financial crisis. For emerging economies heavily dependent on exports to the United States—including both China and Mexico among the larger countries—the general slowdown of the U.S. economy led to an abrupt fall in demand for imports from these countries and hence a trade shock. There was a direct financial shock from the GFC for most of the other emerging economies examined, although in almost all cases it was buffered by the buildup of foreign exchange reserves. In some countries, including South Korea, Brazil, and India, the major financial jolt came as hard-hit financial institutions in the United States and other advanced economies failed to renew working capital and credit lines for trade financing for EE firms doing business abroad—which was much the same transmission mechanism as in the earlier emerging market crises of the 1980s and 1990s. However, the underlying reasons for the credit shock differed. In the crises of the 1980s and 1990s, a loss of faith in emerging economies sparked the credit drawback, but in 2008–09 it reflected instead a loss of capability among the lending institutions of the global North. Among the cases reviewed in this volume, the sudden drop in remittances from nationals who had migrated to wealthy countries to seek employment was especially acute in Mexico, Central America, and India.

With regard to responses to the global financial crisis, it is clear that virtually every country considered in this volume implemented some form of countercyclical macroeconomic policies, at least eventually. That would not have been possible in the absence of a cushion of some sort, whether in the form of relatively low public debt and deficits, high foreign exchange reserves, or a high investment-grade rating due to a sound record of reform prior to the crisis. Countries such as Mexico, South Korea, Brazil, and Singapore received access to emergency foreign currency swap lines opened by the U.S. Federal Reserve Bank or jointly by China and Japan through the Chiang-Mai Initiative.[1] In addition, the countries themselves were proactive. For example, Brazil, India, and Argentina unabashedly resorted to emergency capital controls.

Among the major cases profiled, only Mexico failed to respond rapidly to the global financial crisis, as policymakers there believed that prior market-oriented reforms and a neoliberal macroeconomic policy stance would insulate them from its effects. Moreover, because the country's financial sector was sound due to consolidation and stricter regulation, the government considered it immune. When the GFC hit the real sector with full force, those assumptions could not have been less accurate. Mexico's late fiscal stimulus was relatively small, and because of worries about rapid food price increases

at home, the Mexican monetary authority actually increased interest rates, which were not reduced until early 2009. Intervention by the Mexican development banks did provide some liquidity and enabled credit markets to function during the worst of the crisis, and high foreign exchange reserves enabled the government to avoid a costly currency depreciation.

Nonetheless, each of the volume's contributors expresses reservations about the future economic fate of the emerging economies examined here, despite their victory in surviving the global financial crisis relatively unscathed. For example, China's post-GFC economic strategy has reverted to allowing the state to use its political leverage over commercial banks to direct loans to favored borrowers. About two-thirds of China's overall net growth in 2009 emerged from increases in already high and often inefficient investment spending. In both Brazil and India, as discussed by Echeverri-Gent, there were ongoing policy debates between market liberalizers and those favoring a strong economic leadership role for the state. The latter seemingly prevailed, as state banks had proved their worth in quickly implementing countercyclical policies. But by 2013, India had moved decisively toward further economic and financial liberalization, whereas in Brazil the economic role of the national development bank (BNDES) continued to expand throughout 2013, generating concerns about increasingly inefficient forms of investment. Argentina is perhaps the most worrisome case. Since its early 2002 debt default, the country has been basically shut out of international capital markets, while the GFC has forced the government to draw down central bank reserves at a precipitous rate.

The discussion now returns more explicitly to the four composite hypotheses presented in chapter 1. How, in the end, do we assess these different explanatory themes?

Hypothesis 1: Good Macroeconomic Fundamentals Improve Crisis Resistance and Response

Our introductory chapter suggested that the ability of the Pacific Rim emerging economies to resist the initial financial contagion from the global financial crisis had much to do with the extensive macroeconomic reforms undertaken by most of them, beginning in the late 1980s in Latin America and somewhat later in Asia. Going into the 2008–09 crisis, most of the larger EEs considered here did indeed have "good numbers." Governments, in general, had implemented what neoliberals regard as prudent macroeconomic reforms in response to earlier crises, even when their initial effects were politically

Table 9-2. *Inflation in Asia and Latin America, 1980–2009*
Percent of GDP, period means

Country	*1980–84*	*1985–89*	*1990–94*	*1995–99*	*2000–04*	*2005–09*
China	2	8	11	4	3	4
India	9	8	11	7	5	6
Indonesia	14	8	8	24	9	13
Korea	12	6	9	5	3	2
Malaysia	4	1	4	4	3	3
Philippines	20	9	11	8	5	5
Thailand	6	4	5	4	2	4
Argentina	279	855	445	0	12	13
Brazil	130	488	1,674	26	10	7
Chile	19	23	17	4	5	6
Colombia	24	26	30	16	7	6
Mexico	54	82	17	23	10	5
Peru	82	725	1,472	8	3	4
Venezuela	13	31	37	50	27	20

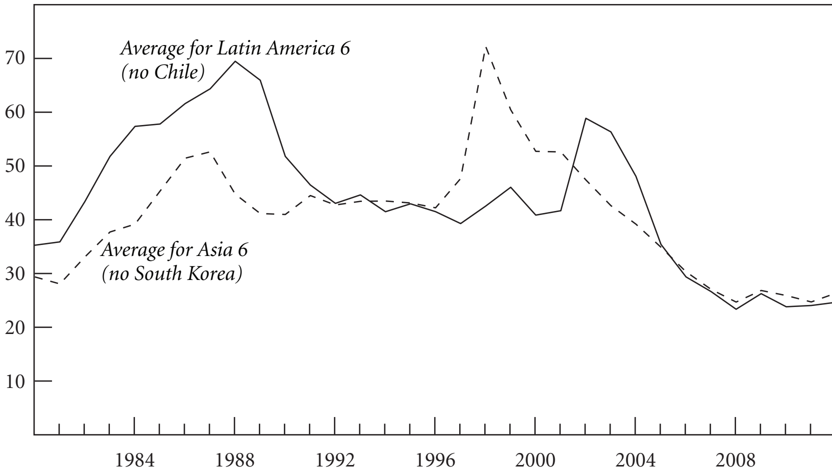
Source: World Bank, *World Development Indicators: 2011* (http://data.worldbank.org/ products/wdi).

unpopular. Their macroeconomic fundamentals enabled these EEs to avoid the destabilizing effects typically wrought by external financial contagion.

The three most common indicators of macroeconomic status—inflation, external debt, and public or government debt—reflect a dramatic improvement in EEs' macroeconomic performance since 1990. The gains are especially visible in Latin America. Table 9-2 shows that during the early 1990s, three of the seven largest Latin American economies still had average annual inflation rates that ran into triple or even quadruple digits. By the early years of the 2000s, all but Venezuela were within striking distance of the inflation rates in the advanced economies. Asian countries that struggled with inflation—for example, South Korea and the Philippines—also reduced it significantly over the time period shown in the table. In Asia, only Indonesia continues to lag on this indicator.

External debt as a percentage of GDP shows similar declines in both Latin America and Asia (figure 9-1). In fact, across these EEs, external debt was at its lowest level in decades when the crisis hit. Asia's debt peaked following the Asian financial crisis of 1997–99 and has since continued on a downward slope. Latin America's debt burden peaked in the late 1980s; after rising somewhat in the early years of the 2000s, it has fallen to its lowest level since 1980.

Figure 9-1. *External Debt Stocks in Latin America and Asia*[a]



Source: World Bank, *World Development Indicators: 2011* (http://data.worldbank.org/products/wdi).

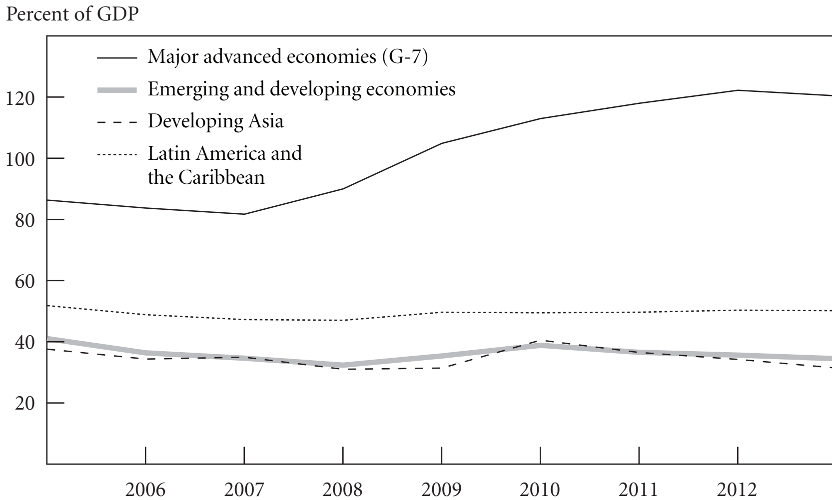
a. Unweighted means of seven large Latin American economies and six large Asian ones (South Korea is not included).

Levels of foreign debt in both regions were and have remained well below the 90 percent mark that Reinhart and Rogoff consider likely to jeopardize economic stability.[2] As mentioned earlier, not all of that debt was actually retired, as some governments, particularly in Latin America, substituted domestic for foreign borrowing as a means of reducing their foreign exchange risk.

Public debt around the Pacific Rim was also running at reasonable levels on the eve of the 2008–09 crisis and even fell afterward. Figure 9-2, which reflects regional weighted means, shows that the ratio of public debt to GDP in Latin America has remained about 20 percentage points above its level in developing Asia. However, since the turn of the twenty-first century, the level of public debt across these EEs has been notably lower than that registered in the major advanced industrial countries.

Although the contribution of prior macroeconomic reform to the quick rebound was clearly important and very likely essential, reform alone does not provide a sufficient explanation for the resistance to and recovery from the 2008–09 crisis among major emerging economies. One reason to doubt that good macroeconomic fundamentals are sufficient in themselves comes from

Figure 9-2. *Public Debt*[a]



Source: "General Government Debt Stock," World Bank, *World Development Indicators: 2011* (http://data.worldbank.org/products/wdi).

a. Weighted means for each group.

a look back at the Asian financial crisis. In 1997–99 many East Asian countries, including Indonesia, Thailand, and South Korea, had good macroeconomic fundamentals; nonetheless, they were devastated by financial contagion. The larger global political economy arguably played a decisive role: in previous financial crises, even EE governments that possessed ample fiscal or monetary resources implemented the procyclical austerity policies forced on them by the international financial institutions, which were controlled by the major advanced industrial countries.[3]

In contrast, when the global financial crisis hit the emerging economies in early 2008, policymakers in most of them drew down international reserves, loosened fiscal policy, and lowered reserve requirements for domestic banks. Table 9-3 suggests that China's stimulus efforts were on par, both in absolute terms and as a share of domestic GDP, with the stimulus packages implemented by the United States, Germany, and Japan.[4] Moreover, other major East Asian countries contributed as much proportionately to their stimulus efforts as did the remaining G-7 economies. India, Argentina, Brazil, and Mexico had less room to maneuver in terms of the size of their respective stimulus packages, but they did contribute modestly, including in ways that are not

Table 9-3. *Macroeconomic Stimulus Packages*

Country	*Policy interest rate cut (percent, to March 2009)*	*Fiscal stimulus (U.S. dollars, billions)*	*Fiscal stimulus (percent of GDP)*
Canada	3.50	43.6	2.8
France	(ECB)[a] 1.50	20.5	0.7
Germany	(ECB) 1.50	130.4	3.4
Italy	(ECB) 1.50	7.0	0.3
Japan	0.40	104.4	2.2
United Kingdom	2.00	40.8	1.5
United States	3.50	841.2	5.9
China	2.16	204.3	4.8
Korea	2.00	26.1	2.7
India	2.50	6.5	0.5
Indonesia	2.50	12.5	2.5
Malaysia	1.25	. . .	. . .
Philippines	0.50	. . .	. . .
Thailand	2.50	. . .	. . .
Argentina	. . .	4.4	1.3
Brazil	1.00	8.6	0.5
Chile	1.25	. . .	. . .
Mexico	0.25	11.4	1.0

Sources: Interest rate cuts from S. Khatiwada, "Stimulus Packages to Counter Global Economic Crisis: A Review," Discussion Paper (Geneva: International Institute for Labour Studies, 2009), pp. 10, 12; fiscal stimulus from Eswar Prasad and Isaac Sorkin, "Assessing the G-20 Stimulus Plans: A Deeper Look" (Brookings, March 2009), p. 5 (www.brookings.edu/research/articles/2009/03/g20-stimulus-prasad).

a. ECB = European Central Bank.

measured in table 9-3, such as the direct expansion of credit through state banks. The smaller countries in both East Asia and Latin America piggy-backed on the countercyclical policies of their larger neighbors, as explained by Beeson (chapter 5) and Hershberg (chapter 6).

Overall, we conclude that prior macroeconomic reform was a necessary—but not entirely sufficient—factor in the timely rebound of the emerging economies from the global financial crisis. Below we explore financial and trade reforms, other dimensions of national policy environments that permitted EE governments greater policy space than they had enjoyed in the recent past.

Hypothesis 2: Stronger Banks and Financial Sector Reform Enabled Crisis Resistance

Our second hypothesis emphasized the role of prior financial sector reforms in promoting crisis resistance. As noted earlier, many of the emerging market crises of the 1980s and 1990s had been twin crises: first a run on a country's currency when a fixed exchange rate had lost all credibility, then a domestic financial panic when too many savers attempted to withdraw their bank funds at the same time. How important were prior financial sector reforms for EE resistance to and recovery from the global financial crisis?

Neoliberal financial reforms have several distinct dimensions, including international and domestic financial liberalization and deregulation as well as harmonization of domestic financial regulations toward the global financial governance norms embodied in international agreements such as the various Basel Accords on bank regulation. Financial liberalization is said to lead to greater financial depth (a higher ratio of financial assets to GDP) and better performance outcomes, such as fewer nonperforming loans and adequate liquidity in the national economy. In the aftermath of the acute financial crises of the 1980s and 1990s, emerging economies on both sides of the Pacific instituted substantial reforms to liberalize their financial sectors. In Latin American EEs such as Argentina and Mexico, the 1980s debt crisis was the trigger for the reforms. Despite Argentina's abrupt reversal of its liberalization effort in 2002, most Latin American governments have persevered with financial sector reform.[5] Banking deregulation, financial deepening, and the move to floating exchange rates had taken root throughout most of Latin America by the early years of the 2000s.

In Asia, countries that had implemented IMF structural adjustment programs in the throes of the Asian financial crisis—including South Korea, Indonesia, and Thailand—dramatically reduced their nonperforming loans through the 2000–14 period and liberalized domestic finance. South Korea, an OECD member since 1996, has been ranked as having Asia's most liberal financial sector since the government removed all ceilings on foreign shareholding in 1998 and liberalized all capital account transactions in 1999.[6] The discussion by Stallings in chapter 3 of this volume confirms that Korea's financial sector reforms were profound, resulting in a stronger banking sector with greater legal and regulatory oversight. By 2004, nonperforming loans accounted for only 1 percent of all credit. The Korean government also accepted dramatically increased foreign entry into retail commercial banking as part of its effort to

import "best practices" from the advanced industrial countries. Under the influence of the IMF, South Korea also introduced a flexible exchange rate policy to better manage domestic financial liberalization.

Of course, not all Asian countries were eager to implement financial reforms along the lines of those recommended by the Washington Consensus. As Breslin observes in chapter 2 of this volume, although China's banking sector is still heavily state owned, improvements that began in the 1990s have led to bank recapitalization and the reduction of bad debt. Echeverri-Gent emphasizes in chapter 4 that in India even basic financial reforms, such as liberalizing private entry into banking and loosening interest rate controls, have remained quite controversial. Similarly, among the Southeast Asian countries considered by Beeson in chapter 5, Indonesia, which stands at one end of the spectrum, has instituted a much more liberal bank regulatory framework than has Malaysia, which is famous for its continued use of capital controls. In fact, there was a great deal of variation among the 14 large Asian and Latin American emerging economies considered here in terms of financial policy reform and financial outcome variables on the eve of the GFC.

In order to sort out the role of prior financial reforms, we need some reliable comparative financial information on the major EEs, which would allow us to judge how much each individual country had reformed according to some absolute standard rather than simply in relation to the earlier financial policy scenario within the country. Table 9-4, which contains comparative information on our 14 EEs, provides context by including similar statistics for the G-7 countries. The first column assesses how financially open each country was on the eve of the global financial crisis. The indicator is a composite "financial policy openness index," which we constructed as the mean of three measures that track de jure capital controls, foreign bank entry into the domestic retail banking market, and domestic financial liberalization, especially the absence of barriers to entry for new banks. Not surprisingly, the G-7 countries were the most financially open, Latin American countries were not far behind, and the Asian emerging economies were the least liberalized. This index also reminds us that however much China and India may have reformed their financial sectors relative to previous conditions in those countries, when viewed within the international context, both financial systems remain heavily state dominated.

The contrasting developmentalist approach toward financial sector reform posits that countries that employed "strategic" financial levers—including reliance on state banks, capital controls, intentional diversification of international lenders, accumulation of large foreign exchange reserves, and creation of

Table 9-4. *Financial Liberalization, Depth, and Performance, 2007*

	Liberalization	*Depth*	*Domestic performance*	
Country	*Financial Policy Openness Index*[a]	*Financial assets/GDP*	*Nonperforming loans/ total loans*	*Credit to private sector/GDP*
Canada	0.66	4.93	0.7	1.57
France	0.69	3.37	2.7	0.99
Germany	0.69	3.34	2.6	1.05
Italy	0.64	3.05	4.6	0.96
Japan	0.69	6.77	1.4	0.97
United Kingdom	0.85	4.70	1.6	1.74
United States	0.64	4.63	2.9	2.02
G-7 mean[b]	**0.69**	**4.40**	**2.4**	**1.33**
China	0.14	0.44	6.2	n.a.
India	0.19	2.62	2.5	0.43
Indonesia	0.60	1.28	4.1	0.23
Korea	0.81	3.35	0.7	1.01
Malaysia	0.45	4.66	6.5	1.01
Philippines	0.31	1.92	4.5	0.28
Thailand	0.36	2.98	5.7	0.83
Asian 7 mean[b]	**0.41**	**2.46**	**4.3**	**0.63**[c]
Argentina	0.32	1.02	2.7	0.13
Brazil	0.54	2.53	2.0	0.43
Chile	0.88	2.42	0.8	0.80
Colombia	0.49	1.15	3.3	0.36
Mexico	0.72	1.22	2.7	0.20
Peru	0.71	1.38	2.2	0.19
Venezuela	0.40	1.29	1.9	0.18
Latin American 7 mean[b]	**0.59**	**1.57**	**2.2**	**0.33**
Emerging economies 14 mean	**0.50**	**2.02**	**3.25**	**0.44**[c]

Sources: Our Financial Policy Openness Index is the mean of three measures (re-normed to a common scale): the 2007 score on "overall restrictions [on international financial integration] index," from M. Schindler, "Measuring Financial Integration: A New Data Set," *IMF Staff Papers*, vol. 56, no. 1 (2009), pp. 222–38; the 2005 figure for "fraction of the banking systems assets in banks that are 50 percent or more foreign owned," from J. Barth, G. Caprio, and R. Levine, "Bank Regulation and Supervision Dataset" (2008) (http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,content MDK:20345037~pagePK:64214825~piPK:64214943~theSitePK:469382,00. html); and the 2007 score for "domestic financial liberalization," from G. Kaminsky and S. Schmukler, "Short-Run

(continued on page 216)

bilateral or multilateral currency swap lines—coped with the financial crisis much better. Once the banking sector is fully liberalized—particularly if it becomes dominated by foreign private banks, as in the case of Mexico and to a lesser extent Chile and South Korea in the early twenty-first century—the central government has less control over the choices and activities of the domestic financial sector.[7]

It is not a straightforward matter, in either theory or practice, to distinguish "developmentalist" financial approaches from old-fashioned "financial repression," whereby financial markets are severely distorted and become inefficient due to excessive government manipulation.[8] To a great degree, that judgment is in the eye of the beholder. We also do not attempt to approximate the relative strength of developmentalist financial levers in each country; instead, we include in table 9-4 a single succinct index that summarizes where these EEs stand on a continuum that runs from closed to open in terms of a given EE's financial sector. Nonetheless, we may conclude that Asian governments, on average, have had a wider range of financial levers at their disposal than have the Latin American governments, while state control of financial levers is lowest in the advanced industrial economies.[9] For example, in 2005, based on the unweighted means for each group, public sector institutions' share of total bank assets averaged 35 percent for the Asian 7 and 19 percent for the Latin American 7.[10] Those figures stand in sharp contrast to the mean share of state-owned banks in the G-7 countries, which was less than 8 percent over the same period.[11] Asian EEs also have tended to rely more on capital controls and have built up larger foreign exchange war chests than have their Latin American counterparts. The two Asian giants, India and China, still maintain high levels of control in their respective financial sectors.[12] On a scale ranging from 0 (most closed) to 1.00 (most open), the mean financial sector openness score for the Asian 7 in 2005 was only 0.24 and would have been much lower

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Pain, Long-Run Gain: The Effects of Financial Liberalization," IMF Working Paper 03/34 (2003) (updated by World Economic Forum, *The Financial Development Report 2009*). The figures for "Financial assets/GDP" and "Credit to private sector/GDP" are from Thorsten Beck and A. Demirguc-Kunt, "Financial Institutions and Markets across Countries and over Time: Data and Analysis," World Bank Policy Research Working Paper 4943 (May 2009), drawn from columns AM and L, respectively, in the spreadsheet that reports their dataset. "Nonperforming loans/total loans," is from World Bank, *World Development Indicators: 2011* (http://data.worldbank.org/products/wdi).

a. Index runs from 0.00 to 1.00, most statist to most financially open.

b. Regional means are unweighted.

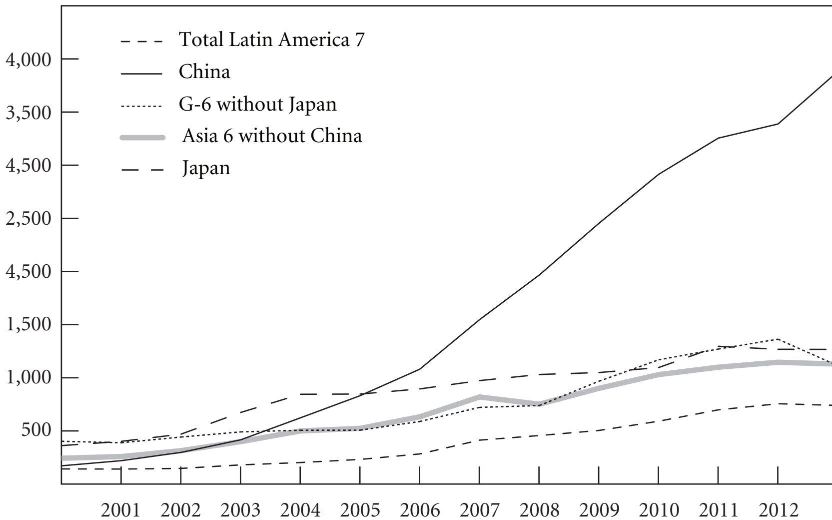
c. Mean excludes China.

without outlier Korea, which scored 0.88 on this measure.[13] The more market-oriented Latin American 7 had a mean financial sector openness score of 0.69.

What stands out then is a set of more statist Asian countries, particularly China and India, and a group of more financially open Latin American countries, notably Chile and Mexico. Financially liberal South Korea is the outlier in Asia, and financially closed Argentina and Venezuela are the outliers in Latin America. Table 9-4 also reports on some other key variables often used to measure financial sector health—including financial depth, nonperforming loans as a share of total loans outstanding, and level of credit extended to the private sector. We assess these dimensions as they stood on the eve of the global financial crisis. When we aggregate the groups by region, it appears that there is no clear relationship between a high degree of financial liberalization (or the reverse) and any of these measures of national financial health. For example, on average, the more financially liberal Latin American EEs had shallower domestic financial systems and extended less credit to entrepreneurs and citizens, but they also had lower rates of nonperforming loans. In contrast, the more developmentalist Asian EEs had greater financial depth and extended more credit to private borrowers, but they had larger shares of nonperforming loans, which often are an indication of financial problems further down the line. In terms of individual countries, relatively neoliberal South Korea and Chile, followed by relatively interventionist India and Brazil, had the best composite profiles, sitting at, or better, than the EE mean on all three performance indicators.

Another measure of financial policy space—or the potential ability of a country to intervene to regulate or move countercyclically against volatile capital flows—is the size of a country's foreign exchange war chest. Because of the lessons that EE policymakers had drawn from earlier crises, countries throughout the Pacific Rim had much larger foreign exchange reserves at their disposal when the 2008–09 crisis hit than they had during earlier financial emergencies.[14] Once again, the Asian countries as a group were most interventionist, the Latin American countries were somewhat developmentalist, and the advanced democracies had the least state involvement in their domestic financial markets. As shown in figure 9-3, the foreign exchange reserves of most Asian governments, especially China, were larger, both absolutely and relative to the home economy, than those of major Latin American governments. The foreign exchange reserves of the advanced industrial countries, except Japan, have remained small by comparison.[15]

Figure 9-3. *Foreign Exchange Reserves: 2000–09*[a]



Source: World Bank, World Development Indicators, various years (http://data.worldbank.org/products/wdi).

a. Reserves excluding gold.

In sum, the banking and external financial sectors of these 14 large EEs as a group had been liberalized and modernized substantially in comparison with those sectors during the bad old days of financial repression in the 1960s through the 1980s. At the same time, many countries—particularly in Asia but also including Argentina, Brazil, and Venezuela in South America—opted to retain an array of "interventionist" instruments, including state banks and large foreign exchange reserves that could be employed for defensive financial statecraft. When international financial contagion seriously threatened these EEs in 2008–09, none of them suffered a financial meltdown or a notorious "twin crisis" of simultaneous forced currency devaluation and domestic banking collapse—despite widespread fears that they would.

We judge that the pragmatic combination of liberalizing financial sector reforms in the two decades prior to the global financial crisis and careful and sometimes heterodox financial management during the GFC enabled policymakers in these countries to respond effectively to this daunting external shock.

Hypothesis 3: Trade Deepening and/or Diversification Improves Crisis Outcomes

A third policy dimension to which EE resilience could be attributed is that of prior trade reforms. The link between trade policy and the ability of EEs to survive a spreading international financial crisis is important, although less direct than the link between survival and the causal factors in our first two hypotheses. Economists across most of the ideological spectrum posit strong links between trade liberalization and increased trade integration as well as between trade integration and economic growth; many also attribute the emerging economies' gradual approximation to the status of the mature industrial economies ("convergence") primarily to the more open markets for world trade that have existed since World War II.[16] The debate continues over whether and how governments should intervene to promote exports or to diversify export products and markets.[17]

The wave of market reforms that began in the late 1980s and early 1990s in emerging economies around the Pacific Rim resulted in substantial trade liberalization as well as increased growth led by trade. Kose and Prasad note that emerging market countries "as a group now have the highest average trade openness ratio," about 80 percent.[18] An index of "trade freedom" prepared by the Heritage Foundation shows that trade became more open in the early twenty-first century in all three regions depicted in table 9-5. On an index running from 1 to 100, with 100 representing full liberalization of a country's trade policies, countries in all three groups (G-7, Asian 7, Latin American 7), with the exception of Venezuela, became more commercially open. The greatest movement toward trade opening within the G-7 (more than 10 points on the scale) occurred in Canada; within the Asian 7, China, India, Indonesia, and the Philippines made notable headway on this index; and within the Latin American 7, Chile, Brazil, Mexico, and Peru led the way in trade liberalization.

What about trade diversification, which has been a consistent goal of emerging market policymakers regardless of their ideological bent? In terms of trade product concentration, the G-7 and Asian 7, whose exports already were more diversified than those of the Latin American 7, saw little change in 2000–14 (see table 9-6). Because of Latin America's heavy reliance on commodity exports, the regional mean concentration rose in 2000–14, although only Chile and Venezuela ended with significant increases in product concentration. In terms

Table 9-5. *Trade Liberalization*[a]

	Trade policy openness		
Country	*2000*	*2009*	*Change 2000–09*
Canada	77.4	88.2	+10.8
France	77.8	80.8	+3.0
Germany	78.0	85.8	+7.8
Italy	77.8	80.8	+3.0
Japan	81.0	82.0	+1.0
United Kingdom	77.8	85.8	+8.0
United States	78.4	86.8	+8.4
G-7 mean[b]	**78.3**	**84.3**	**+6.0**
China	42.6	71.4	+28.8
India	19.6	51.0	+31.4
Indonesia	66.0	76.4	+10.4
South Korea	69.2	70.2	+1.0
Malaysia	68.8	78.2	+9.4
Philippines	64.6	78.6	+14.0
Thailand	73.2	75.6	+2.4
Asian 7 mean[b]	**57.7**	**71.6**	**+13.9**
Argentina	62.0	70.0	+8.0
Brazil	51.0	71.6	+20.0
Chile	70.4	85.8	+15.4
Colombia	63.8	72.4	+8.6
Mexico	63.0	80.2	+17.2
Peru	67.8	79.4	+11.6
Venezuela	65.6	59.6	–6.0
Latin American 7 mean[b]	**63.4**	**74.1**	**+10.7**

Sources: “Trade policy openness” is “Trade freedom,” from the Heritage Foundation (www.heritage.org/index).

a. Index runs from 1 to 100, least to most trade policy openness.

b. Regional means are unweighted.

of trading partner concentration, each regional grouping as well as almost all of the individual countries diversified their export markets. The most prominent result that emerges from bilateral trading partner data (not shown in the table) is that Canada and Mexico are hugely dependent on the U.S. market, more so than any other countries in the table. A number of smaller Latin American and Caribbean countries (not shown in the tables in this chapter but discussed in chapter 6) have welcomed the opportunity to engage in long-term commodity export contracts with China, seeing it as an opportunity to

Table 9-6. *Trade Concentration*[a]

	Export product concentration			*Export market concentration*		
Country	*1995–99*	*2006–09*	*+/–*	*1995–2000*	*2006–09*	*+/–*
Canada	13.0	14.9		82.5	76.2	
France	6.6	7.3		26.4	17.9	
Germany	8.9	9.9		22.6	15.2	
Italy	5.5	5.5		25.9	16.1	
Japan	13.0	14.9		33.1	22.3	
United Kingdom	7.8	9.9		24.3	18.7	
United States	8.3	7.0		28.2	20.9	
G-7 mean[b]	**9.0**	**9.8**	**+0.8**	**34.7**	**26.7**	**–8.0**
China	7.4	9.6		35.3	20.6	
India	13.8	14.2		25.5	16.2	
Indonesia	14.3	12.9		31.3	23.0	
South Korea	14.8	15.7		26.8	24.7	
Malaysia	19.4	18.6		32.3	22.4	
Philippines	33.4	34.6		40.4	29.3	
Thailand	10.0	9.1		29.8	16.9	
Asian 7 mean[b]	**16.1**	**16.4**	**+0.3**	**31.6**	**21.9**	**–9.7**
Argentina	13.5	14.5		32.0	22.8	
Brazil	9.0	10.7		26.3	17.6	
Chile	29.3	39.0		26.8	19.6	
Colombia	26.4	25.2		42.9	32.9	
Mexico	12.4	16.4		85.4	71.4	
Peru	23.1	24.9		30.2	23.3	
Venezuela	54.5	91.1		56.6	37.9	
Latin American 7 mean[b]	**24.0**	**31.7**	**+7.7**	**42.9**	**22.2**	**–20.7**

Sources: World Bank, "World Trade Indicators 2009–10" (http://info.worldbank.org/etools/wti/3a.asp?pillarID=1&)

a. Indices run from 1 to 100, least to most trade concentration.

b. Regional means unweighted.

escape from their historically large and asymmetrical dependence on the United States. Moreover, a number of Southeast Asian countries, which look quite diversified in terms of markets in the aggregate data, actually engage in high levels of intra-firm trade and intermediate components production. This means that ultimately they are just as dependent on selling to North American and European markets as they were in the last two decades of the twentieth century.

Despite these caveats, table 9-6 suggests that most Pacific Rim developing countries, as well as the major advanced industrial economies, diversified their trading partners a bit. Few, however, expanded their mix of exports, and major Latin American countries became more concentrated in the export of commodities. Yet the absolute levels of trading partner diversification did not differ notably across the three groups of countries, thus presumably eliminating partner diversification as an explanation for why the recovery of the emerging economies was better than that of the advanced industrial countries. More subtly, we note that since the 1990s there has also been a concomitant rise in South-South trade across the two emerging regions of the Pacific Rim, much of it promoted by government policies. This explosion in EE trade across the Pacific possibly quickened the recovery of these countries from the global financial crisis. For example, Kose and Prasad calculate that intragroup trade among emerging economies, the so-called South-South trade, had "increased nearly fivefold over the last five decades, from less than 9 percent [of their total trade] in 1960 to slightly more than 42 percent in 2008."[19] In particular, rapid Chinese economic growth has led to higher demand for natural resources and intensification of regional trade integration in Asia and Latin America. Major South American countries that were once heavily dependent on the U.S. market now split their trade in varying amounts between China, the United States, the European Union, and their Latin American and Caribbean neighbors.[20]

While there seems to have been clear positive results from prior macroeconomic stabilization (hypothesis 1) and financial reforms and strengthening (hypothesis 2), the contribution of prior trade reforms (hypothesis 3) to the quick rebound is, at the very least, indirect. This is not to say that trade did not play a role in the rebound: for EEs like Argentina, Brazil, Chile, and Peru, the recovery of Chinese demand, in particular for primary commodity exports, was a key factor in their ability to overcome the 2008–09 crisis.[21] However, as compelling as the claim may be that prior trade liberalization mattered, we cannot demonstrate such a link. Moreover, the evidence on trade diversification is sufficiently ambiguous that we probably can discount it as an important explanation for the surprising resilience of Pacific Rim EEs to the global financial crisis.

Hypothesis 4: Emerging Economies Escaped the Crisis due to Favorable Global Conditions

The policy variables discussed so far were more or less under the control of national governments. Yet other aspects of the international economic envi-

ronment might have tipped the scales disproportionately in favor of a swift recovery in emerging economies. Hypothesis 4 suggests that it was not principally hard-won policy reforms that protected the major EEs around the Pacific Rim from being sucked into the financial maelstrom initially generated by dodgy subprime mortgages in the United States. Instead, the relatively mild effects that EEs experienced were largely the result of the commodity lottery and the luck of the draw for countries with an abundance of the raw materials (petroleum, natural gas, iron ore, copper, tin, fishmeal, soya beans) for which Chinese demand was voracious during 2000–14. Buoyant commodity prices and the exceedingly low interest rates in the G-7 countries are the two international variables mentioned most frequently. The argument about commodity prices applies most vigorously to Latin America, especially South America, where several countries are significant exporters of commodities (petroleum, copper, soya, iron ore, wheat) whose prices have hovered at historical highs for nearly a decade (see table 1-4 in chapter 1). Table 9-7 shows that if we take 2000 as the base year, in which all country ratios are set to 100, then the terms-of-trade ratio (export prices/import prices) had fallen in both the G-7 (to 97) and the Asian 7 (to 92) but had risen dramatically in the Latin American 7 (to 148) just as the global financial crisis was erupting in 2008.

Between 2000 and 2008, there were notably large increases in the windfall benefits flowing to oil-exporter Venezuela (with a terms-of-trade ratio of 250 in 2008) and copper-exporter Chile (with a terms-of-trade ratio of 165) and smaller increases in other Latin American countries, such as Mexico (106) and Brazil (110). Asian countries include those for which the terms of trade improved modestly, such as Indonesia (124) and India (117), and those experiencing large adverse shifts in their terms of trade (which reflect their position as commodity importers but probably are due also to exchange rate interventions), including Japan (62), South Korea (62), and China (75). Although governments in countries with soaring terms of trade during the first decade of the 2000s justifiably worried about deindustrialization—as high commodity demand led to exchange rate overvaluation and uncompetitive prices for manufactured exports, the so-called resource curse phenomenon—being an exporter of an essential commodity with fairly inelastic demand was clearly a boost in terms of coping with the immediate shocks from the global financial crisis. Table 9-7 suggests that further increases in their terms of trade through 2008–10 facilitated the swift recovery in countries such as Brazil, Chile, Peru, and India.[22]

Table 9-7. *Terms-of-Trade Shifts in 2000–09*[a]

	2008	*2010*
Canada	126	119
France	98	98
Germany	100	103
Italy	95	99
Japan	62	68
UK	105	103
US	92	97
G-7 mean[b]	**97**	**98**
China	75	77
India	117	127
Indonesia	124	127
Korea	62	68
Malaysia	104	100
Philippines	67	69
Thailand	94	98
Asian 7 mean[b]	**92**	**95**
Argentina	133	127
Brazil	110	125
Chile	165	204
Colombia	138	134
Mexico	106	105
Peru	137	153
Venezuela	250	216
Latin American 7 mean[b]	**148**	**152**

Source: "Net Barter Terms of Trade," from World Bank, World Development Indicators (http://data.worldbank.org/products/wdi).

a. Base year, 2000. A score of greater than 100 means that a country's terms of trade have "improved" or the prices of its exports have risen relative to the prices of its imports.

b. Regional means are unweighted.

Global interest rate movements also eased adjustment in many emerging economies. Ironically, G-7 crisis management, led by the United States, necessarily constituted an extension of the same loose fiscal and monetary policies that had benefited EEs throughout 2000–14. In conjunction with a stimulus package that amounted to close to 6 percent of GDP (see table 9-3), the U.S. Federal Reserve Bank maintained near-zero real interest rates from December 2008 through the time of this writing.[23] Other G-7 countries followed a similar strategy of "quantitative easing," pushing highly mobile cap-

ital flows out of the advanced economies and toward EE markets with faster growth and relatively higher returns. Although most EEs also reduced their policy interest rates at the height of the crisis, only in Argentina and Venezuela did rates dip below the near-zero levels of Japan, the United States, the United Kingdom, and the Eurozone.[24] Thus, in marked contrast to interest rate policies during other international financial crises in the recent past, those in the advanced industrial countries during the GFC facilitated the adjustment process in many emerging economies.

At least two highly influential factors in the international economic environment thus enabled the relatively mild crisis and quick recovery experienced in many emerging economies around the Pacific Rim. The level of world prices is not, of course, a policy variable that governments in EEs can control—or count on. The "tapering" of the U.S. Fed's policy of quantitative easing, announced in mid-2013 and begun later that year, has already caused strains in EEs that had relied on maintaining high levels of private capital inflows during the crisis and thereafter.[25] However, as of late 2014 it still appeared that interest rate differentials—and therefore incoming capital flows—would favor the emerging economies into the medium term, as U.S. employment data continued to dictate a low interest rate policy on the part of the U.S. Fed for some time to come.

Final Thoughts

Our exploration of policy choices and outcomes around the Pacific Rim during the global financial crisis suggests the following tentative conclusions, summarized in table 9-8. First, there seems to be no doubt that prior macroeconomic reform, which ensured low inflation and reasonable levels of public and external debt, was extremely helpful to all of the Asian and Latin American countries in surviving the immediate shocks of the crisis. In fact, even in those countries (such as Argentina) in which there had been some backsliding from earlier stabilization efforts, domestic macroeconomic patterns were sufficiently stable to enable the government to take short-term countercyclical measures without the risk of exacerbating the crisis.

Second, prior banking and financial sector reforms undoubtedly were helpful in preventing financial crises. But there is no evidence that more liberalized domestic or international financial regulations were superior to policies that gave primacy to the buildup of large foreign exchange reserves (to avoid attacks on the national currency) or to reliance on public banks to channel liquidity

Table 9-8. *Evaluating Explanations for the Surprising Resilience of Emerging Economies*

Hypothesis	*Comments*
1. Prior (neoliberal) macroeconomic reforms	Most large emerging economies had previously enacted reforms, which were helpful, likely even essential.
	Good macroeconomic fundamentals were insufficient. For example, they did not protect countries during the Asian financial crisis.
2. Prior financial reforms (neoliberal and/or developmentalist)	Prior bank cleanup was helpful, but the most liberalized financial systems have not performed the best.
	Defensive financial statecraft (adequate foreign exchange reserves, possibly public banks) was helpful, but too much intervention is problematic.
3. Prior trade reforms	Trade liberalization generally promotes growth, and trade diversification can reduce vulnerability.
	We found no direct relationship of prior trade reforms to either crisis resistance or quick recovery.
4. Countervailing international conditions	Fortuitous conditions (high commodity prices, low interest rates in developed economies) also mattered, although commodity prices hurt some Asian emerging economies.

quickly to the private nonfinancial sector. Third, while prior trade liberalization likely boosted growth and trade diversification would seem to reduce a country's vulnerability to sudden shifts in global demand, it is hard to specify a direct relationship between trade reforms and the ability of a country to survive an acute financial crisis. The country in this study in which the lack of trade diversification had the most harmful effect was Mexico, which was hit hard by the slowdown of the U.S. economy. Fourth, international factors (particularly high commodity prices throughout 2000–14 and low interest rates in the core economies) tended to work in favor of the major emerging economies, although heavy commodity importers such as China benefited much less.

At least as important as any of the factors initially hypothesized was effective crisis policymaking in most of the countries studied, with some excep-

tions noted previously. That conclusion leads us back to competing economic ideologies—the other big theme with which we began this volume. It appears that institutional innovations and policy learning from the experience of coping with previous crises enabled emerging market policymakers across the Pacific to effectively weather the GFC and its rocky aftermath. Despite different reform trajectories in Asia (gradual reform, higher growth since the 1980s) and Latin America ("big bang" market reforms following previous crises but lower growth until the advent of the 2000s), the economic indicators for these EEs are converging more closely than ever before. In other words, while there is considerable variation in the choice of economic restructuring programs, the timelines involved, and the actual policies employed, the bulk of countries in our database appear to be approaching the same destination.

We also proposed in our introductory chapter that long-standing policy labels such as "neoliberal" and "developmentalist" are becoming less relevant. In 2000–14 policymakers in these countries stepped outside their usual comfort zones and embraced a combination of market-based and state-oriented policies. Policy convergence was most relevant for financial sector reforms. In analyzing longer-run macroeconomic and institutional reform patterns, two groupings emerge. For example, Chile, Mexico, and Korea all relied more heavily on a market-based reform strategy while still tweaking some strategic levers (capital controls, buildup of foreign exchange reserves) along the way; China, India, and Brazil came down much more heavily on the side of state-led reform strategies, with market reforms embraced at the margin but implemented nonetheless.

Another thesis has emerged in the course of writing this book: we suggest that it was precisely their policy and ideological flexibility—combining longer-run macroeconomic and institutional reform with increased confidence to engage in innovative and pragmatic approaches—that enabled these countries to cope effectively with ongoing global challenges, including high levels of capital liquidity in the 2000s. The management of volatile capital flows—both inward and outward—has been the most obvious challenge for all concerned but especially for the South American cases in our sample. The track record thus far reflects a strong commitment to combat currency appreciation and inflationary pressures, with the shadow of earlier financial crises a constant reminder of the costs of not succeeding. However, as the EU continues to sort out its own banking and debt crises and the U.S. Federal Reserve remains committed to a low interest rate policy, many of these Pacific Rim EEs will continue to attract unusually high capital inflows. Therefore, we expect

that the kinds of strategic levers that we have discussed throughout this volume—mildly heterodox policy choices that even IMF staffers have begun to recommend[26]—will become increasingly common, even within the more market-oriented countries in our sample. Obviously, there are outliers, especially on the Latin American side, and the weights that can be assigned to our causal variables differ considerably across countries and regions. Nevertheless, the overall pattern that emerges is one of greater flexibility in crossing over conceptual boundaries and policy approaches.

Notes

1. Saori N. Katada and Injoo Sohn, "Regionalism as Financial Statecraft: Pursuit of a Counterweight Strategy by China and Japan," in *Financial Statecraft of Emerging Powers: Asia and Latin America in Comparative Perspective,* edited by Leslie E. Armijo and Saori N. Katada (London: Palgrave Macmillan, 2014), pp. 148–61.

2. Carmen Reinhart and Kenneth Rogoff, *This Time Is Different: Eight Centuries of Financial Folly* (Princeton University Press, 2009).

3. Joseph Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton, 2002); Paul Bluestein, *The Chastening: Inside the Crisis That Rocked the Global Financial System and Humbled the IMF* (New York: Public Affairs, 2003).

4. S. Khatiwada, "Stimulus Packages to Counter Global Economic Crisis: A Review," Discussion Paper (Geneva: International Institute for Labour Studies, 2009).

5. Barbara Stallings with Rogerio Studart, *Finance for Development: Latin America in Comparative Perspective* (Brookings, 2006); F. J. de Carvalho and F. E. de Souza, *Brazil in the 2000s: Financial Regulation and Macroeconomic Stability* (Buenos Aires: CEDES, 2011).

6. Yong-Chool Ha and Lee Wang Hwi Lee, "The Politics of Economic Reform in South Korea: Crony Capitalism after Ten Years," *Asian Survey*, vol. 4, no. 6 (2007), pp. 894–914; T. Kalinowski and Hyekyung Cho, "The Political Economy of Financial Liberalization in South Korea: State, Big Business, and Foreign Investors," *Asian Survey*, vol. 49, no. 2 (2009), pp. 221–42.

7. Arguably, one reason for the recent subprime mortgage crisis in the United States was the degree to which actors in the private financial sector simply made their own rules while regulators and political authorities believed that any problems would be resolved by market discipline.

8. Manuel Pastor and Carol Wise, "Goodbye Financial Crash, Hello Financial Eclecticism: Latin American Responses to the 2008–09 Global Financial Crisis," *Journal of International Money and Finance* (2015, forthcoming).

9. Of course, other types of monetary and financial capabilities besides those discussed here are enjoyed by countries whose home currencies are international reserve currencies, whose private institutions dominate global banking and securities markets, or who enjoy disproportionate influence in the international financial institutions.

10. Larger countries also tended to have more interventionist financial sectors than smaller countries, with the largest shares registered in the biggest economies in our sample: India (74 percent), China (69 percent), Brazil (45 percent), and Indonesia (38 percent). See J. Barth, G. Caprio, and R. Levine, Bank Regulation and Supervision Dataset, 2008 (http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:20345037~pagePK:64214825~piPK:64214943~theSitePK:469382,00.html).

11. This figure would be even lower if Germany—with a 40 percent share of public banks, the single outlier—were removed from the sample.

12. Also see S. Shirai, "Banking Sector Reforms in India and China: Does India's Experience Offer Lessons for China's Future Reform Agenda?," Japan Bank for International Cooperation Institute Discussion Paper 2 (Tokyo: 2002); C. Roland, "Banking Sector Reforms in India and China: A Comparative Perspective," paper prepared for the Harvard Project for Asian and International Relations Conference, Singapore, August 8, 2006; and A. Walter, "Chinese Attitude towards Financial Regulatory Cooperation: Revisionist or Status Quo?," in *Global Finance in Crisis: The Politics of International Regulatory Change,* edited by Eric Helleiner, S. Pagliari, and H. Zimmermann (London: Routledge, 2009).

13. See M. Schindler, "Measuring Financial Integration: A New Data Set," *IMF Staff Papers*, vol. 56, no. 1 (2009), pp. 222–38.

14. On the use of foreign exchange reserves and other instruments of financial statecraft by emerging powers, see Leslie Elliott Armijo and Saori N. Katada, "Theorizing the Financial Statecraft of Emerging Powers," *New Political Economy* (forthcoming) (www.tandfonline.com/doi/full/10.1080/13563467.2013.866082).

15. For evidence of the diverse types of potential financial power resources possessed by different contemporary major and intermediate powers, see Leslie Elliott Armijo, Laurissa Muehlich, and Daniel C. Tirone, "The Systemic Financial Importance of Emerging Powers," *Journal of Policy Modeling* (forthcoming) (www.sciencedirect.com/science/article/pii/S016189381300104X).

16. See Gavin Kitching, *Seeking Social Justice through Globalization: Escaping a Nationalist Perspective* (Pennsylvania State University Press, 2001); Jagdish Bhagwati, *In Defense of Globalization* (Oxford University Press, 2007); World Bank, *Emerging Stronger from the Crisis: East Asia and Pacific Economic Update*, vol. 1 (Washington: 2010); and Arvind Subramanian and Martin Kessler, "The Hyperglobalization of Trade and Its Future," Working Paper 13-6 (Washington: Peterson Institute for Economics, July 2013), p. 3.

17. Dani Rodrik, *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton University Press, 2007).

18. M. A. Kose and E. S. Prasad, *Emerging Markets: Resilience and Growth amid Global Turmoil* (Brookings, 2010), p. 41.

19. Ibid., p. 46.

20. Many Latin American governments now worry about their trade dependence on China. See, for example, Juan Carlos Gachúz, "Chile's Economic and Political

Relationship with China," *Journal of Current Chinese Affairs*, vol. 41, no. 1 (2012), pp. 133–54, and Ruben Gonzalez-Vicente, "The Political Economy of Sino-Peruvian Relations: A New Dependency?," *Journal of Current Chinese Affairs*, vol. 41, no. 1 (2012), pp. 97–131.

21. Carol Wise and Yong Zhang, "China and Latin America's Emerging Markets: Debates, Dynamism, Dependence," paper presented at the International Studies Association Meetings, Buenos Aires, July 23–26, 2014.

22. See Hanh Nguyen, Martin Stuchtey, and Markus Zils, "Remaking the Industrial Economy," *McKinsey Quarterly* (February 2014), pp. 1–37. The international commodity price boom is not over, and it may last until the major EE resource-importers, including China and India, have advanced much further in their quest to have the level of industrial development in their countries converge with that of the advanced economies.

23. Ben Bernanke, *The Federal Reserve and the Financial Crisis* (Princeton University Press, 2013).

24. Pastor and Wise, "Goodbye Financial Crash, Hello Financial Eclecticism," p. 36.

25. "'Fragile Five' Countries Face Taper Crunch," *Financial Times,* December 17, 2013.

26. Gurnain Kaur Pasricha, "Recent Trends in Measures to Manage Capital Flows in Emerging Economies," *North American Journal of Economics and Finance*, vol. 23, no. 1 (2012), pp. 286–309.