Attached are the following materials, referred to the course I taught on the *Politics of International Finance*:

- Instructions for Research Paper (1 page)
- Instructions for Review Session (4 pages)
- Correction key for Research Papers (3 pages)
- First list of links on class website (1 page)
- Sample class: Week 1 - States and Markets (6 pages)
- Sample class: Week 7 - Financial Liberalization and Domestic Politics in Less Developed Countries (10 pages)

Additional material is available in: [http://danicamp.bol.ucla.edu/teaching.htm](http://danicamp.bol.ucla.edu/teaching.htm) or under request.
Your essay should have 7-10 pages, double spaced, font 11/12 and usual margins. Outside sources should be cited and, if they are quoted, you need to include the original pages of the source. UCLA has very clear rules regarding cheating and plagiarism, available in the UCLA Student Conduct Code. If you have any doubts about them, please refer to http://www.deanofstudents.ucla.edu/studentconductcode.pdf or contact the instructor. The paper is due the beginning of the last meeting of week 8.

You are welcome to meet me during office hours to discuss the paper, as well as to send me an outline of your work until the end of week 7, so that I can send you back comments before you finish the final version.

ALTERNATIVE 1

Should countries adopt capital controls? This is historically a central debate in international political economy, which was revived after the financial crises of late 90s.

Your task is to write an essay considering the positive and negative implications of the use of capital controls, both from the economic and the political perspectives. In order to do so, you should base your analysis on (1) class material and discussions, (2) some level of outside research on the current debate on the pros and cons of financial liberalization, as well as think thoroughly in order to come up with your own critical perspective on the matter.

Also, in order to do well, I expect you to criticize current arguments in light of the historical examples discussed in class, including previous international monetary regimes.

ALTERNATIVE 2

This option is available for students who are already working on specific countries in other classes.

Write an essay on the process of financial liberalization in a country of your choice. The essay should focus on:
- A narrative on how financial liberalization took place
- A description of the main players involved in the process – working for and against it
- A critical analysis of the determinants of liberalization and the politics behind it based on class discussions on the matter.
REVIEW SESSION – Friday 9th, from 10 to 12pm

Here is a list of our weekly questions, most of them assigned to students (I’ll lead the discussion on the others, if necessary). The deal is: each student will prepare a complete, clear answer to his/her own question, being ready to present and discuss it in the review session. It is also important that you guys take a look at the other questions in order to bring your doubts to the meeting – and hopefully dissipate them. Students should post questions no longer than Friday on the class website (no need to do it before class). In case you cannot make it to the class on Friday, please let me know – the same in case you need to leave after 11am.

Week 1 – States and Markets

Readings: Lindblom, Vogel, Hirschman, Frieden

1.1 What is Lindblom’s critique of the pluralist tradition? 1.2 What does he mean by a privileged position of business in capitalist societies? Claster
1.3 How does Vogel respond to Lindblom? McDonald
1.4 Explain Hirschman’s concepts of exit and voice. 1.5 How would those two concepts fit together (PPB and Exit/voice) in the study of politics of finance? Matosians

Week 2/3 – International Monetary Systems

Readings: Eichengreen, Cohen

2.1 What are macroeconomic goals? Which are the policies available to governments to promote these goals? Balian
2.2 What is a fixed/floating exchange rate? State advantages/disadvantages and winners/losers from each regime Houston
2.3 What is included in a country’s Balance of Payments? Which are possible causes of BoP crises? Smeets
2.4 What are the Mundell-Flemming conditions? How did those conditions apply in each international monetary system? **Cabrera**

2.5 Describe the general workings of the Gold Standard and the Bretton Woods systems, including their advantages and problems. **Pechekhonova/ Hanley**

**Week 4 – Official capital: IMF, Worldbank and Aid**

**Readings:** Stiglitz, Rogoff on IMF/WB; Easterly, Sen, Postrel on Aid

4.1 Characterize the IMF and the Worldbank in terms of:
   - Organizational Structure
   - Decision-making process
   - *Modus Operandi*
   - Sources of finance
   - Destinations of finance

4.2 What are the usual critiques addressed to IMF and WB? Explain. **Molina-Ospina**

4.3 Which are the responses of those institutions to these critiques? **Reddy**

4.4 What is the theoretical justification for aid? **SanMiguel**
   - Poverty Trap
   - Finance Gap
   - Big Push
   - Take off

4.5 Which are the possible flaws of this theory? **Blair**

4.6 What are the main empirical findings regarding aid? Do they support or challenge the “big push” theory?

**Week 5 – Debt Crisis of 80s**

**Readings:** Stallings, Drake, Sachs

5.1 What were the domestic and international determinants of the debt crisis of the early 80s? **Hussein**

5.2 Which were the consequences of the crisis? **Fischer**

5.3 How would you compare the crises of the 30s and 80s? How could that comparison illuminate the 90s crises?
5.4 According to Stallings, which are mechanisms of international influence on domestic politics and how they work? Give examples discussed in class. **Jhamb**

**Week 6 – Financial Liberalization and Domestic Politics in Developed Countries**
**Readings: Helleiner, Mosley, Garrett**

6.1 How one can measure economic globalization? (trade, direct and indirect investment, migration) 6.2 How the current period (post-Bretton Woods) compares with previous ones in terms of economic globalization? **Stepanovic**

6.3 Which are the determinants of capital account liberalization? Use examples to illustrate them. **Vogelaar**

6.5 What are Garrett and Mosley’s claims regarding the political effects of globalization in developed countries? How do they operationalize their research? **Mochizuki**

**Week 7 – Financial Liberalization and Domestic Politics in Developing Countries**
**Readings: Haggard and Maxfield, Mosley, Santiso**

7.1 Why do Balance of Payments crises lead to financial liberalization in developing countries, according to Maxfield and Haggard? Why is this a “counterintuitive argument”? **Cantrell**

7.2 Which are the political consequences of financial liberalization in developing countries? How would you compare them with developed countries? **Johnson**

7.3 Which policies do financial investors’ care about in less developed countries, according to Mosley and Santiso? How is that different from rich countries? Why is that so? **Mei**

**Week 8 – Financial Crises of the 90s**
**Readings: Kahler, Eichengreen and Fishlow**

8.1 What are financial crises? Which are possible ways to measure such crises? 8.2 Which were the major crises of the 90s? **Zelikowicz**

8.3 Which are the theoretical causes of financial crises? **Ambruster**

8.4 How would you compare the 90s crises with the 30s and the 80s in terms of relative power of creditors/debtors? How does that help understand countries’ reactions to these crises? **Neal**

**Week 9 – Foreign Direct Investment and Immigration**
Readings: Stopford, Moran on FDI; Williamson and articles on Immigration

9.1 What is foreign direct investment?
9.2 What are the factors that determine the inflow of FDI?
9.3 What are the implications of FDI according to liberals? 9.4 What are the implications of FDI according to “dependentistas”? Berlyant
9.5 How does internationalization of production affect domestic politics? How does Garrett respond to that? What are the arguments against and pro convergence caused by FDI?
9.6 How are the effects of immigration equivalent to those of trade and investment, from the economic point of view? 9.7 Who wins and who loses from migration (a) in the sending country, (b) in the receiving country? Cohen
9.8 How does the liberalization of capital flows mediate the effects of migration?
9.9 What are the political factors that affect migration policy?

Week 10- Globalization and Democracy
Readings: Rodrik, Mosley, Campello, Przeworski
10.1 Explain Rodrik’s trilemma – which are the three factors involved, why can’t one have more than two out of them, which are the possible combinations? Magee
10.2 Given the constraints imposed by the trilemma, which are the scenarios Rodrik devises?
10.3 How would you compare Rodrik and Mosley’s conclusions regarding globalization? 10.4 How does the evidence presented by Campello fit with both arguments? Pierce
10.5 What is Przeworski’s main question? In case voters do value choice, how does that illuminate the globalization debate? What about in case they don’t? Pasos
Correction Key – Research Papers

In case you’d like to discuss the grade, please read (1) my comments in the paper and (2) the correction criteria carefully, attach a one page comment on your paper and give it to me, preferably on Friday. We can then meet next week if necessary, otherwise I’ll send you an email with my response by then.

Here are the criteria used in the correction of the paper, as well as some comments on the most common problems observed.

• **General criteria:**
  • Clear writing
  • Observance of standards: 7-10 pages, double spaced, font 11/12 and usual margins.
    Outside sources should be cited and, if they are quoted, you need to include the original pages of the source.
  • Good introduction, definition of the problem you are dealing with
  • Conclusion related to the arguments and evidences presented along the paper

• **Alternative 1: Capital controls**
  • Not only display of arguments, but also a critical analysis that shows you considered each argument carefully instead of just assuming it is correct
  • Good use of course material – not only citation, but bringing to the analysis papers/chapters related to the problem. In the case of capital controls, Mosley, Garret, Santiso, besides lecture material, would be good sources.
  • Good use of other sources – include outside material in the analysis, or as a source of evidence. This is not about explaining what A or B authors’ claim, but discussing the claims in a critical way.
  • Good understanding of basic economic aspects – again, this is not a paper on Economics. You are just expected to understand the basic workings of balance of payments in order to deal with the MF conditions and understand what financial crises are about.
Focus on politics – as it is a paper on IPE, of course it is expected that you consider political aspects of the topic – issues such as autonomy in policy choices, convergence etc.

**Alternative 2: Determinants of liberalization**
- Display and thoughtful analysis of theoretical determinants of liberalization seen in class
- Show good use of course material. In this case, Helleiner, Haggard and Maxfield as well as lectures would be helpful.
- Clear link between theory and the evidence presented in the cases studied – do they support some of the theoretical claims? Do they contradict them?

* Most common problems observed

- Too much focus on economic “technicalities” in detriment of political analysis – issues often not related to the topic such as exchange rate regimes, for example.
- Deviation from the main topic. Some papers – some of them really good papers, otherwise – deviated too much from the topic of (1) capital controls or (2) determinants of liberalization. Examples are discussions of trade, economic liberalization in general, privatization, crises etc.
- Little link between argumentation and conclusion – some papers displayed many interesting arguments but (I guess maybe in an attempt to conclude something, or due to prior opinions on the matter) jumped to a conclusion very weakly related to the previous analysis.

* Some examples of pros and cons of international capital flows

**(+) of financial flows**
- Optimal allocation of resources
- Growth – especially poor countries that need foreign funds
- Freedom, including the one to invest
- Discipline on government policy
- Costly to control: see example from end of Bretton Woods
- Avoid conflict with developed economies that push for liberalization
(-) of financial flows

- Volatility: large flows in and out are disruptive
- Loss of monetary or exchange rate autonomy – one cannot have three of them
  - Monetary policy is important to heat up/cool down economy
  - Exchange rate policy is important to keep stability of foreign investment and trade
- Loss of political autonomy -> capital liberalization is associated to convergence from left and right – is this convergence desirable?
  - Gold Standard worked because there were not political pressures from below – now there are
- Countries can control flows – example of China
- Countries can control temporarily – examples of Chile and Malaysia
- Flows alone produce financial crises – confidence, irrationality, herd behavior

* Some theoretical determinants of financial liberalization

Check first lecture of week 8, as well as Haggard and Maxfield, which add balance of Payments crises as a (counterintuitive) determinant of financial liberalization in less developed economies. Some examples of determinants:

- Ideological position of government: left more likely to control capital in order to be able to implement redistributive policies
- Attempt to solve some macroeconomic goal: US and deficit in the 70s
- External pressures: US on Japan, IMF in emerging markets
- Domestic politics: strengthening of groups that defend liberalization – usually financial sector, multinational corporations, exporters etc…
- Competition for capital: DCs during late 70s/80s, emerging markets in early 90s
List of Links - POL SCI 169

Class Links

- Websites worth taking a look
  - International Forum on Globalization
  - PBS - Commanding Heights
  - Lexis Nexis Academic Search
  - Yahoo Finance
  - Global Financial Database - Research
  - International Monetary Fund (IMF)
  - Worldbank - Research
  - Bank for International Settlement (BIS) - Statistics

- Readings
  - Week 1
    - Lindblom - The Market as Prison
    - Vogel - Political Science and The Study of Corporate Power
    - Hirschman - Exit, Voice and the State
    - Frieden - The Method of Analysis: Modern Political Economy
  - Week 2
    - Eichengreen - The Gold Standard

Political Science Links

- Constitution Day at UC
- Academic
- Digital Images
- Libraries
- Reference
- Computing
- Campus News
- UCLA
- (For Instructors Only)

UCLA Links

Help Main Page Jun 12 Announcements Discussion Board
### Week 1 – States and Markets

<table>
<thead>
<tr>
<th>The pluralist framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Influence: A’s capacity to bring about outcomes favorable to A’s preferences.</td>
</tr>
<tr>
<td>✓ Politics as exercise of influence</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The pluralist framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Unit of analysis: interest groups</td>
</tr>
<tr>
<td>✓ Public policy results from the activity of groups that organize to influence the government</td>
</tr>
<tr>
<td>✓ Groups work through available institutional channels, such as elections, parties and the legislative</td>
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### Week 1 - Outline

- What is Lindblom’s critique of the pluralist tradition?
- What does he mean by a privileged position of business in capitalist societies? How does that work? Which are the assumptions underlying his claims?
- How does Vogel respond to Lindblom?
- Explain Hirschman’s concepts of exit and voice
- How would those two concepts fit together (PPB and Exit/voice) in the study of politics of finance?
<table>
<thead>
<tr>
<th>The pluralist framework</th>
<th>Criticisms and limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democracy: competitive politics</td>
<td>✓ Collective action problems (Olson)</td>
</tr>
<tr>
<td>Government</td>
<td>✓ Rent seeking (Krueger)</td>
</tr>
<tr>
<td>Policy Choices</td>
<td>✓ Governments as neutral (Krasner)</td>
</tr>
<tr>
<td>Political Demands</td>
<td>✓ Politics and preferences formation (Linblom)</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>The privileged position of business</th>
<th>Business’ Tasks in Capitalist Societies</th>
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</thead>
<tbody>
<tr>
<td>Lindblom</td>
<td>• Organize production and workforce</td>
</tr>
<tr>
<td>✓ Business is not like other interest groups</td>
<td>• Direct capital accumulation, income redistribution, resource conservation</td>
</tr>
<tr>
<td>✓ Business has a privileged position in capitalist societies</td>
<td>• Foster economic growth - investment, technology</td>
</tr>
</tbody>
</table>
Business’ Power in Capitalist Societies

- Individual anticipations of adverse change (or even suggestion of)
- Response: lower investment
- Key: No need for conspiracy, intention or mobilization
- Result: lower growth and employment

How does that get to politics?

- Economic voting – voters care about economic activity
- Politicians need votes to remain in power
- Limits to political and social change in anticipation of business’ reactions

Market as prison

Economy and vote in Latin America

Late 80s crises (pre-Bradies), low investment, hyperinflation

Late 90s crises, capital outflow, international financial crises

Means of Influence (Mitchell)

- Propaganda
- Campaign Finance
- Investment
### Market as Prison - examples

- Environmental policies
- Business regulation
- Labor rights
- Human rights
- Distribution of wealth and income

### How does globalization affect the PPB?

**Lower exit costs**

### Another example

<table>
<thead>
<tr>
<th>Lula 2002</th>
<th>Cardoso 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="Graph" /></td>
<td><img src="image2.png" alt="Graph" /></td>
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</table>

S&P indexes: Jan/Oct 2002
- Brazil: - 52%
- Emerging Markets: - 8%

S&P indexes: Jan/Oct 1994
- Brazil: + 94%
- Emerging Markets: + 25%

### Markets and Democracy

- No simple relationship
- For minimal democracy – markets; for maximum – get rid of them?
- What to fix and what to vary – labor pressures and market functioning
## Questions to discuss

- How would the theory change if the assumptions changed?
- Business control or discipline?

## Agenda

- How does Vogel respond to Lindblom?
- How convincing is each argument?
- Where do we go from here?
- Framework to think about politics and business

## Counterarguments to the PPB - 1

- Business is at least as dependent on governments as the contrary
- Capital strikes hurt capitalists
- Consumer vs. Investor confidence
- Investment, consumption and public spending
- Business cycle

## Counterarguments to the PPB - 2

- Reification of business vs. divisions between businesses
- Governments’ goals – unemployment, growth and others
- Voters’ goals
- Business looses frequently - de-regulation, liberalization and taxation, post-war period
- Business’ demands and economic growth
### Counterarguments to the PPB - 3

- Businessmen, military and the police - commandments vs. inducements
- Business and inequality
- Out-of-the-agenda issues

### Counterarguments to the PPB - summary

- Business power varies
  - Pluralism

- Who are the businessmen? How many?
- Scope of power - agenda
- Power over time: history and comparative politics

### How politicians behave

- Partisan behavior
- “Rational behavior”
- Power maximization
- Rent Seeking

### Modern Political Economy

- Rational individuals
- Exogenous preferences
- Unit of analysis: groups
- Expected utility maximization
- Capacity for collective action
- Information
Week 7 – Financial Liberalization and Domestic Politics in Less Developed Countries

Outline – week 7

• Why do Balance of Payments crises lead to financial liberalization in developing countries, according to Maxfield and Haggard? Why is this a “counterintuitive argument”?
• Which are the political consequences of financial liberalization in developing countries? How would you compare them with developed countries?
• Which policies do financial investors’ care about in less developed countries, according to Mosley and Santiso? How is that different from rich countries? Why is that so?

This week

• Monday:
  ✓ Brief review of last week
  ✓ Discussion of Haggard and Maxfield

• Wednesday: Santiso and Mosley
• Friday: Financial liberalization – wrap up

Last Week

Main points

• Focus: convergence – of what?
• Mechanisms of influence: convergence and divergence
  - Trade
  - Portfolio investment – bonds, stocks
  - Foreign Direct Investment
• Types of policies:
  - Macroeconomic: budget balance, monetary policy exchange rate policy (not mentioned in the paper)
  - Supply side policies: government consumption vs. investment levels, social security expenditures, public employment, subsidies
Last Week

Garrett
• Question: political convergence – why?
• Method: compare policies of left and right and check whether they converge or diverge on time
• Findings – macroeconomic convergence, microeconomic divergence
• Countries where labor is strong can adopt welfare (left wing) policies – why?
• Implications
• Other interesting related questions

Last Week

Mosley
• Question: what do investors want?
• Method: interviews, check which factors affect interest rates
• Findings – investors care about macroeconomic indicators (budget balance, inflation), not “supply side” policies – and these two are not correlated
• Conclusion – if there is convergence, it should occur in macroeconomic policies

Determinants of liberalization

✓ Government’s preferences
  1. Ideology
     – fairness, economic freedom
  2. Domestic constituencies
     – what do groups want? what’s their relative political power?
  3. Macroeconomic goals
     – autonomy in economic policies
     – international conditions: supply of capital
     – Balance of payments position: demand for capital

Determinants of liberalization

✓ International constraints
  1. International monetary system
  2. Other countries’ behavior
  3. International political pressures
  4. International institutions
Determinants of liberalization

✓ Domestic constraints
  1. Exogenous factors – can capital be controlled?
  2. Political institutions
    a. Weak vs. strong government
    b. Majoritarian vs. proportional systems
    c. Central Bank independence

Maxfield’s Argument

✓ Theory – financial players and liberalization in developing countries
  • Economic models – lenders lose, borrowers win
  • Williamson – liquid asset holders win with liberalization (as compared to open entry)
    • arbitrage, intermediation
  => domestic financial institutions are a source of pressure for financial openness in LDCs

Maxfield’s Argument

As integration increases, opportunity costs of closure increase as well

Maxfield’s Argument

✓ Central claim: BoP crises also foster liberalization - why is it counterintuitive?
  • Circumstances: high dependence, low liquidity, low chances of recovery through trade
  • Mechanism: crises increase relative power of dollar holders: liquid asset holders, export sector, private foreign creditors and investors, foreign financial intermediaries, multilateral financial institutions (which profit from liberalization)
  • Liberalization and credibility
Academic work on financial liberalization and growth

- Mixed Results for the impact of financial liberalization on growth

<table>
<thead>
<tr>
<th>Study</th>
<th>Number of Countries</th>
<th>Year Covered</th>
<th>Effect on Growth</th>
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<tr>
<td>Allen, Cull, and Mihm-Ferreiro (1994)  30</td>
<td>1995-98</td>
<td>No effect</td>
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<tr>
<td>Cull and Mihm-Ferreiro (1997)  8</td>
<td>1998-98</td>
<td>No effect</td>
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<td>Osmen (1997)  15</td>
<td>1997-98</td>
<td>Negative</td>
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Week 7 – Financial Liberalization and Domestic Politics in Less Developed Countries

Emerging Markets

1. Low/ Middle Income Countries (Worldbank criteria)

2. Market capitalization low relative to GDP

3. Some level of capital control

Market Capitalization (US$ bi 2002)

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Capitalization (US$ bi 2002)</th>
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<td>China</td>
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<td>Taiwan*</td>
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<td>South Korea*</td>
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<td>South Africa*</td>
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<td>India</td>
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<td>Russia</td>
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<td>Israel*</td>
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<td>Colombia</td>
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<td>Morocco</td>
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Source: The Economist Intelligence Unit (EIU) and Global Financial Data
Financial Investors’ Behavior

Wealth maximizing decision-makers who have to distinguish among sovereign borrowers: risk/return (under time and budget contraints)

- Level of financial openness, similarity of information
  \[ \Rightarrow \text{Magnitude of market influence: interest rates} \]
- Incentives regarding the use of information
  \[ \Rightarrow \text{Grounds (scope) for those changes} \]

Types of Investment Risk

- Inflation risk
- Currency risk
- Liquidity risk
- Default risk

Financial Investors’ Behavior

✓ Default risk is key
  - Capacity to pay debt: wider range of policies
  - Willingness to pay debt: politics become more relevant

Heterogeneous behavior towards developed countries and emerging markets

Financial Investors’ in Emerging Markets

- Investors care about different risks (therefore policies) – focus on short term
- Investors have higher leverage: low domestic savings, high sensitivity to interest and exchange rates due to high indebtedness (sell-fulfilled prophecies are more likely)
- Financial markets are less developed: higher concentration, higher volatility
- \textit{Push vs. Pull} factors
Example of “Push”

- Also, EMBI+ Brazil and American inflation

Example of “Push”

- EMBI+ Brazil and American inflation

Example of “Pull”

Lula 2002

Cardoso 1994

Financial Investors’ Behavior

DCs: Higher interest rates
EMs: Crashes

Frequency of financial crashes - % per year*

Closed EMs: 25%  Open EM: 62%
Closed DCs: 9%  Open DC: 10%
Financial Investors’ Behavior

- Developed Countries, “good credit risk”: influence is strong but narrow
  - Limited to macroeconomic policies
- Emerging Markets, “bad credit risk”: influence is strong and broad
  - Macro and micro economic policies, politics
  - Examples: capacity to generate revenues, BoP position, structure of public, investment vs. consumption

Implications for Emerging Markets

- Governments must sell their policies not only to domestic voters, but also to international investors (* Dirceu)
- Limits on governments’ capacity to redistribute income

Investors self-described

Exit, Voice and Loyalty, Javier Santiso

- Senior Expert Associate on Latin American Emerging Markets for Crédit Agricole Indosuez, before 2002
- Chief Economist for Latin America and Emerging Markets at the Madrid-based Banco Bilbao Vizcaya Argentaria (BBVA), from 2002/2005
- Current Deputy Director and Chief Development Economist at the OECD Development Centre
The Confidence Game

“Confidence and trust are in the center of financial turbulences” (Krugman)
- “Fundamentals” not enough; fit with fast mood swings of international financial markets
- Unstable conventions: forward looking, timing, perceptions, taboos
- Rational to imitate – voice or exit at the same time as others
- Asymmetries and inefficiencies of information
- Herd behavior, panics
- High speed: both to create and to rescue from crises

Key players:
- Financial analysts, economists, strategists, industry equity/ bond analysts, fund managers
- Other players:
  - Rating agencies, government officials, international organizations, newspapers and information agencies

Investors’ strategies

✔ Exit – portfolio diversification, desinvestment
  - Perceptions of rising risks, more attractive opportunities, unhappiness with policy choices

✔ Voice
  - More costly – articulation of interests
  - Propensity to voice lower than anywhere else
  - Expressed in risk premiums (???)
  - Media distributions (Reuters, Bloomberg)
  - World Meetings
  - Private Associations: Emerging Markets Traders Association (EMTA), Institute of International Finance (IIF), Emerging Markets Creditors Association (EMCA)
Voice - Private Associations

✓ Institute of International Finance (IIF), 1983
  - World’s largest commercial and investment banks
  - 1990: insurance companies, investment mgmt firms, MNCs
  - 2000: more than 320 members in 60 countries

✓ Emerging Markets Traders Association (EMTA), 1990
  - Main group for EM investment community
  - Response to Brady Plan and reemergence of international finance

✓ Emerging Markets Creditors Association (EMCA), 2000
  - Created by a group of buy side firms
  - Voice interests of bondholders to official sector and sovereign issuers

Voice - Examples

• Legislation on debt restructurining
  - Realign private and official procedures

• Defaults
  - Organize creditors
  - Push for equal treatment (?)
  - Communicate investors’ views and demands

The “Morality of Defaults” - loyalty

• Willingness vs. capacity to pay
• Short, selective memory
• Worst case scenario – unexpected defaulters
• Question: why countries (and not governments?)

Governments’ Strategies

✓ Attempts to restore confidence
  - “Sound policies”, accurate data, road shows, meetings, investors relations
  - Question: always?

✓ Rationale: higher confidence, lower interest rates, higher investment, higher growth
<table>
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<tr>
<th>Confidence building - “Strategic Labels”</th>
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<tr>
<td>✓ Economic reforms: confidence shocks</td>
<td>✓ The Role of IMF (p.34)</td>
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<td>- Liberalization policies</td>
<td>- Reforms to build confidence and reattract investors</td>
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<td>- Deregulation</td>
<td>- Emergency loans in exchange</td>
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<td>- Central bank independence</td>
<td>- Bearing the costs of adjustment</td>
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<td>- Privatization</td>
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<td>- Pension fund reform</td>
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<td>- Dollarization</td>
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<td>✓ Regional integration</td>
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<td>✓ Goal: lower instability, restrain uncertainty, re-attract investors</td>
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<th>Confidence building – other signals</th>
<th>Different investors, different demands</th>
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<td>✓ Argentina 1989: Conservative financial and labor ministers</td>
<td>✓ Investors: differing, sometimes conflicting demands</td>
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<td>✓ Bondholders – high interest rates, shorter horizons</td>
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<td>✓ Brazil 1999: IMF agreement</td>
<td>✓ Pension funds, insurance companies and commercial banks – varied horizons</td>
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<td>✓ Uruguay 2004: Appointment of financial minister</td>
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<td>✓ Turkey 2000: IMF package</td>
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