Comments on Effectiveness of Capital Controls: Evidence from Thailand Juthathip Jongwanich and Archanun Kohpaiboon

ELI REMOLONA

Examining the Five Dimensions of Effectiveness and the Results

The paper finds that the different types of capital controls are effective in terms of affecting the volume and composition of flows. Using the real effective exchange rate, however, it finds that capital controls do not relieve the pressure of the domestic currency to appreciate. It also looks at two measures of volatility based on the nominal exchange rate to the dollar and the export-weighted bilateral exchange rate and confirms that capital controls stabilize the exchange rate.

The paper likewise examines whether capital controls affect monetary independence. However, I think the duration of maturities of the interest rates used to derive the interest rate differentials (i.e., between the 14-day repurchase rate and the US 3-month Treasury bill rate) are non-matching. In examining the effect of capital controls on monetary autonomy, instead of looking at the policy rates, I think one must look at the interest rates that matter that are further down the yield curve. In the case of the US, for instance, the interest rates that matter are somewhere between the 2-year and 5-year interest rates.

The paper also examines whether controls prevent a crisis. However, this aspect is difficult to examine in the context of one country. I think it is better examined in a cross-country study.

Role of the Narrative in the Construction of the Index

The paper presents a 20-year narrative which I think is very important for a country paper such as this, as it provides important insights that are helpful for the construction of monthly de jure capital controls indexes by asset type and direction of flow.

For instance, consider the interesting December 2006 episode when Thailand experienced a surge in the value of the Thai baht. Since the surge was mostly due to the large inflows in the bond market, the controls imposed were mostly aimed at the bond market. However, looking at the actual flows, there was hardly any reaction in that market. Instead, the most forceful reaction was in the equity market. This is a very interesting phenomenon that is opposite of what we expect. I think that if you find an episode like this, it is interesting to examine

Eli Remolona is chief representative for Asia and the Pacific of the Bank of International Settlements.

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whether it is a one-time phenomenon and whether you can draw some general conclusions from it. In other words, the narrative and econometrics parts of the paper should inform each other.

De facto Instead of De jure Controls

An early literature on interest rate convergence (Edwards and Kahn 1986) suggests that when you look at convergence in interest rates, de jure capital controls are not as binding as they seem. I think it would be in the right direction to look at de facto capital controls. In this region, for instance, one sign that exchange restrictions are binding is the activity in the non-derivable forward (NDF) market, say in the People's Republic of China, Malaysia, the Philippines, and Thailand. One measure of stringency in exchange rate restrictions is the difference between the interest rate that is implied in an NDF contract offshore and the actual domestic interest rate.