

Table of Contents

Chapter 1: Introduction.....	1
1.1 Introduction.....	1
1.2 Recent Issues in International Finance	4
1.2.1 Overview of International Financial Crises	4
1.2.2 Views on the East Asian Crises	8
1.3 Statement of the Problem and Objectives of the Study	10
1.3.1 Objectives of the Study.....	10
1.3.2 Finance and Welfare Economics.....	11
1.4 Book Outline.....	13

PART A: Literature Review – The Emerging Issues

Chapter 2: Recent Issues in International Finance: A Literature Review.....	21
2.1 Introduction.....	21
2.2 Financial Liberalisation: Sequence and Order	21
2.2.1 Overview.....	22
2.2.2 Sequence and Order of Financial Liberalisation: A Literature Review	23
2.3 Capital Controls	26
2.3.1 Controls on Capital Outflows	27
2.3.1.1 Preventive Controls on Capital Outflows	27
2.3.1.2 Curative Controls on Capital Outflows.....	28
2.3.2 Controls on Capital Inflows	29
2.4 Exchange Rate Policy	30
2.4.1 Factors Influencing a Choice of Exchange Rate Policy.....	31
2.4.2 Overview of Fixed and Flexible Exchange Rate	32
2.5 Asymmetric Information.....	35
2.5.1 Asymmetric Information: An Overview	36
2.5.2 Theory of Adverse Selection	37

2.5.3 Theory of Moral Hazard	39
2.5.4 Financial Crises and Asymmetric Information	41
2.6 Summary.....	44

Chapter 3: Overview of Thailand’s Approach to Financial Liberalisation.....47

3.1 Introduction.....	47
3.2 Thailand’s Economic Development.....	48
3.2.1 The Six National Development Plans	48
3.3 History of Thailand’s Economic Growth.....	51
3.4 Forces Influencing Financial Liberalisation in Thailand	53
3.4.1 Internal Forces	53
3.4.1.1 Export-Led Growth Policy.....	53
3.4.1.2 Acceptance of the IMF Article VIII.....	54
3.4.1.3 A Sound Fiscal Condition.....	55
3.4.2 External Forces	56
3.4.2.1 Opening of Neighbouring Economies	56
3.4.2.2 The Trend Towards Globalisation of the Financial System	57
3.5 Financial Liberalisation Framework.....	58
3.5.1 Trade Reforms and Interest Rate Deregulation	58
3.5.2 Relaxation of Exchange Rate and Capital Controls.....	60
3.5.3 The Establishment of International Financial Facilities	61
3.5.3.1 The Establishment of the Bangkok International Banking Facilities (BIBF).....	61
3.5.3.2 The Export-Import Bank.....	62
3.6 Summary.....	64

PART B: The Thai Experience

Chapter 4: Analysis of Sequencing of Financial Liberalisation in Thailand..... 69

4.1 Introduction.....	69
4.2 Reforms of Foreign Trade Pattern	70
4.3 Reduction of Deficits and Maintaining Foreign Reserve.....	73
4.4 Foreign Exchange and Capital Control Reforms	77
4.5 Domestic Financial Reforms	82
4.6 Summary.....	86

Chapter 5: Capital Controls: Consequences of Financial Liberalisation.....	89
5.1 Introduction.....	89
5.2 Pattern of Net Private Capital Flows	90
5.3 Characteristics of Thailand’s Capital Flows	95
5.3.1 Capital Flows to Banking Sector	95
5.3.1.1 Capital Flows of Commercial Banks	95
5.3.1.2 Capital Flows of the BIBF	99
5.3.2 Capital Flows to Non-bank Sector.....	102
5.3.2.1 Capital Flows as Foreign Direct Investment (FDI)...	103
5.3.2.2 The Loan Component of Capital Flows	107
5.3.2.3 Capital Flows as Portfolio Investment.....	109
5.3.2.4 Capital Flows of the Non-resident Account.....	113
5.4 Summary.....	115
Chapter 6: Exchange Rate Policy and Its Consequences.....	117
6.1 Introduction.....	117
6.2 Exchange Rates and Their Determination	117
6.3 Overview of Thailand’s Exchange Policy	119
6.4 Development of Thailand’s Basket of Currencies	121
6.5 Consequences of the Basket of Currencies	122
6.5.1 Impacts of a Pegged Exchange Rate to Trade Growth	122
6.5.2 Surge in Funds to Thailand’s Financial Market.....	131
6.5.2.1 Commercial Banks’ Source of Funds	132
6.5.2.2 The BIBF’s Sources of Funds.....	138
6.6 Summary.....	143
PART C: Welfare Economies, Economic Theory and Policy	
Chapter 7: Review of Financial Liberalisation Theory and the Thai Crisis.....	147
7.1 Introduction.....	147
7.2 Inappropriate Sequence of Liberalisation.....	150
7.3 Loosening Controls over the Capital Account.....	155
7.4 Problems of Stable Exchange Rates.....	157
7.5 Asymmetric Information: Problems of Moral Hazard.....	161

Chapter 8: A Cost Benefit Analysis Model for Globalisation: Some Social Welfare Implications of Thailand's Globalisation Process.....	165
8.1 Introduction	165
8.2 Overview of Globalisation and the Thai Experience.....	167
8.3 Welfare Economics Framework for Globalisation.....	168
8.3.1 The Elements.....	168
8.3.1.1 A General Welfare Economics Framework.....	168
8.3.1.2 Applications to Globalisation.....	171
8.3.2 Social Choice Theory.....	172
8.3.3 A System Analysis.....	172
8.3.4 Issues in the Application of the Framework.....	172
8.4 Costs and Benefits of Globalisation.....	173
8.4.1 Illustrative Numerical Estimation of the Costs and Benefits of Globalisation.....	173
8.4.1.1 Benefits	174
8.4.1.2 Costs.....	174
8.4.2 Numerical Application: Methodology, Data and Results.....	176
8.4.2.1 GDP Index.....	176
8.4.2.2 GDP Adjustment Data.....	177
8.5 Welfare Implications of Globalisation.....	180
8.6 Conclusions.....	181
 Chapter 9: Conclusions and Policy Implications.....	 183
9.1 Conclusions.....	183
9.2 Policy Implications.....	190
9.3 Areas for Further Research.....	192
9.4 Final Comments.....	193
 References.....	 195
 Appendix A: Regulatory Agency.....	 217
Appendix B: Articles of Agreement of the IMF.....	219
Appendix C: Chronology of Financial Reforms in Thailand.....	223
 Index.....	 225