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# A New Measure of Financial Openness

Menzie D. Chinn & Hiro Ito

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# Acknowledgements

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# Notes

1. See Edison and Warnock (2001), Edwards (2001), Edison et al. (2002), and Kose et al. (2006) for discussions and comparisons of various measures on capital restrictions. For extensive reviews on capital controls policy or financial liberalization, refer to Dooley (1996), Eichengreen (2002), Kose et al. (2006), and Henry (2006).
2. The e... s we will discuss l...
3. This is ... EAER of the capital a ... e data on disaggre ... een categori ... inflows and outflow ... ston and Tamil ... al analysis on the d...
4. Capita ... d as those imposed ... t crises, or of a less ... nents (URR). See Edw...



5. Kose et al. ([2006](#)) and Rajan ([2003](#)) categorize the measures of capital financial openness de jure measures (based on IMF's AREAER); de facto measures based on price differentials such as the uncovered or real interest rate parity (Cheung et al. [2006](#)) and international arbitrage pricing model (IAPM) or capital asset pricing model (ICAPM) (see De Gregorio [1998](#)); and de facto measures based on quantities, i.e., volumes of capital flows as a ratio to GDP, such as Lane and Milesi-Ferretti ([2006](#)). A drawback of the price-based measures is that the measures, especially those based on the interest rate parity conditions, can reflect changes in macroeconomic conditions even if there is no regulatory changes on capital account transactions. Other sources for categorization of measures on financial integration and/or financial openness are Cavoli et al. ([2003](#)) and Takagi and Hirose ([2004](#)).

6. We initially constructed this index for Chinn and Ito ([2002](#), [2006](#)). We have updated the series annually since then while expanding the scope of countries.

7. Especially, the k3 category was divided into 13 categories. See Johnston and Tamirisa ([1998](#)) and Miniane ([2004](#)) for details.

8. The index is normalized with the highest degree of financial openness captured by the value of 100 and the lowest by zero.

9. It must be noted that the index is not a perfect measure of financial openness and time periods of the index are not the same for all countries.

10. Kam and Pagan (2003) show that the index is 57.6 per cent for developed and emerging economies. The index is 67.6 per cent for emerging economies.

11. See the index of equity market openness.



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Notes

Menzie D. Chinn

Menzie D. Chinn is Professor of Public Affairs and Economics at the University of Wisconsin's Robert M. La Follette School of Public Affairs, and a research associate of the National Bureau of Economic Research. He was senior economist on the Council of Economic Advisers from 2000-2001. Chinn received his PhD from the University of California, Berkeley.

Hiro Ito

Hiro Ito is assistant professor of economist Portland State University, Oregon. His areas of focus are financial development, financial globalization, and macroeconomic interlinkages between countries. Ito received his PhD from the University of California, Santa Cruz.

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