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A New Measure of Financial Openness

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A New Measure of Financial Openness

Menzie D. Chinn & Hiro Ito

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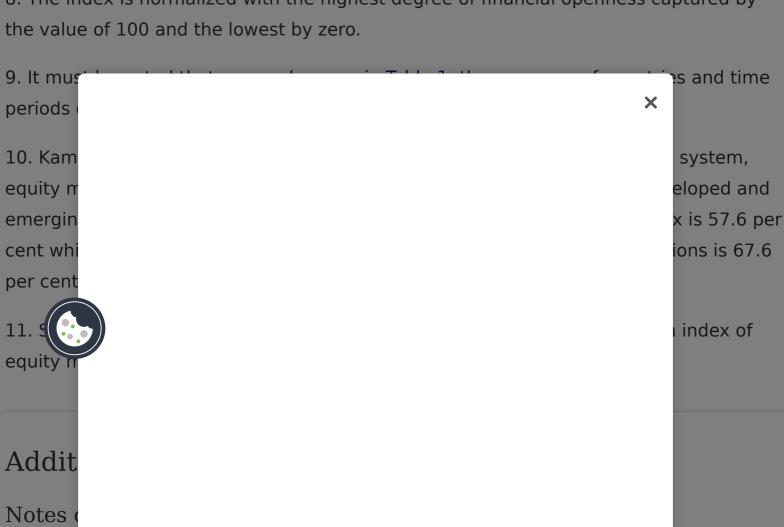
We thank Ashok Mody, Antu Panini Murshid, and Dennis Quinn for providing data, and Jacques Miniane for making his financial openness index publicly available. We also thank Pariyate (Sam) Potchamanawong for his excellent research assistance and Joe Stewart for graphical assistance. The financial support of faculty research funds of the University of Wisconsin, Madison, Portland State University, and Japan Foundation are gratefully acknowledged. The dataset discussed in this paper is publicly available at http://www.ssc.wisc.edu/~mchinn/research.html or http://web.pdx.edu/~ito/.

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 X s we will discuss 3. This is EAER of the data on capital a disaggre een categori inflows and outflo ston and al analysis Tami 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

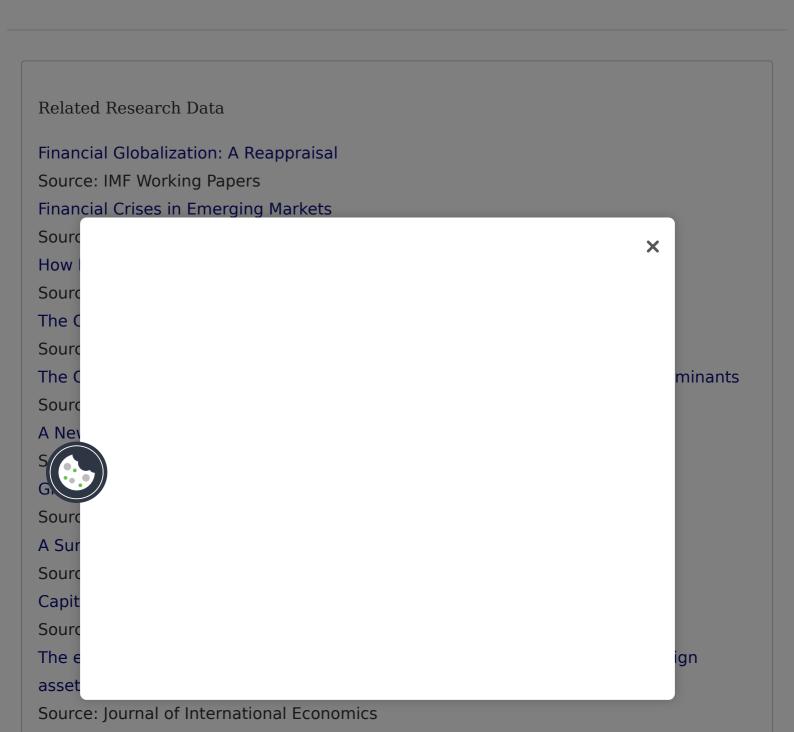


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Capital account liberalization and financial globalization, 1890–1999: a synoptic view

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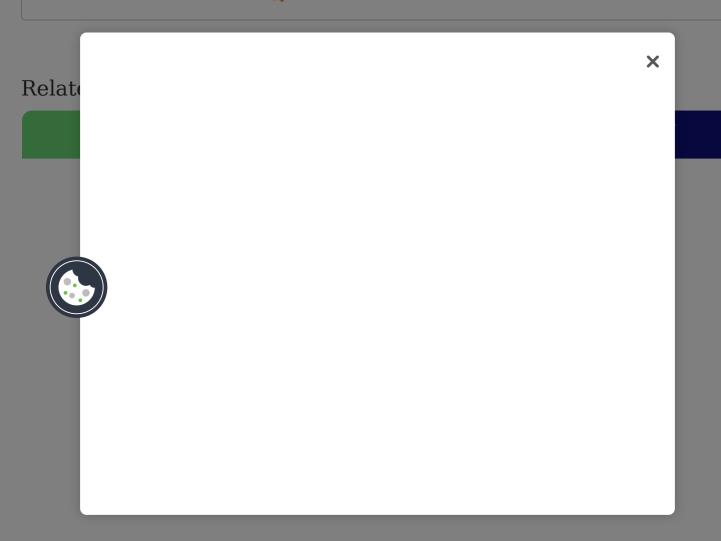
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