

# Preface

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It is widely recognized that globalization has contributed significantly to the economic development of emerging markets economies such as better accessibility to required capital for economic growth and quality of life. Negative impacts, however, have started to loom as rapid cross-border capital flows, specifically as the 2008 global financial crisis has caused financial systems of emerging markets to become fragile. Accordingly, direct and indirect policy responses to international capital flows have become key challenges for monetary and financial authorities of emerging markets economies.

This issue is particularly important in countries like Korea with a high degree of openness. With the onset of the global financial crisis in 2008, their local banks experienced a halt in foreign capital inflows and the currencies depreciated sharply. Understanding the risks involving cross-border capital flows, for example, the Korean government responded with strengthened macroeconomic prudential measures on international financial transactions and witnessed much improved stability in foreign exchange rates and international capital mobilization despite the occurrence of the 2012 fiscal debt crisis in Europe.

With such considerations in mind, a research group on “Financial Regulations on International Capital Flows and Exchange Rates” was held in Honolulu, Hawaii, in July 2012. The leading scholars and practitioners participated in this research, organized by the Korea Development Institute and the East-West Center, to present and discuss issues regarding international financial regulations. At this meeting empirical evidence on international financial transactions and some case studies of emerging market economies were introduced to suggest financial regulatory policies on international capital flows and foreign exchanges with a focal point of macroeconomic prudential measures, capital control and foreign exchange reserves. Discussed in particular was a heightened necessity for macroprudential policies in emerging markets economies due to their large swings in business cycles and consequently huge financial volatilities with regard to advanced ones. While foreign currency reserves could be a buffer against fast capital outflows and capital controls would be useful as the last resort to prevent catastrophic situations, it was pointed out that macroprudential

policies are more generally accepted as less distorted and also proven effective in maintaining macroeconomic and financial stability.

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