Comments by Iikka Korhonen, **on Capital Control and Monetary Policy in Asian Emerging Market Economies**

Iikka Korhonen: The paper first estimates vector autoregressive models for eight Asian countries to assess the effects of U.S. monetary policy shocks. Then the paper builds a theoretical model to explain some of the findings. The authors find that capital controls give countries some degree of monetary policy independence when faced with a U.S. monetary policy shock. As such, I find this quite plausible, although I would like to see the authors describe how their results relate to Rey's (2013) notion about the "impossible dilemma."

In the empirical specification, countries are divided into four groups:

1. High capital control, fixed currency (China, India, Malaysia);
2. High capital control, floating currency (Indonesia, Thailand, the Philippines);
3. Low capital control, fixed currency (Hong Kong); and
4. Low capital control, floating currency (Korea).

I am skeptical whether it is meaningful to group countries in this manner. Figures 1 and 2 show that countries' exchange rate regimes and especially their capital controls have varied considerably from 1999 to 2013. This makes interpretation of the results for groups 1 and 2 problematic. This, in turn, is problematic because the whole premise of the paper is that in certain types of situations capital controls work. I think it would have been better to stick to cases where the strictness of capital controls stayed more or less the same for the whole sample period.

In the empirical results we see that sometimes there are large capital outflows from countries following U.S. monetary policy tightening. The authors attribute this to adequacy of capital flow management. But if a country has opted not to have capital controls, this sounds a bit strange.

Reference

Rey, Hélène. 2013. Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence. Paper presented at the Jackson Hole Symposium, August.

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