NOTES

Chapter One Introduction: Inside the Black Box. A Journey Toward Emerging Markets

1. Quoted from the introduction of Charles Kindleberger, *Mania, Panics and Crashes: A History of Financial Crashes*, New York, John Wiley & Sons, 1989 and 2000. Dating the integration of emerging capital markets is a difficult task. The timing of *financial* integration can be different from the timing of regulatory integration as underlined by Geert Bekaert, Campbell Harvey and Robin Lumsdaine, "Dating the Integration of World Equity Markets," paper presented at the *28th Annual Meeting of the European Finance Association*, Universitat Pompeu Fabra, Barcelone, 22–25 August, 2001. The emergence of the so-called emerging markets can be dated previously to the 1980s and 1990s, emerging markets being in fact reemerging markets. Many of the contemporary emerging markets were already active in the 1920s and even before in the case of Latin America. See William Goetzmann and Phillippe Jorion, "Re-emerging Markets," *Journal of Financial and Quantitative Analysis*, vol. 34, no. 1, March 1999; and for an interesting article on China see also William Goetzmann and Andrey Ukhov, "China and the World Financial Markets 1870–1930: Modern Lessons from Historical Globalization," *The Wharton School, University of Pennsylvania, Financial Institutions Center Working Paper*, no. 01–30, July 2001.
2. On the first great global capital boom, both commercial and financial, see the essays of Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, Princeton, Princeton University Press, 1996; Kevin O'Rourke and Jeffrey Williamson, *Globalization and History: The Evolution of a Nineteenth Century Atlantic Economy*, Cambridge, Mass., MIT Press, 2001.
3. Emerging markets refers in fact to developing countries screened by the IFC based on two major variables for classifying equity markets: income per capita and market capitalization relative to GNP. If a market resides in a low-income country and has a low ratio of investable market capitalization to GNP, then World Bank's IFC classifies the market as emerging. Several countries are however classified as "emerging markets" in spite of being members of the OCDE. This is the case e.g. in South Korea, Mexico, Czech Republic, Hungary and Poland. Greece, a member both of the OECD and the European Union, was also classified for a while as an emerging market. According to data based on World Bank, as of 1998, 75% of the countries of the globe (155 out of 206 countries) were considered as emerging markets. They represent the major world's population (85%) but a small share of world GNP (less than 22%) and a smaller share of equity market capitalization (8.5% of total equity market capitalization) and of bond market capitalization (4.7% of total). According to BIS data, in 1998, emerging markets accounted for around 15% of global foreign exchange trading activity. For a deeper analysis of

the data see Richard Levich, "The Importance of Emerging Markets," *New York University Stern School of Business Working Paper*, March 2001; published in the *Brookings Wharton Papers on Financial Services 2001.*

4. For a historical perspective on financial crisis, see Charles Kindleberger, *Mania, Panics and Crashes: A History of Financial Crashes*, New York, John Wiley & Sons, 1989 and 2000.
5. See Amartya Sen, "Rational Fools: A Critique of the Behavioural Foundations of Economic Theory," *Philosophy and Public Affairs*, vol. 6, no. 4, 1977, pp. 317–344.
6. For a general study on the financial community of Wall Street, see the socioeconomic analyses of Mitchel Abolafia, *Making Markets: Opportunities and Restraint on Wall Street*, Cambridge, Mass., Harvard University Press, 1997. Abolafia's approach is a socioeconomic analysis in the tradition of Max Weber, who wrote essays on the stock market as well as on the ethic of capitalism. The Bibliothèque du Citoyen translated both into French in 1894–1896. See Max Weber, *La Bourse*, Paris, Transition, 1999.
7. See e.g. the developments in economic sociology and approaches toward finance issues by *The Social Studies of Finance Workshop* held at Paris School of Mines, April 20–21, 2000 (http://homepage.altavista.com/ssfn/) and *The Society for Advancement of Socio-Economics SASE* (http://www.sase.org) that expounded the leading and seminal works of Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology*, vol. 91, 1985, pp. 481–510; and Mark Granovetter, *Society and Economy: The Social Construction of Economic Institutions*, Cambridge, Mass., Harvard University Press, 2001.
8. The first models of balance of payments crisis were based on the seminal paper of Paul Krugman, "A Model of Balance-of-Payments Crisis," *Journal of Money, Credit and Banking*, no. 11, 1979, pp. 311–325; the "second generation models" were pioneered by Maurice Obtsfeld, "Rational and Self-fulfilling Balance of Payments Crises," *American Economic Review*, March 1986, pp. 72–81; and Maurice Obstfeld, "The Logic of Currency Crises," *Cahiers Economiques et Monétaires*, XLIII, 1994, pp. 189–213. For a discussion see Paul Krugman, "Are Currency Crises Self-Fulfilling?", *NBER Macroeconomics Annual*, Cambridge, Mass., MIT Press, 1996, pp. 345–378; and Robert Flood and Nancy Marion, "Self-Fulfilling Risk Predictions: An Application to Speculative Attacks," *Journal of International Economics*, vol. 50, no. 1, February 2000, pp. 245–268.
9. See (for a special analysis on international illiquidity issues and domestic banking system) Roberto Chang and Andrés Velasco, "A Model of Financial Crises in Emerging Markets," *The Quarterly Journal of Economics*, May 2001, pp. 489–517.
10. For a concise review of this literature, see Robert Shiller, "Human Behavior and the Efficiency of Financial System," *National Bureau of Economic Research Working Paper*, no. 6375, January 1998; and Robert Shiller, *Irrational Exuberance*, Princeton, Princeton University Press, 2000. The attraction of behavioral finance has not only been academic: in 2000 an estimate suggested that more than US$ 70 bn. was invested in the United States using behavioral finance theories. Chicago economist Richard Thaler (with Russ Fuller) founded an asset-management company making investments based on these heuristics discoveries. See http://www.fullerthaler.com
11. See for a synthesis André Orléan, "L'hypothèse autoréférentielle appliquée à la finance," paper presented at the *Third Annual Saint Gobain Meeting on Economic Research*, "Les transformations de la finance en Europe," November 8–9, 2001.
12. Financial actors live in a forward looking world whose pretention of mastering risk follows a long tradition as shown by Peter Berstein, *Against the Gods. The Remarkable History of Risk*, New York, John Wiley & Sons, 1996.
13. For prospect theory seminal papers, see Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decision Under Risk," *Econometrica*, 47(2), 1979, pp. 263–291; Daniel Kahneman and Amos Tversky, "Loss Aversion and Riskless Choice A Reference Dependent Model," *Quarterly Journal of Economics*, CVII, 1991, pp. 1039–1061; Richard Thaler, *Advances in*

Behavioral Finance, New York, Russell Sage Foundation, 1993; and Daniel Kahneman and Amos Tversky, *Choices, Values and Frames*, New York, Cambridge University Press, 2000.

14. See e.g. the anthropological works of Ellen Hertz on the Shangai Stock Exchange, Ellen Hertz, *The Trading Crowd: An Ethnography of the Shanghai Stock Market*, Cambridge, Cambridge University Press, 1998.
15. Womack's research, e.g., shows that the stock recommended by underwriters perform poorly when compared with the "buy" recommendations of unaffiliated agency brokers, thus proving the importance of conflict of interests and the biases they occasionally introduce into the recommendations made by brokerage. Most of the fund managers are aware of these conflicts and deal with them when they read brokerage research, "paying as much attention to what it is written than by whom and when" "because it's part of the confidence game." Interviews, London, June 22, 2000 and Paris, June 8, 2000, with emerging markets fund managers. See Kent Womack, "Do Brokerage Analysts' Recommendations Have Investment Value?", *The Journal of Finance*, vol. 51, no. 1, 1996, pp. 137–167.
16. For an evaluation of credit rating agencies after the Asian crisis, see Helmut Reisen, "Ratings Since the Asian Crisis," *WIDER United Nations University, Discussion Paper*, No. 2002/2, January 2002.
17. See Carmen Reinhart, "Default, Currency Crises and Sovereign Credit Ratings," *NBER Working Paper*, 8738, January 2002. See also, Deutsche Bank, "Sovereign Credit Ratings," *Deutsche Bank, Research Notes in Economics & Statistics*, January 29, 2002.
18. See in particular interviews in Paris, June 15, 2001; Edinburgh, November 17, 18 and 19, 2000; New York, November 5, 6 and 7, 2000; and Boston, November 19, 21 and 22, 2000.
19. Interviews in New York November 6 and 7, 2000; London, April 14, 2001; Edinburgh, November 17, 20 and 21, 2000; and Paris, June 14, 2001.
20. See BBVA Securities, "Mexico: Identifying the Catalysts," *BBVA Securities, Latin American Equities Strategy*, New York, January 17, 2002; and BBVA Bancomer Casa de Bolsa, "Se reconocen los esfuerzos económicos de Mexico; Fitch otorga grade de inversión," *BBVA Bancomer Casa de Bolsa, Estrategia Bancomer*, Mexico, January 21, 2002.
21. See Carmen Reinhart, "Sovereign Credit Ratings Before and After Financial Crises," paper presented at *The World Bank Group Conference on the Role of Credit Reporting Systems in the International Economy*, March 1–2, 2001 (unpublished); Guillermo Larrain, Helmut Reisen and Julia van Maltzen, "Emerging Market Risk and Sovereign Credit Ratings," *OECD Development Centre Technical Papers*, no. 124, Paris, OECD, 1997; and Richard Cantor and Frank Packer, "Determinants and Impacts of Sovereign Credit Ratings," *Federal Reserve Bank of New York Economic Policy Review*, October 1996, pp. 37–53.
22. The figure calculated by a group of Berkeley researchers include also around 610 bn. e-mails that are sent each year in America alone (e-mails are used by analysts and fund managers as the quickest way of diffusing or receiving research). See Peter Lyman and Hal Varian, "How Much Information?", *University of Berkeley Working Paper*, 2000 (unpublished), available through the net: http://www.sims.berkeley.edu/how-much-info/.
23. Thomson Financial is a provider of e-information services that owns leading units such as I/B/E/S (who provide asset managers and other professionals with forecasts and databases covering 18,000 companies in 60 countries, with estimates from 850 firms around the globe). First Call is another financial information provider for money managers; and the well known and popular Datastream which is a databases provider. See: http://www.ibes.com/; http://www.datastream.com/; http://www.firstcall.com/; and http://www.thomsonfinancial.com/.
24. Over the last years, the major operators increased acquisitions of smaller information companies as well as joint ventures. Reuters, e.g., acquired Lipper Analytical Services, a povider of mutual and global fund data, and in 2001 the company acquired assets of one of the major competitors Bridge Information Systems. Reuters also formed joint ventures with Multex.com Inc, a leading Internet online intermediary for the financial market place (they create Multex Investor Europe) and with Dow Jones & Co. to develop a web-based global service called

Factiva to provide corporate financial news and research data. For websites on financial windows see: http://www.reuters.com/; http://www.factiva.com/; http://www.lipperweb.com/.

25. With more than 18,000 employees and close to 2,150 journalists across 100 different countries in 2000, Reuters possesses the second most important satellite network in the world, after the Pentagon. The company, who marked its one hundred and fiftieth anniversary in 2001, was founded by Julius Reuter who began using pigeons to fly stock market prices between Brussels and Aachen. Later he moved to London to trasmit news and prices around Europe through the newly opened Dover–Calais submarine cable.
26. See "Calender of Events," *Emerging Debt Markets Biweekly*, New York, Goldman Sachs, Economic Research Department, February 4, 1997, p. 25.
27. For an empirical analysis of this crisis, based on a large survey and nearly 900 responses, see Robert Shiller, *Market Volatility*, Cambridge, Mass., MIT Press, 1991.
28. See André Orléan, *Le pouvoir de la finance*, Paris, Editions Odile Jacob, 1999.
29. For an analysis on the transformation of financial markets refer to the work of Frederic Mishkin, *The Economics of Money, Banking and Financial Markets*, New York, Addison Wesley, 1998; and Barry Eichengreen, *Globalizing Capital: A History of International Monetary System*, Princeton, Princeton University Press, 1996.
30. Philippe Delmas, *Le maître des horloges. Modernité de l'action publique*, Paris, Odile Jacob, 1991, p. 97.
31. See Paul Virilio, *La vitesse de libération*, Paris, Galilée, 1995.
32. See Javier Santiso, "The Fall into the Present: The Emergence of Limited Political Temporalities in Latin America," *Time & Society*, March 1998, 7(1), pp. 25–54.
33. Space has not disappeared, however: the localization of stock exchanges, determined according to time lags and the 24-hour service that they allow, are still pertinent. The end of geography actually designates the end of its monopoly or the quest for space as a vector of power. The main issue is no longer to expand a state's territory or to push frontiers further, it is rather to access, in record time, significant market shares and to increase the speed of the economy. For a discussion of the relation between space and time in international finance see Nigel Thrift, "A Phantom State? The De-Traditionalization of Money, the International Financial System and International Finance Centres," *Political Geography*, July 1994, 13(4), pp. 299–327; and Benjamin Cohen, *The Geography of Money*, Ithaca, Cornell University Press, 1998.
34. The goal of deregulation mechanisms is, first of all, to reduce transaction costs, which should be zero according to orthodox theory (zero transaction cost). The zero transaction-cost theory supports a hypothesis that has been proven by the facts, as Ronald Coase has pointed out concerning exchanges effectuated without delays in an instantaneous manner: "Another consequence of the assumption of zero transaction costs, not usually noticed, is that when there are no costs of making transactions, it costs nothing to speed them up so that eternity can be experienced in a split second." Ronald Coase, *The Firm, the Market and the Law*, Chicago, The University of Chicago Press, 1998, p. 15.
35. See Bruce Carruthers, *City of Capital: Politics and Markets in the English Revolution*, Princeton, Princeton University Press, 1996; and the essays published by Neil Fligstein, "Markets as Politics: A Political-Cultural Approach to Market Institutions," *American Sociological Review*, 1996, 61, pp. 656–673; and Neil Fligstein *The Architecture of Markets: An Economic Sociology of Capitalist Societies*, Princeton, Princeton University Press, 2001. As underlined by North and Weingast, Britain's performance, financial, economic and military after 1689, is closely linked with the establishment of the Bank of England, which provided the technological resources that improved the Crown's ability to borrow money. See Douglass North and Barry Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *Journal of Economic History*, vol. 49, December 1989, pp. 803–832; and also, on the diffusion of credibility-enhancing institutions like central banks Lawrence Broz, "The Origins of Central Banking: Solutions to the Free-Rider Problem," *International Organization*, vol. 52, no. 2, 1998, pp. 231–268.

36. See the works of historians David Landes, *Revolution in Time: Clocks and the Making of Modern World*, Cambridge, Mass., 2000 (revised edition). More specifically on finance and politics during the Middle Age, see Jacques Le Goff, "La bourse et la vie: économie et religion au Moyen Age," in Le Goff, *Un autre Moyen Age*, Paris, Gallimard, 1999, pp. 1261–1337; and on the creation of modern stock markets in Amsterdam (1531) and in London (1571), Fernand Braudel, *Civilisation matérielle, économie et capitalisme*, Paris, Le Livre de Poche, II, 1979, pp. 99–101.
37. See Clifford Geertz, *After the Fact. Two Countries, Four Decades, One Anthropologist*, Cambridge, Mass., Harvard University Press, 1995.

Chapter Two The Confidence Game: Exit, Voice and Loyalty in Financial Markets

1. See Paul Krugman, "Dutch Tulips and Emerging Markets," *Foreign Affairs*, vol. 74, no. 4, 1995, pp. 28–44.
2. See Enrique Mendoza, "Why Should Emerging Economies Give Up National Currencies: A Case for Institutions Substitution," *NBER Working Paper*, No. 8950, May 2002.
3. See Ricardo Caballero and Rudi Dornbusch, "Argentina: A Rescue Plan that Works," MIT, http://web.mit.edu/caball/www/ARGENTINA22802.pdf.
4. Here, I refer to Albert Hirschman, *Exit, Voice and Loyalty: Responses to Decline in Firms, Organizations, and States*, Cambridge, Mass., Harvard University Press, 1970. Initially Hirschman's analysis was focused on consumers responses or members of organizations' (social and political included) contrasting responses to the deterioration in the quality of goods they buy or services they benefit from. In this sense "exit is simply the act of leaving, generally because a better good service or benefit is believed to be provided by another firm or organization. Indirectly and unintentionally exit can cause the deteriorating organization to improve its performance. Voice is the act of complaining, or of organizing to complain or to protest, with the intention of achieving directly a recuperation of the quality that has been impaired." See Albert Hirschman, "Exit, Voice and the Fate of the German Democratic Republic," in Hirschman, *A Propensity to Self-subversion*, Cambridge, Mass., Harvard University Press, 1995, p. 12.
5. Interviews with several fund managers and Latin American economists in Madrid, April 7 and 9, 2001; Paris, May 14, June 7 and 14, July 27, 2001; Washington, May 21, 2001; New York, May 8, 9 and 11, 2000 and January 15, 17 and 19, 2001; London, June 1 and 2, 2000.
6. See interviews with emerging markets fund managers, New York, May 8 and 10, 2000; and London. As pointed out by Mohamed El-Erian, a well-known emerging bond market fund manager, "judging from the behaviour of large Latin borrowers in particular, we are witnessing a sea of change in the way information is being communicated. Ad-hoc and sometime adversial relations are giving way to regular exchanges of information via non-deal road shows, conference calls, and even e-mails." "This provides investors with better access to more timely and comprehensive information, including regular e-mails from major borrowers." Mohamed El-Erian, *PIMCO Emerging Markets Watch*, PIMCO, October 2000 (http://www.pimco.com).
7. On asymmetric information and informational efficient markets, see the seminal paper of Sanford J. Grossman and Joseph Stiglitz, "On the Impossibility of Informationally Efficient Markets," *The American Economic Review*, vol. 70, no. 3, June 1980, pp. 393–408. Information asymmetries also played a substantial role during the early stages of financial globalization by the end of the nineteenth century when there was a clear dominance of railway bonds as underlined by Barry Eichengreen and Michael Bordo, "Crises Now and Then: What Lessons from Last Era of Financial Globalization," *NBER Working Paper*, No. 8716, January 2002; and Michael Bordo and Antu Panini Murshid, "Globalization and Changing Patterns in the International Transmission of Shocks in Financial Markets," *NBER Working Paper*, No. 9019,

June 2002. In fact according to Davis and Gallman, during this early stage of financial globalization, nine of every ten pounds of British investment between 1865 and 1890 went into railroad and government bonds. See Lance Davis and Robert Gallman, *Waves, Tides and Sandcastles: The Impact of Capital Flows on Evolving Financial Markets in the New World, 1865–1914*, Cambridge, Cambridge University Press, 2000.

8. On informational and normative mimetism in financial markets, see André Orléan, "Psychologie des marchés. Comprendre les foules spéculatives," in Jacques Gravereau and Jacques Trauman, eds., *Crises financières*, Paris, Economica, 2001, pp. 105–128; and André Orléan, "Informational influences and the ambivalence of imitation," in Jacques Lesourne and André Orléan, eds., *Advances in Self-Organization and Evolutionary Economics*, London, Paris, Geneva, Economica, 1998, pp. 39–56.
9. See Guillermo Calvo and Enrique Mendoza, "Rational Herding and the Globalization of Financial Markets," *Journal of International Economics*, vol. 51, 2000, pp. 79–114.
10. See Barry Eichengreen and Richard Portes, *Crisis? What Crisis. Orderly Workouts for Sovereign Debtors*, Washington, D.C., Brookings, 1995.
11. Interviews with EMTA's Starla Cohen, Paris, March 7, 2001; and with Starla Cohen and Jonathan Murno, Paris, April 19, 2001. See the Club de Paris website: http://www.clubdeparis.org/.
12. Interview with IIF's Ramón Aracena, Washington, June 21, 2001. See also the website: http://www.iif.com/.
13. See http://www.emta.org/ndevelop/emca.pdf. Among the leading firms that created EMCA were fund managers like MFS Investment Management, PIMCO, Western Asset Management, HBK Investments, Morgan Stanley Dean Witter, David Babson Mutual Financial Group and Metropolitan Life Insurance Company.
14. See Mohamed A. El-Erian, "The Long and Winding Road," *PIMCO Emerging Markets Watch*, October 2000.
15. See Jeremy Booth, "How to Keep Developing Countries in Their Place: Cut Them Off From Capital," London, *Ashmore Investment Management*, October 4, 2001 (short version published in Euromoney). See also http://www.emta.org/keyper/indusper.html.
16. Walter Molano, "Please, Don't Call the Lawyers," New York, *BCP Securities, The Latin American Adviser Daily*, November 9, 2001.
17. For a report, see "IMF Could Aid Argentina Debt Restructure Moves," *Financial Times*, November 7, 2001, p. 9; and *The Wall Street Journal* reproduced in spanish newspaper *Cinco Dias*, "Juguemos a una supuesta crisis en Argentina. Los principales actores se han visto las caras en un simulacro de suspension de pagos," *The Wall Street Journal/Cinco Dias*, November 8, 2001, p. 53. An analytical paper was later prepared by Adam Lerrick and Sanjav Srivastava, "Default Without Disruption: Simulation of a Sovereign Debt Restructuring," *Carnegie Mellon University*, Mimeo, June 2002 (unpublished).
18. See Anne Krueger, "International Financial Architecture for 2002: A New Approach to Sovereign Debt Restructuring," address at the *National Economists' Club Annual Member's Dinner American Enterprise Institute*, Washington, D.C., November 26, 2001.
19. See Nouriel Roubini, "Bail-Ins, Bailouts, Burden Sharing and Private Sector Involvement in Crisis Resolution: The G-7 Framework and Some Suggestions on the Open Unresolved Issues," New York, New York University, December 21, 2001; and Nouriel Roubini, "Should Argentina Dollarize or Float? The Pros and Cons of Alternative Exchange Rate Regimes for Domestic and Foreign Debt Restructuring/Reduction," New York, New York University, December 2, 2001.
20. See Merrill Lynch, "Reading the Washington Tea Leaves," *Merrill Lynch Emerging Markets Research*, July 30, 2001.
21. See e.g. the round trip organized by Schroder Salomon Smith Barney economists who held meetings in Buenos Aires on September 10–12, 2001 at a critical moment for Argentina, which was in the midst of a crisis, facing a congressional election on October 14, 2001; Schroder

Salomon Smith Barney, "Argentina: Trip Report," London and New York, *Schroder Salomon Smith Barney*, September 14, 2001.

22. See Hirschman, *Exit, Voice and Loyalty*, op. cit., p. 208 (footnote 4).
23. This doesn't mean that, within the game, marginal adjustments are not tolerated or even celebrated as the Chilean example of *encaje* shows. Implemented in the early 1990s, these capital controls on exits have been widely discussed. See e.g. José de Gregorio, Sesbastian Edwards and Rodrigo Valdés, "Controls on Capital Inflows: Do They Work?" *Journal of Development Economics*, 63(1), 2000, pp. 85–114. There has also been an increased acceptance that capital controls could play a positive role as prudential measures preventing strong dependence on short-term liabilities. This is the case even within the IMF as stressed by Michael Mussa, "Factors Driving Global Economic Integration," paper presented in Jackson Hole, Wyoming at a symposium sponsored by the Federal Reserve Bank of Kansas City, August 25, 2000. On other capital controls such as Malaysian ones (much more discussed and critized), see for a balanced and nonorthodox view Ethan Kaplan and Dani Rodrik, "Did the Malaysian Capital Controls Work?" *John F. Fitzgerald School of Government, Harvard University, Working Paper*, December 2000 (unpublished); see also on the political economic dimension Stephen Haggard and Linda Low, "The Political Economy of Malaysian Controls," *University of California at San Diego*, 2000 (unpublished); and Stephen Haggard, *The Political Economy of the Asian Financial Crisis*, Washington, Institute for International Economics, 2000.
24. As noted by Daniel Verdier "the absence of a well-functioning security market denied investors the capacity to diversify their investment portfolio beyond the region in which they resided. Holders of securities were unable to exercise exit, but had to fall back voice, to use Albert Hirschman's terminology. Territorial specificity forced investors to join the political fray, both corporate and regulatory." See Daniel Verdier, "Capital Mobility and the Origins of Stock Markets," *International Organization*, vol. 55, no. 2, Spring 2001, pp. 327–356; and Daniel Verdier, *Moving Money: The Domestic Institutions of Capital Mobility*, Cambridge, Mass., Cambridge University Press, 2002.
25. Peter Lindert and Peter Morton, "How Sovereign Debt has Worked," in Jeffrey Sachs, ed., *Developing Country Debt and Economic Performance, vol. 1. The International Financial System*, Chicago, University of Chicago Press, 1989, pp. 39–106.
26. See Barry Eichengreen, "Historical Research on International Lending and Debt," *Journal of Economic Perspectives*, vol. 5, no. 2, 1991, pp. 149–169; Eliana Cardoso and Rudiger Dornbusch, "Brazilian Debt Crises: Past and Present," in Barry Eichengreen and Peter H. Lindert, eds., *The International Debt Crisis in Historical Perspective*, Cambridge, Mass., MIT Press, 1989, pp. 106–139.
27. See Michael Tomz, "How Do Reputations Form? New and Seasoned Borrowers in International Capital Markets," Stanford University, Department of Political Science, prepared for delivery at the *2001 Annual Meeting of the American Political Science Association*, San Francisco, August 30–September 2, 2001; and Michael Tomz, "Do Creditors Ignore History? Reputation in International Capital Markets," prepared for the *1998 Annual Meeting of the Latin American Studies Association*, Chicago, September 24–26 (draft updated in February 1999). See also on the intertemporal dimensions of debt games, Kenneth Kletzer and Brian Wright, "Sovereign Debt as Intertemporal Barter," *American Economic Review*, vol. 90, no. 3, 2000, pp. 621–639.
28. Quoted from Alexandre Schwartsman, "No Free Lunch: The Center, the Edge, and Everything in Between," *BBA Economic Research on Brazil*, September 28, 2001.
29. For a discussion on the "blessings in disguise" of economic crises regarding the collapse of authoritarian regimes and democratic transition, see Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions*, Princeton, Princeton University Press, 1995; and Stephan Haggard and Robert Kaufman, *The Politics of Economic Reform Adjustment: International Constraints, Distributive Conflicts, and the State*, Princeton, Princeton University Press, 1992.

30. See e.g. Alberto Alesina and Allan Drazen, "Why are Stabilizations Delayed?" and Allan Drazen and Vittorio Grilli, "The Benefit of Crises for Economic Reforms," in Federico Sturzenegger and Mariano Tommasi, eds., *The Political Economy of Reform*, Cambridge, Mass., MIT Press, 1998, pp. 77–103 and pp. 127–141. For a discussion and an empirical test Allan Drazen and William Easterly, "Do Crises Induce Reform? Simple Empirical Tests of Conventional Wisdom," *Economics & Politics*, vol. 13, no. 2, July 2001, pp. 129–157.
31. Paul Krugman, "The Confidence Game," in Krugman, *The Return of Depression Economics*, London, Penguin Books, 2000, p. 113. See also the version published by The New Republic Online, http://www.thenewrepublic.com/archive/1098/100598/krugman100598.html.
32. See Ilan Goldfajn and Taimur Baig, "The Russian Default and the Contagion to Brazil," in Stijn Calessens and Kristin Forbes, eds., *International Financial Contagion*, Boston, Kluwer Academic Publishers, 2001; Ilan Goldfajn, "The Swings of Capital Flows and the Brazilian Crisis," in Stephany Griffith-Jones, Ricardo Gootschalk and Jacques Cailloux, eds., *Capital Flows in Calm and Turbulent Times*, Ann Arbor, Michigan University Press, 2001.
33. See Gabriel Palma, "The Magical Realism of Brazilian Economics: How to Create a Financial Crisis by Trying to Avoid One," *Center for Economic Policy Analysis, CEPA Working Paper Series III*, Working Paper No. 17, September 2000.
34. The public support for market reforms however remained questionable. The implementation of such reforms took place in some Latin American countries "by surprise," the presidents in Peru or Argentina, Fujimori and Menem, engaging market reforms after populist campaigns. See Susan Carol Stokes, *Markets, Mandates and Democracy: Neoliberalism by Surprise in Latin America*, Cambridge, Mass., Cambridge University Press, 2001; and Susan Carol Stokes, ed., *Public Support for Reforms in New Democracies*, Cambridge, Mass., Cambridge University Press, 2001.
35. See Arvid Lukauskas and Susan Minushkin, "Explaining Styles of Financial Markets Opening in Chile, Mexico, South Korea and Turkey," *International Studies Quarterly*, vol. 44, 2000, pp. 695–723; also underlined by Benjamin Cohen, *The Geography of Money*, Ithaca, N.Y., Cornell University Press, 1998. The globalization of finance made regulation costs higher and less effective while at the same time firms discovered new ways to evade controls and transfer funds and activities abroad, by exercising the exit option. See John Goodman and Louis Pauly, "The Obsolescence of Capital Controls? Economic Management in an Age of Global Markets," *World Politics*, vol. 46, no. 1, October 1993, pp. 50–82; Eric Helleiner, "Post-Globalization. Is the Financial Liberalization Trend Likely to be Reversed?" in Michael Loriaux et al., eds., *Capital Ungoverned. Liberalizing Finance in International States*, Ithaca, N.Y., Cornell University Press, 1997, pp. 193–224; and, on the transformation of world finance, Barry Eichengreen, *Globalizing Capital: A History International Monetary System*, Princeton, Princeton University Press, 1996.
36. For an empirical test of this argument see Beth A. Simmons, "International Law and State Behavior: Commitment and Compliance in International Monetary Affairs," *American Political Science Review*, vol. 94, no. 4, December 2000, pp. 819–835; and Beth A. Simmons, "The Legalization of International Monetary Affairs," *International Organization*, vol. 54, no. 3, Summer 2000, pp. 573–602.
37. On the high degree of temporal and geographic clustering and the patterns of economic policy diffusion explained by international economic competition, informational networks or socio-cultural emulation, see Beth Simmons, "Competition, Communication or Culture? Explaining three decades of foreign economic policy diffusion," presented at *Notre Dame University, Kellogg Institute Political Economy Working Group*, October 4, 2001 (unpublished).
38. See Nancy Brune and Geoffrey Garrett, "The Diffusion of Privatisation in the Developing World," *Yale University Working Paper*, August 2000, prepared for presentation at the *Annual Meetings of the American Political Science Association*, Washington, D.C., August 30–September 3, 2000 (unpublished). One of the non-solved questions remain however: why, within a same peer group as Latin America, there are countries that don't participate in the race, some for internal political considerations others because they present low attractiveness. In Latin America, the

cases of Costa Rica and Uruguay are quite interesting from this perspective as both have high international credentials and "offered" very few assets to the private sector during the past decade.

39. However the correlation between pension reforms and savings rates are controversial. Andrew Samwick, e.g., studies seven pension reforms in Latin America, seven in Africa, two in Asia and four in Europe and he finds no evidence that countries that reformed their pension systems and introduced private social security systems increased their savings rates, with the exception of Chile. See Andrew Samwick, "Is Pension Reform Conductive to Higher Saving?", *The Review of Economics and Statistics*, vol. 82, no. 2, 2000, pp. 264–272. In another study, two Princeton economists show that in fact Chilean investment and growth boom during the 1980s is mainly explained by the reduction in the tax rate on corporate retained profits instead of the pension reform per se. See Chang-Tai Hsieh and Jonathan Baker, "Taxes and Growth in a Financially Underdeveloped Country: Explaining the Chilean Investment Boom," *Princeton Working Paper*, presented at the Analytical Country Studies on growth, Centre for International Development, Kennedy School of Government, Harvard University, April 20–21, 2001.
40. See Sarah Brooks, "Who Privatize, When and Why? Pension Privatization Across Space and Time," paper prepared for *The University of Chicago Comparative Politics Workshop*, May 2, 2001 (unpublished); and Evelyne Huber and John D. Stephens, "The Political Economy of Pension Reform: Latin America in Comparative Perspective," paper presented for delivery at the *2000 Meeting of the Latin American Studies Association*, Miami, March 16–18, 2000 (unpublished). On the economics of pension reforms see Salvador Valdés Prieto, ed., *The Economics of Pensions. Principles, Policies and International Experience*, Cambridge, Mass., Cambridge University Press, 1997; Martin Feldstein, ed., *Privatizing Social Security*, Chicago, Chicago University Press, 1998 (see in particular the contribution of Sebastian Edwards on Chile); and more specifically on Latin America, Monika Queisser, *The Second Generation Pension Reforms in Latin America*, Paris, OECD, 1998.
41. For a detailed analysis of Nafta negotiations, see Maxwell Cameron and Brian Tomlin, eds., *The Making of Nafta: How the Deal was Done*, Ithaca, Cornell University Press, 2000; and for an empirical evidence, based on a survey of European corporations (French companies), suggesting that Mercosur has also been perceived as a "signal," a promise of greater economic (and political) stability by foreign investors, see Paolo Giordano and Javier Santiso, "La course aux Amériques: les stratégies des investisseurs européens dans le Mercosur," *Problèmes d'Amérique latine*, no. 39, October–December 2000, pp. 55–87.
42. See Michael Tomz, "Do International Agreements Make Reforms More Credible? The Impact of Nafta on Mexican Stock Prices," Stanford University, prepared for delivery at the *1997 Annual Meeting of the American Political Science Association*, Washington, D.C., August 28–31, 1997; and for a similar analysis of the search of credibility signals through Nafta Aaron Tornell and Gerardo Esquivel, "The Political Economy of Mexico's Entry to Nafta," *NBER Working Paper*, No. 5322, 1995.
43. For analyses testing the "Lipset hypothesis" (prosperity stimulates democracy) and for analyses testing the reverse channel, i.e. the impact of economic development on democratic propensity, see José Tavares and Romain Wacziarg, "How Democracy Affects Growth," *European Economic Review*, vol. 45, no. 8, August 2001, pp. 1341–1378; Dani Rodrik, "Democracies Pay Higher Wages," *The Quarterly Journal of Economics*, vol. CXIV, no. 3, August 1999, pp. 707–738; Robert Barro, "Determinants of Democracy," *Journal of Political Economy*, vol. 107, no. 6, 1999, pp. 158–183; Adam Przeworski and Fernando Limongi, "Political Regimes and Economic Growth," *Journal of Economic Perspectives*, no. 7, Summer 1993, pp. 51–69; and Adam Przeworski and Fernando Limongi, "Modernization: Theories and Facts," *World Politics*, vol. 49, no. 2, January 1997, pp. 156–183. See Adam Przeworski, Michael Alvarez, José Antonio Cheibub and Fernando Limongi, *Democracy and Development: Political Regimes and Economic Well-Being in the World, 1950–1990*, Cambridge, Mass., Cambridge University Press, 2000.

44. Interviews with emerging markets asset managers, Paris, November 9, 2000; London, October 17, 2000; and New York, May 8, 2000.
45. Dani Rodrik, "Participatory Politics, Social Cooperation and Economic Instability," *American Economic Review*, vol. 90, no. 2, May 2000, pp. 140–144.
46. On this "blessings in disguise" of democracy's propensity to moderate social conflicts see the last essays of Albert Hirschman, "Social Conflicts as Pillars of Democratic Market Societies," in Hirschman, *A Propensity to Self-Subversion*, Princeton, Princeton University Press, pp. 231–249; and Albert Hirschman, "Melding the Public and Private Spheres: Taking Commensensality seriously," in Hirschman, *Crossing Boundaries*, New York, Zone Books, 1998, pp. 11–32.
47. For empirical research on political institutions and private investors, see Yi Feng, "Political Freedom, Political Instability and Political Uncertainty: A Study of Political Institutions and Private Investment in Developing Countries," *International Studies Quarterly*, vol. 45, no. 2, June 2001, pp. 271–294.
48. See David L. Richards, Ronald D. Gelleny and David H. Sacko, "Money with a Mean Streak? Foreign Economic Penetration and Government Respect for Human Rights in Developing Countries," *International Studies Quarterly*, vol. 45, no. 2, June 2001, pp. 219–239.
49. As noted by Sylvia Maxfield, international financial asset holders are supposed to be "more willing, *ceteris paribus*, to invest in countries with independent central banks for two reasons. First, investors expect central banks with discretional authority to help keep the national economy on a stable, consistent course. Therefore central bank independence increases the extent to which investors can predict their relative returns." "Central bank independence may also increase the confidence of some international investors in a second way": "international investors may believe that their ability to influence policy is greater the more independent the central bank is from the executive branch." See Sylvia Maxfield, *Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries*, Princeton, Princeton University Press, 1997, p. 36; Michael Pastor and Sylvia Maxfield, "Central Bank Independence and Private Investment in the Developing World," *Economics & Politics*, vol. 11, no. 3, November 1999, pp. 299–309. In the same way, central bank independence is linked with more democratic governance and political stability, see Delia M. Boylan, *Defusing Democracy: Central Bank Autonomy and the Transition from Authoritarian Rule*, Ann Arbor, University of Michigan Press, 2001.
50. Citibank Salomon Smith Barney, *Brazil: Independence for the Central Bank?* New York, Citibank Salomon Smith Barney Economic & Market Analysis, January 31, 2001.
51. On the attempt to establish credible rules and institutions, see Charles Calomiris and Andrew Powell, "Can Emerging Market Bank Regulators Establish Credible Discipline? The Case of Argentina, 1992–1999," *NBER Working Paper*, No. 7715, May 2000; and on high inflation destructive process, see Axel Leijonhufvud and Daniel Heymann, *High Inflation: The Arne Ryde Memorial Lecture*, London, Clarendon Press, 1995; and Axel Leijonhufvud, *Macroeconomic Instability and Co-ordination: Selected Essays*, London, Edward Elgar Pub., 2001.
52. Interview of Freddy Thomsen, ING Barings emerging markets economist, *Financial Times*, February 20, 2001, p. 5.
53. For a closer analysis of central banks' skills see the empirical results of a research based on a database of questionnaires received and used from 91 institutions covering 57 countries, Charles Goodhart, Dirk Schoenmaker and Paolo Dasgupta, "The Skill Profile of Central Bankers and Supervisors," Financial Markets Group, London School of Economics, April 2001, paper presented at the *28th Annual Meeting of the European Finance Association*, Universitat Pomepu Fabra, Barcelona, August 22–25, 2001.
54. At the same time, domestic politics included financial regulatory choices and the security of the banking systems. Despite the homogenizing effects of global financial integration, electoral rules and local political dynamics can shape prudential regulation choices. See Frances Rosenbluth and Ross Schaap, "The Domestic Politics of Banking Regulation," *Yale University and UCLA Working Paper*, August 2001 (unpublished).

55. Sources: http://www.banxico.org.mx/; http://www.bcra.gov.ar/; http://www.bcb.gov.br/; and Sylvia Maxfield, *Gatekeepers of Growth*, pp. 101 and 129.
56. See Dani Rodrik, "Governing the Global Economy: Does One Architectural Style Fit All?" Harvard University, John F. Kennedy School of Government, p. 13, paper prepared for the *Brookings Institution Trade Policy Forum* conference on *Governing in a Global Economy*, April 15–16, 1999 (unpublished).
57. See Adam Posen, *Dollarization, Currency Blocs, and US Policy*, Washington, D.C., Institute for International Economics, 2001.
58. Andrew Rose, "One Money, One Market: Estimating the Effect of Common Currency on Trade," *Economic Policy*, April 2000, pp. 7–46.
59. See Bejamin Cohen, "Dollarization: Pros and Cons," *University of California at Santa Barbara*, working paper prepared for workshop on "Dollars, Democracy and Trade: External Influences on Economic Integration in the Americas," Los Angeles, Calif., May 18–19, 2000 (final draft June 2000).
60. See Barry Eichengreen, "What Problems can Dollarization Solve?", *University of California at Berkeley Working Paper*, January 2001 (unpublished).
61. For a discussion see Atish Ghosh, Anne-Marie Gulde and Holger Wolf, "Currency Boards: More Than a Quick Fix?", *Economic Policy*, vol. 15, no. 31, October 2000, pp. 269–335.
62. See Alberto Alesina and Robert Barro, "Dollarization," *American Economic Review*, vol. 91, no. 2, May 2001, pp. 381–385. See also Alberto Alesina and Robert Barro, "Currency unions," *NBER Working Paper*, No. 7927, September 2000.
63. Walter Molano, *Addressing the Symptoms and Ignoring the Causes: A View from Wall Street on Dollarization*, New York, BCP Securities, 2000.
64. See Jeffrey Frieden, "The Political Economy of Dollarization: Domestic and International Factors," *Harvard University*, prepared for a conference in Buenos Aires, May 12–13, 2000 (unpublished).
65. For a view on the economic timing of dollarization see Barry Eichengreen, "When to Dollarize?", *University of California at Berkeley Working Paper*, February 2000, published in the *Journal of Money, Credit, and Banking*, vol. 34, no. 1, February 2002.
66. For an analysis of capital markets' reactions to Argentine policy announcements, see Eduardo Ganapolsky and Sergio Schmukler, "Crisis Management in Capital Markets: The Impact of Argentine Policy During the Tequila Effect," *World Bank Policy Research Working Paper*, No. 1951, 1998 (forthcoming in *Economists' Forum*).
67. Walter Molano, "Adressing the Symptoms and Ignoring the Causes: A View from Wall Street on Dollarization," New York, BCP Securities, 2000. For a closer view on the issues involved in Argentina dollarization game see the article of François Velde and Marcelo Veracierto, "Dollarization in Argentina," *Federal Reserve Bank of Chicago Economic Perspectives*, First Quarter 2000, pp. 24–35.
68. Barep Asset Management, *Emerging Markets Fixed Income Asset Allocation*, Paris, Barep Asset Management, November 2000.
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70. Scotiabank, *Global Views. First Half 2001*, Toronto, Scotiabank Global Economic Research, January 2001, p. 37.
71. Mohamed El-Erian, "IMF Delivers Packages for the Holidays," *PIMCO Emerging Markets Watch*, PIMCO, December 2000.
72. The first weeks of 2001 reflected a complete somersault in investor attitudes. In the fourth quarter of 2000, Latin borrowers hardly raised US$1.7 bn. In January 2001 alone, the figure was US$6.7 bn. Brazil (with a share of 32%) and Mexico (20%) lead Latin sovereign issues during the first three months of 2001. See, "A Reversal of Fortunes," *Latin Finance*, March 2001, pp. 30–34.
73. ING Barings, *Emerging Markets Weekly Report*, London, ING Barings Emerging Markets Research, January 26, 2001.
74. See e.g., the reports of CDC Ixis, "Trade-Driven Spread of a Growth Shock: Simulations on Bilateral Elasticities," *Emerging Regions Report*, no. 9, Paris, CDC Ixis Research, Country Risk and Emerging Markets Unit, Department of Economic and Financial Analysis, December 2000, pp. 17–29; Fortis Investment Management, "Les marchés émergents dans le cas d'un atterrissage brutal aux Etats-Unis," *Tendance des Marchés Emergents*, no. 4, Fourth Quarter 2000, Paris, Fortis Investment Management, 2000; UBS Warburg, "Global Emerging Markets in 2001," London, *UBS Warburg Global Equity Research*, December 19, 2000, pp. 7–11; BBVA Securities, "The US Slowdown, the Fed and Latin America," London, *BBVA Securities Latin American Economic and Equity Research*, January 8, 2001; Standard Chartered, "Economic Update: The US and Its Impact on Latin America," Miami, *Standard Chartered*, January 12, 2001.
75. Goldman Sachs, "The US Downturn: Risks and Effects on Latin America," New York, *Goldman Sachs Latin America Economic Analyst,* New York, Goldman Sachs, January 19, 2001; and HSBC, "How the World will Deal with a US Recession," London, *HSBC Global Economics & Investment Strategy*, First Quarter 2001
76. Morgan Chase, "Mexican Corporates and the US Downturn," New York, *JP Morgan Chase Emerging Markets Research*, March 14, 2001.
77. For a political analysis of the Argentinian crisis, during the de la Rúa (and previously Menem) presidency, see Javier Corrales, "The Political Causes of Argentina's Recession," *Woodrow Wilson International Center for Scholars*, June 2001 (unpublished).
78. Goldman Sachs, "Argentina: It's Déjà vu all Over Again!", New York, *Goldman Sachs Global Economic Weekly*, March 28, 2001; Deutsche Bank, "Argentina Risk Monitor," New York, *Deutsche Bank Emerging Markets, Global Markets Research*, March 30, 2001; JP Morgan Chase, "Argentina at a Critical Juncture," in *Emerging Markets Today*, New York, JP Morgan Chase Emerging Markets Research, March 26, 2001; or Crédit Agricole Indosuez, "Argentina: The Political Gamble," Paris, *Crédit Agricole Indosuez Global Economic Markets Strategy*, March 29, 2001.
79. Morgan Stanley Dean Witter, "Argentina: The White Knight Rides Again," New York, *Morgan Stanley Dean Witter Latin American Economics, Equity Research Latin America*, March 26, 2001.
80. Walter Molano, "High Stakes Poker," New York, *BCP Securities Latin American Advisor*, March 28, 2001.
81. Latin America totaled 66% of all emerging market debt issuance in 2000. See Ingrid Iversen, "Emerging Market Debt: Fundamental and Flows," London, *Rothschild Asset Management*, March 2001 (presented at the European Pensions Symposium in Barcelona). However emerging sovereign bond market represent only 5% of all government bond market in 2000 according to Merrill Lynch, see Merrill Lynch, "Size and Structure of the World Bond Market: 2000," London and New York, *Merrill Lynch Fixed Income Strategy*, April 2000.
82. This was mainly the case of emerging capital market economists who started to point out the positive impacts of the Cavallo. See e.g. Barclays Capital, "Emerging Markets—Latin America," New York, *Barclays Capital*, March 29, 2001. For debt market analysts the worries were also the possible financial contagion to other Latin American markets, analysts trying to convince themselves—and their clients—that they were insulated. See e.g. ING Barings,

"Brazil: Fundamentally Insulated from Argentina, but Still Vulnerable," New York and London, *ING Barings Emerging Markets Weekly Report*, March 23, 2001.

83. ABN Amro, "Daily Strategy," New York, *ABN Amro Emerging Markets*, April 5, 2001.
84. As noted by BBVA's head of Latam Strategies, "the gambling man" Domingo Cavallo has not got much time. "The markets are impatient, Argentines are desperate and the October Congressional are elections looming." "We need to see a quick stabilization of reserves and bank deposits, followed by concrete evidence of an improvement in sentiment and the first signs turnaround in activity. If all this does not occur within the next 90 days or so, a more dramatic outcome could occur." See BBVA Securities, "Argentina: Cavallo Bets all on Growth," London, *BBVA Securities Latin American Fixed Income Economics*, April 6, 2001. Previously these views were expressed also in several other reports by a major security house operating in Latin American emerging markets and one of the most respected Latin American economist of the city according to the interviews realized in London with fund managers and strategists in London and Edinburgh in April, June and October 2000. See also BBVA Securities, "Q2 Outlook: Keep Clipping the Coupons," London, *BBVA Securities Fixed Income & Foreign Exchange*, March 15, 2001.
85. See Dresdner Bank Lateinamerika, "Two Weeks and Five Presidents Later," London and Frankfurt, *Dresdner Latin American Daily Spotlight*, January 2, 2001.
86. See Mark P. Jones, Sebastian Saiegh, Pablo Spiller and Mariano Tommasi, "Políticos profesionales—legisladores 'amateurs': el congreso argentino en el siglo XX," *CEDI Working Paper*, No. 45, Buenos Aires, *Fundación Gobierno y Sociedad*, November 2000 (unpublished). Argentina is one of the major developing countries that has been well documented by institutionalists; therefore there is considerable background research that will be very helpful, see e.g., Pablo T. Spiller and Mariano Tommasi, "The Institutional Foundations of Public Policy: A Transactions Approach with Application to Argentina," *CEDI, Fundación Gobierno y Sociedad, Working Paper*, 2001 (unpublished).
87. See also Mark P. Jones, Sebastian Saeigh, Pablo T. Spiller and Mariano Tommasi, "Keeping a Seat in Congress: Provincial Party Bosses and the Survival of Argentine Legislators," prepared for delivery at the *2001 Annual Meeting of American Political Science Association*, San Francisco, September 2, 2001.
88. See Pablo Spiller and Mariano Tommasi, "Los determinantes institucionales del desarrollo argentino: una aproximación desde la nueva economía institucional," *CEDI Working Paper*, No. 33, Buenos Aires, *Fundación Gobierno y Sociedad*, May 2000; published in *Desarrollo Económico*, vol. 40, no. 159, October–December 2000, pp. 425–464; and Matias Iaryczower, Pablo Spiller and Mariano Tommasi, "Judicial Decision Making in Unstable Environments, Argentina, 1935–1998," *Universidad San Andrés, University of Califorina at Berkeley and Harvard University, Working Paper*, 2000 (unpublished).
89. Jon Elster, *Ulysses Unbound: Studies in Rationality, Precommitment and Constraints*, Cambridge, Cambridge University Press, 2000 (reprinted). This idea (probably without reference to Elster works) was strangely also made by a respected Brazilian economist who wrote about Argentina monetary and exchange rate policies, "the country chose to give up two of its economic policy instruments, for it believed that most likely they would not be used widely, as the country's history eloquently illustrates. This was indeed a measure to tie Odysseus to the mast, and prevent him from being dragged by the siren's song." See Alexandre Schwartsman, "Argentina's last hand," *Indosuez W.I. Carr Securities Research Nullum Gratuitum Prandium*, Sao Paulo, Indosuez W. I. Carr Securities, March 19, 2001.
90. See James Vreeland, "The IMF: Lender of Last Resort or Scapegoat?", *Yale University Leitner Working Paper*, No. 3, 1999 (unpublished); James Vreeland, "Why do Governments and the IMF Enter into Agreements? Statistically Selected Cases," *Yale University Leitner Working Paper*, No. 4, 2000 (unpublished); Adam Przeworski and James Vreeland, "The Effect of IMF Programs on Economic Growth," *Journal of Development Economics*, vol. 62, no. 2, 2000, pp. 385–421;

James Vreeland, "Why Governments Enter into IMF Programs? The Effects of Presidentialism," *Universidad Torcuato di Tella Working Paper*, June 2002.

91. See James Raymond Vreeland, "Why do Governments and the IMF Enter into Agreements? Statistically Selected Cases," prepared for the *2000 Annual Meeting of the Midwest Political Science Association*, April 27–30, 2000. See also James Raymond Vreeland, *IMF and Economic Development*, Cambridge, Mass., Cambridge University Press, 2002.
92. For an empirical test of this argument using data from 179 countries from 1975 to 1996, see James Raymond Vreeland, "Institutional Determinants of IMF Agreements," *Yale University, Department of Political Science*, September 28, 2001 (unpublished).
93. See e.g. the critique of Leslie Elliott Armijo, ed., *Financial Globalization and Democracy in Emerging Markets*, London, MacMillan, 1999.
94. See Chase Fleming Asset Management, *Emerging Equity Markets. Quarterly Review*, London, Chase Fleming Asset Management, November 2000, p. 5.
95. See Sylvia Maxfield, "Globalization, Economic Policymaking and Democratization," speech prepared for the *UNRSID Conference on Technocratic Policymaking and Democratization*, Geneva, April 27–28, 2000 (unpublished); and Sylvia Maxfield, "Understanding the Political Implications of Financial Internationalization in Emerging Markets Countries," *World Development*, vol. 26, 1998, pp. 1201–1219.
96. See, e.g., explicit references to growth dynamics by Michael Cembalest and Paul Dickson, JP Morgan emerging markets debt managers, in their *JP Morgan Markets Debt Fund Quarterly Report*, September 2000 (http://jpmorgan.com/mutualfunds) or Mohamed El-Erian, PIMCO emerging markets debt manager, in his *PIMCO Emerging Markets Watch*, October 2000 (http://www.pimco.com). Julius Baer emerging markets debt team was even more direct concerning Argentina: "Argentina is the simplest to analyse. A rash of debt dynamics studies, qualifications, re-analysis and data-mining has not altered one fact (which the market fully recognize)—a return to growth of say 4% a year will boost tax revenues, restore confidence and prevent a debt spiral while further stagnation will lead to a crisis and possibility a default." Julius Bär, *Fixed Income Essentials. 4th Quarter 2000*, London, Julius Baer Investment Management, 2000, p. 5 (http://www.juliusbaer.com).
97. The long-term horizon of direct investors, among other implications, reduces their sensitivity to financial or monetary crises. Unlike portfolio investors or banking lenders, they are less likely to withdraw capital during financial crises episodes as stressed by several comparative studies, see e.g. Robert Lipsey, "Foreign Direct Investors in Three Financial Crises," *National Bureau of Economic Research Working Paper*, No. 8084, January 2001 (unpublished). On the temporal horizons of foreign direct investors, see the survey results published in Javier Santiso and Paolo Giordano, "La course aux Amériques: les stratégies des investisseurs européens dans le Mercosur," *Problèmes d'Amérique latine*, no. 39, October–December 2000, pp. 55–87; and Javier Santiso, *En busca de El Dorado de las Américas: la internacionalización de las multinacionales y de las pymes francesas hacia América latina*, Paris, CERI (Sciences Po) Working Paper, prepared for the IADB (Inter-American Development Bank) 2001.
98. See interviews with emerging markets fund managers in Paris, April 28, 2000, London, May 2, 2000 and Boston, November 20, 2000. The distribution of emerging market debt fund industry can give an idea of the share of long-term fund strategies. "Dedicated" investors with constant strategic allocation, typically looking to outperform an emerging market index, represent only 25% of all emerging debt market fund holders in 2000 against 40% for "cross-over" investors with tactical short-term allocation policies. The remaining share is distributed among local investors, 20%, and retail and original bank holders, 15%, that can have either short- or long-term strategies. See Ingrid Iversen, *Emerging Market Debt: Fundamental and Flows*, London, Rothschild Asset Management, March 2001 (presented at the European Pensions Symposium in Barcelona).
99. Templeton Asset Management, *Manager's Perspective, Emerging Markets Series*, Templeton Asset Management, September 30, 2000 (http://www.fttrust.com/library/library.htm).

100. Interviews, New York, May 1 and 10, 2000, with emerging bonds markets fund manager and emerging markets fixed income team; interview in London, April 13, 2000, with an emerging bond markets fund manager; and interview in Paris, November 17, 2000, with an emerging bond market fund manager.
101. Interview, London, April 12, 2000, with a mutual fund asset manager in global emerging markets; and interview in Paris, June 9, 2000, with another mutual fund asset manager in global emerging markets.
102. As showed by Frieden, Ghezzi and Stein, who analyzed the behavior of nominal and real exchanges rates within a 19-month window centered on more than 240 election episodes in Latin America, the probability of large real depreciations is typically affected (over 25%) by the electoral cycle. See Jeffry Frieden, Piero Ghezzi and Ernesto Stein, "Politics and Exchange Rates: A Cross-Country Approach to Latin America," in Jeffry Frieden and Ersneto Stein, eds., *The Currency Game: Exchange Rate Politics in Latin America*, Baltimore, The Johns Hopkins University Press, 2001. See currency games and the political economy of exchange rates regimes in Latin America, Carol Wise and Riordan Roett, eds., *Exchange Rate Politics in Latin America*, Washington, D.C., Brookings Institution, 2000.
103. For an analysis centered on the political economy of the crisis, see Jeffry Frieden, "The Politics of Exchange Rates," in Sebastian Edwards and Moisés Naim, eds., *Mexico 1994: Anatomy of an Emerging Markets Crash*, Washington, D.C., Carnegie Endowment for International Peace, 1997, pp. 81–94.
104. See Joseph Stiglitz, "The Insider: What I learned at the World Economic Crisis," *The New Republic*, April 17, 2000. See also http://www.brookings.edu/views/articles/Stiglitz/20000417. htm; and the essay (presented at an IMF meeting) of Moisés Naim, "Washington Consensus or Washington Confusion?" *Foreign Policy*, Spring 2000, pp. 87–103.

Chapter Three Capital Flows to Emerging Markets: Goodbye the Golden 1990s?

1. This chapter is based on previous studies conducted in 2000 with the support of the SG, see Javier Santiso, "Capital Flows to Emerging Markets: Welcome to Latin America," Paris, *SG Emerging Markets Quarterly*, April 2000; Javier Santiso, "Capital Flows and Perceived Risks: A Latin American and Global Emerging Markets Survey," Paris, *SG Emerging Markets Quarterly*, July 2000; Javier Santiso, "Capital Flows in Emerging Countries: Back to the Future?" Paris, *SG Emerging Markets Quarterly*, October 2000.
2. The peak of capital inflows during the 1990s was reached in 1992, total capital flows representing 2.16% of Latin American GDP. Note however that this peak was lower than the record capital flows reached just before the debt crisis. In 1981, capital flows received by Latin American countries amounted to 3.32% of Latin America GDP. See for a very interesting analysis Guillermo Calvo, Eduardo Fernández-Arias, Carmen Reihnart and Ernesto Talvi, "Growth and External Financing in Latin America," *Inter-American Development Bank Working Paper*, No. 457, prepared for the seminar "What is Holding Back Growth in Latin America and the Caribbean? What Should Governments do?", *IADB Annual Meetings of the Board of Governors*, Santiago de Chile, March 18, 2001.
3. JP Morgan, "Emerging Markets Debt: Outlook for 2002," New York, *JP Morgan Emerging Markets Research*, December 17, 2001, pp. 4 and 6.
4. See Sebastian Edwards, ed., *Capital Flows and the Emerging Economies*, Chicago, Ill., The University of Chicago Press, 2000.
5. See Peter Blair Henry, "Do Stock Market Liberalizations Cause Investment Booms?", *Journal of Financial Economics*, vol. 58, no. 1, October 2000, pp. 301–334; and also for a similar analysis Geert Bekaert and Campbell Harvey, "Foreign Speculators and Emerging Equity Markets," *The Journal of Finance*, vol. 55, no. 2, April 2000, pp. 565–613.

6. See Anusha Chari and Peter Blair Henry, "Capital Account Liberalization: Allocative Efficiency or Animal Spirits," *University of Michigan Business School and Stanford University Graduate School of Business*, September 2001 (unpublished).
7. Geert Bekaert, Campbell Harvey and Christian Lundblad, "Does Financial Liberalization Spur Growth?" *NBER Working Paper*, No. 8245, 2001, a new paper version presented also at the *28th Annual Meeting of the European Finance Association*, Universitat Pompeu Fabra, Barcelone, August 22–25, 2001.
8. See among the last empirical research papers, Carlos Arteta, Barry Eichengreen and Charles Wyplosz, "On the Growth Effects of Capital Account Liberalization," *University of California at Berkeley, Working Paper*, 2001 (unpublished); Sebastian Edwards, "Capital Mobility and Economic Performance: Are Emerging Economies Different?", *NBER Working Paper*, No. 8076, 2001.
9. For a closer analysis of twentieth-century finance (including emerging markets) see Raghuram G. Rajan and Luigi Zingales, "The Great Reversals: The Politics of Financial Development in the 20th Century," *University of Chicago, Working Paper*, June 2001 (unpublished); Maurice Obstfeld and Alan M. Taylor, "Globalization and Capital Markets," in Michael Bordo, Alan M. Taylor and Jeffrey Williamson, eds., *Globalization in Historical Perspective*, Chicago, Ill., NBER and The University of Chicago Press, 2002; Michael Bordo, Barry Eichengreen and Douglas A. Irwin, "Is Globalization Today Really Different than Globalization a Hundred Years Ago?" in Susan M. Collins and Robert Z. Lawrence, eds., *Brookings Trade Forum*, Washington D.C., Brookings Institution, 1999, pp. 1–50.
10. See Michael Bordo, "The Globalization of International Financial Markets: What Can History Teach Us?", *Rutgers University and National Bureau of Economic Research*, March 2000 (unpublished). For more a stimulating historical perspective on globalization see Michael Bordo, Alan M. Taylor and Jeffrey Williamson, eds., *Globalization in Historical Perspective*, Chicago, Ill., NBER and The University of Chicago Press, 2002.
11. See Ashoka Mody and Antu Panini Murschid, "Growing Up with Capital Inflows," *IMF*, 2001 (unpublished). See also on the policy implications of capital flows volatility Guillermo Calvo and Carmen Reinhart, "When Capital Flows Come to a Sudden Stop: Consequences and Policy Options," in Peter Kenen and Alexander Swoboda, eds., *Reforming the International Monetary and Financial Systems*, Washington, D.C., IMF, 2000, pp. 175–201; Guillermo Calvo and Carmen Reinhart, "Fear of Floating," *Quarterly Journal of Economics*, vol. 117, no. 2, May 2002, pp. 379–408.
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52. Graciela Kaminsky, Richard Lyons and Sergio Schmukler, "Managers, Investors and Crises: Mutual Fund Strategies in Emerging Markets," *World Bank Working Paper*, 2399 and *NBER Working Paper*, 7855, 2000.
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62. Interview with an emerging markets fund manager, New York, May 12, 2000.
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Chapter Four The Usual Suspects: Timescales, Strategies and Constraints of Emerging Market Asset Managers

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17. See interviews with fund managers in London, April 13–15, June 1, 2 and 20–24, 2000; Paris, May 18, June 8 and 17, 2000, June 14 and 15, 2001; Edinburgh, November 17, 2000; Boston, November 19, 21 and 22, 2000; and New York, May 8–12, November 6 and 7, 2000.
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21. See Piti Disyatat and Gaston Gelos, "The Asset Allocation of Emerging Market Mutual Funds," *IMF Working Paper*, No. 111, August 2001.
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24. The most underrepresented continent is Africa with only three countries (South Africa, Egypt and Morocco) included in the MSCI ACWI Index in 2001.
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26. This point was underlined by several asset managers that questioned the "Chinese wall" related issue and possible conflict of interests. See interviews in London, June 21 and 22, 2000; Paris, June 8, 2000 and June 15, 2001; Edinburgh, November 17, 2000; and New York, November 7, 2000.
27. See Capital Group Companies website: http://www.capgroup.com/; and for MSAM: http://www.morganstanley.com/im/index.html.
28. See interviews in Edinburgh November 19, 2000; New York, November 5, 2000; Paris, April 27 and 28, 2000; and London, April 10 and 11, 2000.
29. While active managers may have a 2% tracking error, that is a deviation from a chosen benchmark index, index trackers will be closer to 0.5%. They are then less risky funds but also—a major driver of their success—less costly as they charge lower fees and have lower cost expenditures, the research units and active managers being reduced to the strict minimum. On average an active manager might cost a pension fund around 30 basis points of performance in the United Kingdom e.g. while indexing costs are likely to be at maximum ten basis points for their most complex mandates.
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31. In 2000 according to William Mercer consultants' *European Pension Fund Managers Guide* there were 172 firms operating in 30 European countries and managing US$ 1,800 bn. Over a quarter of the managers were involved in mergers. The top five manager's worldwide assets totaled US$4,000 bn., that is more than the GDP of Germany and the United Kingdom put together, see "Pension Fund Investment," *Financial Times Survey*, May 21, 2000. In his report on institutional investment in the United Kingdom, Paul Myners, chairman of Gartmore, argues that the consolidation trend must however be relativized at least for the United Kingdom. He revealed that the Herfindahl–Hirschman index, which provides a measure of market concentration, gives a figure of 650 for the U.K. management industry, which is much higher than the figure for global fund management—just 100—but well below the level that cause anti-competition authorities to intervene—1000 or above. See *Investment in the UK: A Review*, London, HM Treasury, 2001. The Myners report is downloadable from: http://www.hm-treasury.gov.uk/pdf/2001/myners_report.pdf.
32. See interviews in New York, November 7, 2000; Paris, June 14, 2001; and Boston, November 21 and 22, 2000 (with the help of Daniel Charron).

33. See interviews in New York, November 6, 2000; Edinburgh, November 19–21, 2000 (with the help of Stewart Amer); and London, April 13 and 14, 2001.
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35. Interview in London, June 21, 2000 with a (active) fund manager.
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37. See for an empirical analysis Giancarlo Corsetti, Paolo Pesenti and Nouriel Roubini, "The Role of Large Players in Currency Crises," *University of Rome & Yale University, Federal Reserve Bank of New York and New York University*, April 2001 (unpublished); Giancarlo Corsetti, Amil Dasgupta, Stephen Morris, and Hyun Song Shin, "Does one Soros make a Difference? The Role of a Large Trader in Currency Crises," *Yale University Cowles Foundation Discussion Paper*, No. 1273, 2000; and Barry Eichengreen and Donald Mathieson, "Hedge Funds: What do we Really Know?" *IMF Economic Issues*, no. 19, September 1999.
38. See "Pension Fund Investment Survey," *Financial Times*, Thursday, Arpil 17, 2001.
39. Paul Myners, *Institutional Investment in the United Kingdom: A Review*, London, UK HM Treasury, 2001.
40. See Morgan Stanley Dean Witter, "LatStrat Monday Comment: MSCI—Changing Its Spots?" New York, *Morgan Stanley Dean Witter*, July 31, 2001.
41. Calculated from Goldman Sachs, *Global Emerging Market Strategist*, New York, Goldman Sachs, June 6, 2001.
42. Overall Latin America represents a small fraction of the world institutional market (1% of those held in OECD countries). One country alone, Brazil, accounts for around 60% of all assets held by Latin American institutional investors. See Juan Yermo, "Institutional Investors in Latin America: Recent Trends and Regulatory Challenges," in OECD, *Institutional Investors in Latin America*, Paris, OECD, 2000, pp. 23–117.
43. Goldman Sachs, "Pension and Mutual Funds and Their Impact on Stock Markets," New York, *Goldman Sachs, Latin America Portfolio Strategy*, August 31, 2001.
44. See William Mercer, *European Pension Fund Managers Guide 2001/2002—Latest Developments in Institutional Fund Management*, London, William Mercer, 2001.
45. See Pierre Laurent, Nicolas Meunier, Luis Miotti, Carlos Quenan and Véronique Seltz, "Le choix de la devise d'endettement pour un pays émergent," in CDC Ixis, *Zones émergentes*, nos. 11 and 12, Paris, CDC Ixis, December 2001 and June 2002, pp. 7–16 and pp. 14–17; and Pierre Laurent, "Risque de marché, risque de crédit et défaut: la problématique particulière de la dette souveraine émergente," *CDC Ixis Etude Marchés Emergents*, no. 2, September 2001. The exact amount invested in emerging bond markets is difficult to evaluate. The market capitalization of the different JP Morgan indexes covering emerging bond markets e.g. ranged in 1999 from US$72 bn. (JP Morgan EMBI) to 170 (JP Morgan EMBI Global). As underlined in a Bank of England report, "by focusing on restructured debts (principally Bradys), the EMBI captures only a subset of emerging economy debt. For example, at the end 1998, the total stock of Bradys had a face value of USD 121 bn, compared to USD 854 bn loans to emerging economies from BIS banks and total gross external debts of USD 2,3 trillion at end-1997." See Alastair Cunningham, "Emerging Economy Spread Indices and Financial Stability," in Bank of England, *Financial Stability Review*, London, Bank of England, November 1999, pp. 115–183.

46. The Hirschman–Herfindahl Index (*H*) measures the total sum of the squares of the (%) market share of all the firms in an industry: *H* = *S si*2 where *s-i* measures the market share of firm *i*.
47. The concentration of assets under management in emerging markets is only another example of the concentration trend in the entire financial industry. It is even more impressive in other markets such as derivates where a single company, JP Morgan Chase (Chase Manhattan Bank and Morgan Guaranty together), represents 60% of the total derivates market controlled by U.S. commercial banks and trusts in 2001. See Adam Hamilton, "JPM Derivatives Monster Grows," January 4, 2002 and "The JPM Derivatives Monster," September 7, 2001, both available through the website: http://www.zealllc.com/.
48. See interviews with fund managers in London, November 3–5, 2000; and Edinburgh, November 17 and 21, 2000.
49. See interviews in New York, May 8, 9 and 11, 2000. See also Paul Myners, *Institutional Investment in the United Kingdom: A Review*, London, UK HM Treasury, 2001, pp. 88–89.
50. Interviews with fund managers in New York, January 15, 17 and 19, 2001.
51. See e.g. for a survey based on top 20 investors, Eric Fine, "Fundamentals Challenging Technicals," New York, *Morgan Stanley Dean Witter Fixed Income Global Research*, March 9, 2001; See also, focusing on firms, Goldman Sachs quarterly surveys of Latin American CFOs, Goldman Sachs, "Resilient Performance Despiste Economic Downturn," New York, *Goldman Sachs Quarterly Survey of Brazilian CFOs*, October 2001; and Goldman Sachs, "Adjusting for a Delayed Recovery," New York, *Goldman Sachs Quarterly Survey of Mexican CFOs*, October 16, 2001. In the industry there is several polls, realized in collaboration with firms such as Gallup, on "index investors optimism," see e.g. the UBS Index Investor Optimism http://www.ubs.com/e/index/about/ research/indexofinvestoroptimism.html; and the Merrill Lynch Gallup Fund Manager Survey: http://www.research.ml.com/marketing/content/gallup.pdf.
52. See Torsten Arnswald, "Investment Behaviour of German Equity Fund Managers. An Exploratory Analysis of Survey Data," *Deutsche Bundesbank Economic Research Centre Discussion Paper*, No. 08/01, March 2001. In this survey, 540 questionnaires were sent to executive directors of 62 German mutual companies. A total of 278 questionnaires were completed from 60 different companies or 52% of all questionnaires sent out.
53. See Marianne Demarchi and Solenn Thomas, "Processus de gestion, techniques de transaction et attentes des investisseurs institutionnels français," *SBF Bourse de Paris*, December 1996 (unpublished).
54. Interviews with fund managers in Paris, May 18 and 19, 2000; London, June 22, 2000; and Madrid, May 9, 2001.
55. Interviews with fund managers in London, June 1 and 2, 2000; and Paris, February 21, 2001.
56. Interviews with fund managers in Paris, May 3, 2001, June 7, 2001; Madrid, May 8, 2001.
57. See Fan Hu, Alastair Hall and Campbell Harvey, "Promotion or Demotion? An Empirical Investigation of the Determinants of Top Mutual Fund Manager Change," *Duke University Fuqua School of Business Working Paper*, September 2000 (unpublished).
58. Investment Company Institute, "The Potential Effects of more Frequent Portfolio Disclosure on Mutual Fund Performance," *Investment Company Institute Perspective*, vol. 7, no. 3, June 2001.
59. Sylvia Maxfield, "Effects of International Portfolio Flows on Government Policy Choice," in Miles Kahler, ed., *Capital Flows and Financial Crisis*, Manchester, Manchester University Press, 1998, pp. 69–92.
60. On this impact, see Layna Mosley, "Global Capital and National Economic Policies: The Varying Impacts of Foreign Direct and Portfolio Investment," University of Notre Dame, Department of Government, paper prepared for the presentation at the *2001 Annual Meeting of the American Political Science Association*, San Francisco, August 30–September 2, 2001.
61. On the temporal horizons of foreign direct investors in Latin American emerging countries, see the survey conducted by Paolo Giordano and Javier Santiso, "La course aux Amériques: les

stratégies des investisseurs européens dans le Mercosur," *Problèmes d'Amérique latine*, no. 39, October–December 2000, pp. 55–87.

62. Interview in London, June 22, 2000.
63. Investment Company Institute, "Redemption Activity of Mutual Fund Owners," *Fundamentals Investment Company Institute Research in Brief*, vol. 10, no. 1, March 2001, see also http://www.ici.org/.
64. Brad Barber, Terrance Odean and Lu Zheng, "The Behavior of Mutual Fund Investors," September 2000 (unpublished working paper).
65. See Monks Partnership, *City Paid Guide. Financial Sector*, London, Monks Partnership, November 2000; Monks Partneship, *International Banks and Investment Houses. Remuneration Guide*, London, Monks Partnership, August 1999. See also: http://www.monkspartnership.com/. For an international comparison of CEO's salaries and benefits, see also *The Towers Perrin 2001–2002 Worldwide Total Remuneration*, http://www.towers.com/towers/. The highest paid chief executives, out of a total of 26 countries surveyed, are in the United States (US$2 mn. a year on average). The second highest paid are those in Argentina (US$880,000) with those in Mexico (US$867,000) in third place, far above executives from the United Kingdom (US$670,000), France (US$520,000) or Spain and Sweden (around US$400,000).
66. See AIMR & Russell Reynolds Associates, *1999–2000 Investment Management Compensation Survey*, New York, AIMR, 2000. See their respective websites: http://www.aimr.org/; http://www.russreyn.com/; http://www.roberthalf.com/. For executive compensations around the world, see also the data provided by Towers Perrin: http://www.towers.com/towers/services_products/default.htm. We use also other sources of information to control the importance of bonuses in the industry using also reports of TMP Worldwide, *Financial Services Compensation 2000. A Special Report from TMP Worldwide Executive Search*, TMP Worldwide, November 2000.
67. Interviews in Paris with emerging market economist and fund manager, June 27 and 29, 2001.
68. Interviews in Paris with fund managers, November 18, 19 and 25, 2000.
69. Interviews in London with fund managers, November 3, 4, 6 and 17, 2000, June 22, 2001; and interviews with several asset managers in Boston, November 19, 21 and 22, 2000; and New York, November 6 and 7, 2000.
70. Interview in New York with a fund manager, New York, May 11, 2000.
71. Interview in New York with a fund manager, May 12, 2000.
72. See Randolph B. Cohen, Brian J. Hall and Luis Viceira, "Do Executive Stock Options Encourage Risk-Takings?", *Harvard University Graduate School of Business Administration*, March 2000 (unpublished). See Brian Hall and Jeffrey Leibman, "Are CEOs Really Paid Like Bureaucrats?" *Quarterly Journal of Economics*, 1998, 113(3), pp. 653–691; Joseph Haubrich, "Risk-Aversion, Performance Pay and the Principal Agent Problem," *Journal of Political Economy*, 102(2), 1994, pp. 258–276.
73. See Edwin J. Elton, Martin J. Gruber and Christophe R. Blake, "Incentive Fees and Mutual Funds," *New York University Working Paper*, June 2001 (unpublished).
74. Jennifer Carpenter, "Does Option Compensation Increase Managerial Risk Appetite?" *Journal of Finance*, 55, 2000, pp. 2311–2331; Jennifer Chevalier and Glenn Ellison, "Risk Taking by Mutual Funds as a Response to Incentives," *Journal of Political Economy*, 105, 1997, pp. 1167–1200.
75. Interviews in Edinburgh, November 19 and 21, 2000; New York, November 5–7, 2000; and Boston, November 19, 21 and 22, 2000; and London, April 10, 13 and 14, 2000.
76. Interviews in Edinburgh, November 20, 2000; New York, November 5, 2000; Boston, November 21, 2000; London, June 22, 2000; and Paris, June 8, 2000.
77. Interviews in Edinburgh, November 19, 2000; New York, November 5 and 7, 2000; Boston, November 21 and 22, 2000; and London, April 13 and 14, 2001.
78. Interviews in New York, November 5–7, 2000; Boston, November 19, 21 and 22, 2000; London, April 10, 13 and 14, 2000; and Paris, June 11 and 14, 2001.

Chapter Five A Small Embedded World: Technopols, Arenas and Trespassers

1. On the diffusion of monetarism in Latin America and the key role of Chilean Chicago Boys, see Juan Gabriel Valdés, *Pinochet's Economist: The Chicago School in Chile*, Cambridge, Mass., Cambridge University Press, 1995. For a more socioeconomic analysis of the elite transformations in Latin America, see Yves Dezalay and Bryant Garth, *The Internationalization of Palace Wars: Lawyers, Economists and the Contest to Transform Latin American States*, Chicago, The University of Chicago Press, 2002; and John Campbell and Ove Kaj Pedersen, eds., *The Rise of Neoliberalism and Institutional Analysis*, Princeton, Princeton University Press, 2001.
2. For a study on this "technocratic vanguard" and the rise of U.S.-trained economists within the Mexican government see Roderic A. Camp, *Mexico's Mandarins: Crafting a Power Elite for the Twenty-First Century*, La. University of California Press, 2002; Sarah Babb, *Managing Mexico: Economists from Nationalism to Liberalism*, Princeton, Princeton University Press, 2001; and Miguel Angel Centeno, *Democracy Within Reason: Technocratic Revolution in Mexico*, University Park, Pa., The Pennsylvania State University Press, 1994.
3. See for an analysis of the political dimensions of financial reforms in Mexico, Timothy Kessler, "Political Capital: Mexican Financial Policy Under Salinas," *World Politics*, no. 51, October 1998, pp. 36–66; and Nancy Auerbach, *States, Banks and Markets: Mexico' Path to Financial Liberalization in Comparative Perspective*, New York, Westview Press, 2000. For a more theoretical approach see Jeffry Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization*, no. 45, Fall 1991, pp. 440–441.
4. Interview with Domingo Cavallo, Buenos Aires, April 30, 1998.
5. See Javier Corrales, "Technocratic Policy-Making and Parliamentary Accountability: The Argentine Case," Amherst College, Department of Political Science, August 2001, presented at the *2001 Latin American Studies Association Congress* (unpublished).
6. See for the notion of idea carrier and the trajectories of these reformers respectively Peter Hall, ed., *The Political Power of Economic Ideas: Keynesianism Across Nations*, Princeton, Princeton University Press, 1989. For a perspective centered on Chile, see Eduardo Silva, *The State and Capital in Chile, Business Elites, Technocrats and Market Economists*, London, Westview Press, 1996. On Cieplan and Chilean opposition during the Pinochet regime, see Jeffrey Puryear, *Thinking Politics: Intellectuals and Democracy in Chile, 1973–1988*, Baltimore, John Hopkins University, 1994.
7. One of the most famous financial marketers that "invented" the emerging markets label is Antoine W. Van Agtmael, founder, president and chief investment officer of Washington, D.C.-based Emerging Markets Management (EMM). The firm's "generic" name is testimony to Mr. van Agtmael's pioneering spirit: he was one of the first investment professionals to draw attention to the opportunities presented by stocks of firms domiciled in developing countries in the early 1980s. Interesting to note also is that the firm, founded in 1987, was created by six former staff members of the World Bank and the International Finance Corporation. Mr. Agtmael e.g. served as division chief in the World Bank's Treasury operations and as deputy director of the Capital Markets Department at the International Finance Corporation. There he created the first emerging markets equity index, later bought by Standard & Poor's to compete with the index leader MSCI. See the website of EMM: http://www.emi-emm.com.
8. The term Washington Consensus was given in 1989, the same year of the fall of the Berlin Wall, to a list of ten policy recommendations gave by the economist John Williamson for developing country reformers. As stressed by Moisés Naím this Washington Consensus was more a Washington Confusion, as the views shared by prominent individuals that share pro-markets beliefs and distrust of government intervention were divergent. See Moisés Naím, "Fads and Fashion in Economic Reforms: Washington Consensus or Washington Confusion?" *Working Draft for the IMF Conference on Second Generation Reforms*, November 8–9, 1999, see http://www.imf.org/external/pubs/ft/seminar/1999/reforms/Naim.HTM.

9. See Michael Walzer, "The divided self," in Walzer, *Thick and Thin. Moral Argument at Home and Abroad*, London and Notre Dame, University of Notre Dame Press, 1994, pp. 85–103.
10. Interviews in New York, May 10, 2000 with a Wall Street global emerging markets strategist; and London, October 7, 2000 with an emerging markets economist.
11. See Graciela Kaminsky, Saul Lizondo and Carmen Reinhart, "Leading Indicators of Currency Crises," *International Monetary Fund Staff Papers*, vol. 45, March 1998, pp. 1–48; Graciela Kaminsky and Carmen Reinhart, "The Twin Crises: The Causes of Banking and Balance of Payments Problems," *American Economic Review*, vol. 89, no. 3, June 1999, pp. 473–500; Morris Goldstein, Graciela Kaminsky and Carmen Reinhart, *Assessing Financial Vulnerability: An Early Warning System for Emerging Markets*, Washington, D.C., Institute for International Economics, 2000.
12. See Barry Eichengreen, Andrew Rose and Charles Wyplosz, "Speculative Attacks on Pegged Exchange Rates: An Empirical Exploration with Special Reference to the European Monetary System," *National Bureau of Economic Research Working Paper*, No. 4898, 1994; Barry Eichengreen, Andrew Rose and Charles Wyplosz, "Contagious Currency Crises," *National Bureau of Economic Research Working Paper*, No. 5681, 1996; Jeffrey Sachs, Aaron Tornell and Andrés Velasco, "Financial Crises in Emerging Markets: The Lessons from 1995," *Brookings Papers on Economic Activities*, 1996, pp. 147–198; Jeffrey Frankel and Andrew Rose, "Currency Crashes in Emerging Markets: An Empirical Treatment," *Journal of International Economics*, November 1996, pp. 351–366.
13. See Andrew Berg and Catherine Patillo, "Predicting Currency Crises: The Indicators Approach and an Alternative," *Journal of International Money and Finance*, vol. 18, no. 4, August 1999, pp. 561–586; Andrew Berg, Eduardo Borensztein, Gian Maria Milesi-Ferretti and Catherine Patillo, "Anticipating Balance of Payments Crises: The Role of Early Warning Systems," *IMF Occasional Paper*, No. 186, 1999.
14. See Olivier Burkart and Virginie Coudert, "Leading Indicators of Currency Crises for Emerging Markets," *Emerging Markets Review*, vol. 3, no. 2, June 2002, pp. 107–133; Matthieu Bussière and Marcel Fratzscher, "Towards a New Early Warning System of Financial Crises," *European Central Bank Working Paper Series*, No. 145, May 2002; Olivier Burkart and Virginie Coudert, "Les crises de change dans les pays émergents," *Bulletin de la Banque de France*, no. 74, February 2000, pp. 49–61; Peter Vlaar, "Early Warning Systems for Currency Crises," *BIS Conference Papers*, vol. 8, March 2000, pp. 253–274; John Hawkins and Marc Klau, "Measuring Potential Vulnerabilities in Emerging Market Economies," *BIS Working Papers*, No. 91, October 2000; and Claire Dissaux who built a "country seismograph" based on "early warning signals" approaches, Crédit Agricole Indosuez, *Country Seismograph Presentation*, Paris, CAI Global Emerging Markets, October 7, 2000.
15. See Hali Edison, "Do Indicators of Financial Crises Work? An Evaluation of Early Warning System," *Board of Governors of the Federal Reserve System International Finance Discussion Papers*, No. 675, July 2000 (unpublished); and later Steven Kamin, John Schindler and Shawna Samuel, "The Contribution of Domestic and External Factors to Emerging Market Devaluation Crises: An Early Warning Systems Approach," *Board of Governors of the Federal Reserve System, Internationational Finance Discussion Papers*, No. 711, September 2001; Citicorp Securities, "Early Warning System—An Anticipating Balance of Payments Crisis in Latin America," New York, *Citicorp Securities Economic Research*, May 6, 1998; Crédit Suisse First Boston, "Emerging Markets Risk Indicator," London, *CSFB Technical Report*, 1999; Avinash Persaud, *Event Risk Indicator Handbook*, London, JP Morgan, January 29, 1998.
16. See Karin Kimbrough and Stephen Li Jen, "An Early Warning System for Currency Crises," London, *Morgan Stanley Dean Witter, Global Equity Research & Economics*, July 2, 2001.
17. See Arturo Porzecanski, "An Assesment of Sovereign Liquidity Risk," in ABN Amro Emerging Markets Fortnightly, New York and London, *ABN Amro Emerging Markets Research*, December 13, 2000.
18. See Alberto Ades, Rumi Masih and Daniel Tenengauzer, "GS-Watch: A New Framework for Predicting Financial Crises in Emerging Markets," *Goldman Sachs Emerging Markets Economic Research*, December 18, 1998.

19. Andrew Berg and Catherine Patillo, "Are Currency Crises Predictable? A Test," *IMF Staff Papers*, vol. 46, no. 2, June 1999, pp. 107–138; and Andrew Berg and Catherine Patillo, "What Caused the Asian Crises: An Early Warning System Approach," *Economic Notes by Banca Monte dei Paschi di Siena*, vol. 28, no. 3, 1999, pp. 285–334.
20. See Hali Edison, "Do Indicators of Financial Crises Work? An Evaluation of an Early Warning System," Board of Governors of the Federal Reserve System, *International Finance Discussion Papers*, No. 675, July 2000; Olivier Burkart and Virginie Coudert, "Leading Indicators of Currency Crises in Emerging Economies," Banque de France, *Notes d'Etudes et de Recherche*, No. 74, May 2000; and for a synthesis and an evaluation see James Bell and Darren Pain, "Leading Indicator Models of Banking Crises: A Critical Review," in Bank of England, *Financial Stability Review*, London, Bank of England, December 2000, pp. 113–129.
21. Andrew Berg, Eduardo Borensztein, Gian Maria Milesi-Ferretti and Catherine Patillo, "Anticipating Balance of Payments Crises: The Role of Early Warning Systems," *IMF Occasional Paper*, No. 186, 1999, p. 2.
22. For an epistemological critic of the pretension embedded in nearly all social sciences to predict the future, see Karl Popper, *Poverty of Historicism*, London, Routledge, 1988. As stressed by many commentators, scholars and financial operators, too frequently the debates are about crisis prediction versus crisis anticipation or crisis prevention embedded in confusion about the terms of the debates themselves. As pointed out by Jorge Braga de Macedo, "the role of news in generating sudden changes in beliefs is such that crises can hardly be forecast: the success rate at predicting them is less than one third (25–30 percent). The reason is that two types of errors must be balanced against each other: not to predict crises that do occur and to predict crises that do not occur. Detecting vulnerability is very different from predicting the timing of the crisis." Jorge Braga de Macedo, "Financial Crises and International Architecture: A Euro-Centric Perspective," paper prepared for a panel on *The future of Mercosur* held at the Central Bank of Argentina, Buenos Aires, August 24, 2000, p. 10 (unpublished).
23. Goldstein, Kalinsky and Reinhart, *Assessing Financial Vulnerability*, p. 105.
24. See Avinash Persaud, "Sending the Herd off the Cliff Edge: The Disturbing Interaction Between Herding and Market-Sensitive Risk Management Practices," *2000 Essay Competition Essay in Honour of Jacques de Larosière of the Institute of International Finance*, 2000, p. 5.
25. Interview with an emerging market fund manager, Edinburgh, November 17, 2000.
26. See http://www.imf.org/external/am/2000/prague.htm.
27. See http://www.puc-rio.br/lacea-rio-2000/; http://www.dallasfed.org/htm/dallas/archives.html.
28. Interviews, New York, 8, 9 and 11, 2000, Edinburgh, November 17 and 20, 2000, several interviews with a head of emerging market fixed income team, a fund manager on emerging market and an emerging market chief economist; interviews in Paris, November 17, 2000, May 28, 2001 and June 7, 2001, with emerging debt fund managers and economists; confirmed also by fund managers and economists in Madrid, April 7, 2001.
29. Mohamed El-Erian, *PIMCO Emerging Markets Watch*, PIMCO, August 2000 (http://www.pimco.com).
30. Interview, New York, May 12, 2000. The proceedings of panel speakers were published by Deutsche Bank, see Deutsche Bank World Bank/IMF Annual Meetings, *Realignments in Industrial Countries: A Challenge Facing Emerging Markets*, London, Deutsche Bank Global Markets Research, November 1999; and Deutsche Bank IADB Annual Meetings, *Financing Latin American Growth: Sources, Politics, and Outlook*, London, Deutsche Bank Global Markets Research, May 2000.
31. Interview, New York, May 12, 2000 with an emerging markets chief economist.
32. These social events were respectively organized during the IADB 2001 investor forums of Crédit Suisse First Boston and Salomon Smith Barney in March 2001.
33. Chase, "IMF/World Bank Meetings. Update from Chase International Fixed Income Research Meetings in Prague," New York, *Chase International Fixed Income Research*, September 26 and 27, 2000.

34. One of the co-written papers presented by the newly appointed IADB chief economist, Guillermo Calvo, one of the most respected economists on Latin American issues (coming from Maryland University), was precisely on the U.S. downturn impact in emerging countries, see Guillermo Calvo, Eduardo Fernández-Arias, Carmen Reinhart and Ernesto Tavi, "The Growth-Interest Rate Cycle in the United States and Its Consequences for Emerging Markets," Washington, Inter-American Development Bank Research Department, Working Paper presented at the *Annual Meetings of the Board of Governors, Inter-American Development Bank*, Santiago de Chile, March 18, 2001.
35. Deutsche Bank, *A Fresh Look at Latin America Ahead. Special Issue Prepared for the IADB Meetings, Santiago, March 17, 2001*, New York; Deutsche Bank Global Emerging Markets Research, March 12, 2001.
36. This "R-word index" has gained the attention e.g. of ABN Amro economic research team, see ABN Amro Bank, "Euroland View: Is Psychlogy Driving the Economy?" in ABN Amro, Euroland economic update, Amsterdam, *ABN Amro Economics Department*, February 8, 2001, pp. 2–5.
37. See Robert Shiller, "Bubbles, Human Judgement, and Expert Opinion," *Yale University Cowles Foundation Discussion Paper*, No. 1303, May 2001 (unpublished).
38. See Jeff Madrick, "The Influence of the Financial Media over International Economic Policy," Center for Economic Policy Analysis, New School for Social Research, *CEPA Working Paper Series III*, No. 16, June 2000 (unpublished).
39. Gordon Clark and Dariusz Wojcik, "The City of London in the Asian Crisis," *Journal of Economic Geography*, vol. 1, no. 1, January 2001, pp. 107–130.
40. See Ricardo Hausmann, "A Way out of Argentina," *Financial Times*, October 29, 2001, p. 17. This article followed some others written by leading economists on Argentinian perspectives but much less "visible" because they were not published in global confidence arenas like the *Financial Times*, see e.g. the excellent synthesis written by Barry Eichengreen, "Argentina after the IMF," *Berkeley University*, August 27, 2001 (unpublished); available at http:// elsa.berkeley.edu/users/ eichengr/website.htm.
41. See Michael Mussa, "Fantasy in Argentina," *Financial Times*, November 12, 2001, p. 15; and for a longer version Michael Mussa, "Argentina Needs Effective not Unthinking Support," *FT.com*, November 9, 2001; Michael Mussa, "Argentina and the Fund: From Triumph to Tragedy," *Institute of International Economics, Policy Analysis in International Economics*, 67, July, 2002, available online at http://www.iie.com/publications/publication.cfm?pub_id=343&source=none.
42. Dresdner Bank Lateinamerika, *Latin American Daily Spotlight*, New York, London and Frankfurt, *Dresdner Bank Lateinamerika*, November 12, 2001.
43. See Barclays Capital, "Argentina: Difficult Just Got Worse," New York, *Barclays Capital, Latam Economics & Strategy*, November 9, 2001. Some leading Wall Street firms in an unusual mea culpa, explicitly recognized debt restructuring as increasingly likely, just a few moments before its official annoucement (however there is frequently a time lag between what it is said in a face to face exhange and what it is written in reports), see Goldman Sachs, "Argentina: Our Views have Changed," in *Global Economics Weekly*, New York, Goldman Sachs, November 7, 2001.
44. Most of Rudiger Dornbusch papers are available online at http://web.mit.edu/rudi/ www/papers.html. As stressed by Paul Samuelson during moments of financial euphoria no one wants to listen to warnings. Before the 1929 financial crisis, Paul Warburg, by that time one of the most respected bankers and a founding member of the Federal Reserve System, warned about a forthcoming collapse but "the reaction to his statement was bitter, even vicious" and the same happened to Economist Roger Babson whose forecast of the crash brought a deluge of criticism. See Paul Samuelson, *A Short History of Financial Euphoria*, New York, Penguin Books, 1994, p. 7.
45. Note also that the trespassing can go the other way round: investment bankers (with Ph.D. credendials) can trespass from Wall Street to the academy. A good example is Carmen Reinhart, a leading scholar, based at Maryland University since 1996, who has published prestigious

academic reviews and is also involved as consultant for the World Bank and the IMF. She earned a Ph.D. from Columbia University and spent nearly four years as an economist at Bear Stearns, a New York-based investment house, before joining the IMF in 1988 where she developed a career mainly in the Research Department.

46. See www.friedberg.com.
47. Historically one of the most famous "trespassers" is probably John Maynard Keynes, not only one of the most creative economists but also a clever financial investor. On Keynes see Robert Skidelsky's exhaustive biography, *The Economist as a Saviour: John Maynard Keynes*, London, Macmillan, 1994; and Robert Skidelsky, *John Maynard Keynes: Fighting for Britain, 1937–1946*, London, Macmillan, 2000.
48. See http://www.dfafunds.com.
49. See http://www.sinopia.fr and http://www.kmv.com.
50. Interviews in New York, with strategists and economists, May 11, 2000. See http://www.ssglobal link.com/marketing/index2.htm and http://www.vbp.com/research/index.html., and for the Center for Brazilian Studies at Columbia University http://www.sipa.columbia.edu/ brazilc/. Interviews, New York, May 12, 2000, with a senior emerging market economist and an emerging market chief economist; and for Stiglitz see The Brookdale Group, Ltd asset management website http://www.brookdaleglobal.com/, mentioned by Joshua Chaffin, "High-Profile Academics are Streaming to Wall Street Eager to Put Their Theories to the Test," *Financial Times*, November 3, 2000 on ft.com. See also their last essays, Rudiger Dornbusch, *Keys to Prosperity: Free Markets, Sound Money and a Bit of Luck*, Cambridge, Mass., MIT Press, 2000; Albert Fishlow and Karen Parker, eds., *Growing Apart: The Causes and Consequences of Global Village Inequality*, Washington, D.C., Council on Foreign Relations Press, 2000.
51. After the devaluation, Ricardo Hausmann published other important personal views as "Argentina's Route to Salvation," *Financial Times*, January 4, 2002, p. 13.
52. See Walter Molano, "Argentina: The No Brainer Danger of Devaluation," New York, *BCP Securities, The Latin American Adviser*, November 27, 2001.
53. The Economist, "A Tale of Two Economists," September 28, 2000. Andrei Shleifer is the author of several essays on international finance, see e.g. Andrei Shleifer, *Inefficient Markets: An Introduction to Behavioural Finance. Clarendon Lectures in Economics*, Oxford, Oxford University Press, 2000.
54. See http://www.lsvasset.com.
55. Several interviews with Latin American strategists and economists from Wall Street investment banks, New York, May 9, 10 and 11, 2000; and with emerging market analysts in Paris, May 18 and 19, 2000; and fund managers in London, October 3, 5 and 17, 2000.
56. Obviously, Deutsche Bank is not the only boutique to hire from the IMF—an institution at the very heart of emerging market financial crises and rescue packages, another key player in the confidence game. Federico Kaune and Paulo Leme, e.g. both emerging market economists at Goldman Sachs, came from the IMF. The first joined Wall Street from Washington in 1993 (after spending nine years at the IMF and being, among other functions, responsible for the Brady debt restructuring at the IMF of Venezuela and Jordan) and the second joining in 1997 after three years as an economist at the IMF. Both graduated in economics from the University of Chicago.
57. Peter Garber is the author of several important essays, among them see Peter Garber, *Famous First Bubbles*, Cambridge, Mass., MIT Press, 2000. He published some of them with leading figures of the confidence game as Herminio Blanco who, later in the 1990s, became one of the most successful ministers under the Zedillo Mexican government (by the time Peter Garber had joined Wall Street). See Herminio Blanco and Peter Garber, "Recurrent Devaluation and Speculative Attacks on the Mexican Peso," *Journal of Political Economy*, vol. 94, February 1986, pp. 148–166.
58. See http://www.darbyoverseas.com/.

59. Interview with a Latin American economist and a fund manager, Washington, D.C., July 20 and 21, 2001.
60. Interview, New York, May 12, 2000, with a former senior economist of a Washington-based international organization who trespassed into a Wall Street boutique.
61. Interview, Paris, May 3, 2000, with former IMF economists that trespassed into international investment banks and fund management companies.
62. Interview, Paris, June 9, 2000, with a former IMF economist who became an asset manager strategist.
63. On JP Morgan, see the biography by Jean Strouse, *Morgan: An American Financier*, New York, Random House, 1999.
64. See Promperu website: http://www.promperu.gob.pe/ and, for one of the last reports, Promperu, *Peru: Analysts' View on the Peruvian Economy*, Lima, Promperu, June 2001. This kind of report gives also an idea of the country coverage by the financial community of a specific country. In the case of Peru, the September 2001 report referenced for example 18 products and views of leading firms such as BBVA, ABN Amro, BCP Securities, Bear Stearns, BNP Paribas, Crédit Suisse First Boston, Dresdner Bank Lateinamerika, Deutsche Bank Securities, Goldman Sachs, ING Barings, JP Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley Dean Witter, Salomon Smith Barney, BSCH, Scotiabank Group and EIU. See Promperu, *Peru's Analysts' View on the Peruvian Economy. September 2001*, Lima, Promperu, September 2001. In the case of Coinvertir's report on Colombia the coverage more limited (11 reports).
65. See the online reports in Coinvertir website: http://www.coinvertir.org/02-econ/02-ibank.htm. In the case of Colombia it's also interesting to mention the bimonthly reports covering Wall Street analysts' views realized by the central bank, Banco de la República de Colombia, see e.g. Banco de la República de Colombia, *Como nos ven afuera ? Del 16 al 22 de junio de 2001*, Bogotá, Banco de la República de Colombia, June 2001.
66. See Chilean Foreign Investment Committee, *Chile in the Eyes of Wall Street*, Santiago de Chile, FIC, August 2000; PromPerú, *Peru: A Country in the Move. Analysts' Views on the Peruvian Economy*, Lima, Promperú, December 2000 and December 1999; Coinvertir, *Colombia Investment Banks and Credit Rating Agencies' Views on the Economy*, Santa Fé de Bogotá, December 1999. Other countries like Argentina e.g. also created financial hubs where investors can find precious economic and financial data. See http://www.infoarg.org/.
67. See Dani Rodrik, "How Far will International Economic Integration go?" *Journal of Economic Perspectives*, vol. 14, no. 1, Winter 2000, pp. 177–186. One of the principal insights for which Mundell received the Nobel Prize was precisely to underline that a country cannot have at the same time unhampered international capital flows, a fixed exchange rate system and an independent monetary policy. See Robert Mundell, "Capital Mobility and Stabilization Policy Under Fixed and Flexible Exhange Rates," *Canadian Journal of Economics*, vol. 29, 1963, pp. 475–485.
68. See Jeffrey Frankel, "No Single Currency Regime is Right for all Countries or at all the Times," *Princeton University, Essays in International Finance*, No. 125, 2000.
69. Andrés Velasco, "The Impossible Duo? Globalization and Monetary Independence in Emerging Markets," prepared for the *2001 Meeting of the Brookings Trade Forum*, Washington, D.C., May 10–11, 2001.
70. For a closer analysis see Benjamin Ross Schneider, "The Material Basis of Technocracy: Investor Confidence and Neoliberalism in Latin America," in Miguel Centeno and Patricio Silva, eds., *The Politics of Expertise in Latin America*, New York, St. Martin's Press, 1998, pp. 77–95. For a comparative study on Chile, Mexico, France and Great Britain, see Marion Fourcade Gourinchas and Sarah Babb, "Social Learning in the Global Village: Paths to Neoliberalism in Four Countries," Princeton University and University of Massachusetts, paper presented at the *American Sociological Association*, August 11, 2000, Washington, D.C.

71. See Miguel Centeno and Patricio Silva, eds., *The Politics of Expertise in Latin America*, London, St. Martin's Press, 1998; and Jorge Dominguez, ed., *Technopols: Freeing Politics and Markets in Latin America in the 1990s*, University Park, Pa., The Pennsylvania State University Press, 1997.
72. BBVA Securities, *Peru: Economy Ministry Dream Team*, London and New York, Latin America Fixed Income & Foreign Exchange, BBVA Securities, June 28, 2001. The rumors by the time were that Alfredo Thorne, a JP Morgan economist, and Liliana Rojsa-Suarez, a former IADB and Deutsche Bank senior economist, would join the government as vice minister of the economy and superintendent of banks. See also the research analysis of BBVA Banco Continental in Peru: http://www.bbvabancocontinental.com/. A few weeks later however, the ideological inconsistency within Toledo's cabinet was questioned: "while the presence of Finance Minister Pedro Pablo Kuczynski and Central Bank President Richard Webb, two major proponents of economic orthodoxy, is reassuring to the market, the presence of Vice Minister of Finance Kurt Berneo and Central Bank Director Oscar Dancourt, two well-known proponents of economic heterodoxy, is likewise disconcerting." BBVA Securities, *Peru: Limited Room for Maneuver*, New York, BBVA Latin American Equities Strategy, August 27, 2001.
73. See Peter Evans and Martha Finnemore, "Organizational Reform and the Expansion of the South's Voice at the Fund," *Berkeley University and George Washington University Working Paper*, prepared for the G-24 Technical Group Meeting, Washington, D.C., April 17–18, 2001 (unpublished).
74. See Robert Barro and Jong-Wha Lee, "IMF programs: Who is Chosen and What are the Effects?" *NBER Working Paper*, No. 8951, May 2002 (unpublished). See also on the political economy of IMF lending, James Raymond Vreeland, *The IMF and Economic Development*, Cambridge, Mass., Cambridge University Press, 2003.

Chapter Six The Timing Game: Wall Street, Mexico and Argentina. A Temporal Analysis

1. Rudiger Dornbusch, "A Primer on Emerging Market Crises," MIT, *Working Paper*, January 2001, p. 6 (unpublished), see: http://web.mit.edu/rudi/www/papers.html; published also in Sebastian Edwards and Jeffrey Frankel, eds., *Preventing Currency Crises in Emerging Markets*, Chicago, Ill., NBER and The University of Chicago Press, 2001.
2. See Steven Block, "Political Conditions and Currency Crises: Empirical Regularities in Emerging Markets," *Center for International Development at Harvard University*, Working Paper, No. 79, October 2001 (unpublished). See for a former study focusing on political variables in currency crises, Allan Drazen, "Political Contagion in Currency Crises," *NBER Working Paper*, No. 7211, 1999 (unpublished).
3. For a close study of the 2002 election year in Brazil and the interactions with financial markets, see Juan Martínez and Javier Santiso, "Financial Markets and Politics: The Confidence Game in Latin American Emerging Economies," *International Political Science Review*, 2003 Vol. 24, no. 3, pp. 363–395.
4. Jianping Mei, "Political Risk, Financial Crisis, and Market Volatility," New York University, Department of International Business, *Working Paper*, 1999 (unpublished). The history of economics suggest also plenty of examples on the incidence of political events in framing economic uncertainty and in stock market volatility as suggested by a close analysis of Argentina peso exchange rate during the nineteenth century, see Maria Alejandra Irigoin and Eduardo Salazar, "Looking at Political Events and Economic Uncertainty: An Examination of the Volatility in the Buenos Aires Paper Peso Rate of Exchange, 1826–1866," Torcuato di Tella and Universidad Nacional de Mar del Plata, paper presented at *Stanford University LACLIO Conference*, November 17–18, 2000 (unpublished); and Maria Alejandra Irigoin, *Finance, Politics and Economics in Buenos Aires, 1820s–1860s: The Political Economy of Currency Stabilisation*, London, Unpublished Ph.D. Diss., London School of Economics, 2000.

5. See the empirical evidence based on a portfolio choice model that relates capital flight to rate of return differentials, risk aversion, and the three types of risk mentioned for a panel of 47 developing countries over 16 years, Quan Vu Le and Paul J. Zak, "Political Risk and Capital Flight," *Claremont Graduate University, School of Politics and Economics*, May 2001 (unpublished).
6. See Steven Block and Paul M. Vaaler, "The Price of Democracy: Sovereign Risk Taking, Bond Spreads and Political Business Cycles in Developing Countries," Center for International Development at Harvard University, *CID Working Paper*, No. 82, December 2001 (unpublished). See also for similar results, indicating that share prices in a sample of 33 developed and developing countries, react negatively to uncertainty in the outcome of elections, Christos Pantzalis, David Stangeland and Harry Turtl, "Political Elections and the Resolution of Uncertainty: The International Evidence," *Journal of Banking and Finance*, vol. 24, no. 10, 2000, pp. 1575–1604.
7. See Mathieu Bussière and Christian Mulder, "Political Instability and Economic Vulnerability," *IMF Working Paper*, 99/46, 1999.
8. See Philippe Aghion, Alberto Alesina and Francesco Trebbi, "Endogenous Political Institutions," *Harvard University*, November 2001 (unpublished).
9. For a closer analysis of the relationships between democratic institutions and currency markets, see John Freeman, Jude Hays and Helmut Stix, "Democracy and Markets: The Case of Exchange Rates," *American Journal of Political Science*, July 2000; David A. Leblang, "Democratic Processes and Political Risk: Evidence from Foreign Exchange Markets," *American Journal of Political Science*, August 2001; David Leblang and William Bernhard, "The Politics of Speculative Attacks in Industrial Democracies," *International Organization*, vol. 54, 2000, pp. 291–324.
10. There is an extensive literature that draws on several traditions dealing with these issues, both for developed and developing countries interested in public finances, government expenditure and the size of governments. Among the many papers looking to the systematic effects of electoral rules and political regimes on the size and composition of governments spending, see Torsten Persson, "Do Political Institutions Shape Economic Policy?" *Econometrica*, vol. 70, no. 3, May 2002, pp. 883–905; Allan Drazen, *Political Economy in Macroeconomics*, Princeton, Princeton University Press, 2000; Torsten Persson and Guido Tabellini, *Political Economics: Explaining Economic Politicy*, Cambridge, Mass., MIT Press, 2000.
11. See Alberto Alesina, Ricardo Hausmann, Rudi Hommes and Ernesto Stein, "Fiscal Institutions and Budget Deficits in Latin America," *Journal of Development Economics*, 59, 1999, pp. 233–255.
12. See Barry Ames, *Political Survival*, Berkeley, University of California Press, 1987.
13. See Steven A. Block, "Elections, Electoral Competitiveness and Political Budget Cycles in Developing Countries," *Center for International Development at Harvard University*, Working Paper, No. 78, October 2001 (unpublished).
14. See for an empirical test Witold Jerzy Henisz, "Political Institutions and Policy Volatility," *The Wharton School of Management, University of Pennsylvania*, August 2001 (unpublished).
15. See David Leblang, "The Political Economy of Speculative Attacks in the Developing World," *International Studies Quarterly*, vol. 46, no. 1, March 2002, pp. 69–91. This study underlines that markets respond and react to political events. They tend to take into account the timing of elections but also the political orientation of the government. In particular speculative attacks are more likely under Left than under Right governments.
16. See e.g. the analysis based on four Asian democracies by Jude Hays, John Freeman and Hans Nesseth, "Democratization and Globalization in Emerging Market Countries: An Econometric Study," prepared for the *2001 Annual Meeting of the American Political Science Association*, San Francisco, August 30–September 2, 2001 (unpublished); and on Asian emerging countries Andrew MacIntyre, "Institutions and Investors: The Politics of the Economic Crisis in Southeast Asia," *International Organization*, vol. 55, no. 1, 2001, pp. 81–122.
17. See, for Mexico, Lawrence Whitehead, "Political Explanations of Macroeconomic Management," *World Development*, vol. 18, no. 8, 1990; Herminio Blanco and Peter Garber, "Recurrent Devaluations and Speculative Attacks on the Mexican Peso," *Journal of Political Economy*, vol. 94, 1986, pp. 148–166; Pamela Starr, "Flujos de capital, tipos de cambio fijos y supervivencia política: México y Argentina, 1994–1995," *Política y Gobierno*, vol. 6, no. 1,

First Semester 1999, pp. 129–171; and for a more systematic analysis Liliana Rojas-Suarez, Gustavo Cañonero and Ernesto Talvi, *Economics and Politics in Latin America: Will Up-coming Elections Compromise Stability and Reform?,* New York, Deutsche Bank Securities, Global Emerging Markets Research, August 1998.

18. See María de los Angeles González, "On Elections, Democracy and Macroeconomic Policy Cycles: Evidence from Mexico," Princeton University, 2000, paper presented at *Stanford University Conference of the Social Science History Institute on Political Institutions and Economic Growth*, Stanford, April 14–15, 2000 (unpublished).
19. See María de los Angeles González, "On Elections, Democracy and Macroeconomic Policy Cycles," Princeton University, 1999 (unpublished).
20. See e.g. the demonstration based on the analysis of market expectations and stock market returns prior to the March 2000 presidential election in Taiwan by Tse-Min Lin and Brian Roberts, "Parliamentary Politics and Exchange Markets," paper delivered at the *Annual Meeting of the Midwest Political Science Association*, Chicago, 2001 (unpublished).
21. See Christos Pantzalis, David Strangeland and Harry Tuttle, "Political Elections and the Resolution of Uncertainty: The International Evidence," *Journal of Banking and Finance*, vol. 24, 2000, pp. 1575–1604.
22. In October 2001, Lehman Brothers fixed income research and Eurasia Group's political science expertise launched a joint venture in order to cover political risks in emerging markets and analytical tools such as the Lehman Eurasia Group Stability Index (LEGSI), which incorporates political factors (65% of a country's weight) and economic factors (35%). See http://www.lehmaneurasiagroup.com/.
23. Interview, Paris, June 21, 2001.
24. See, e.g. the reports produced by JP Morgan, "Argentina: The 'Model'—Not Just the Peg—Suffers," New York, *JP Morgan Economic Research*, December 27 and 31, 2001.
25. See for a general assessment, Stephan Haggard, *The Political Economy of the Asian Financial Crisis*, Washington, D.C., Institute of International Economics, 2000; and Allan Drazen, *Political Economy in Macroeconomics*, Princeton, Princeton University Press, 2000.
26. See Sebastián Saiegh, "Is There a Democratic Advantage? Assessing the Role of Political Institutions in Sovereign Borrowing," prepared for the *Annual Meeting of the American Political Science Association*, August 30–September 2, 2001 (unpublished). From the point of view of foreign direct investors, some democratic advantage seems to exist. Democratic political systems tend to attract higher levels of FDI both across countries and within countries over time (70% more FDI goes into democratic countries than their authoritarian counterparts). The major reasons for this democratic FDI propensity are better transparency and commitments to external actors; the possibility for foreign investors to lobby government officials seeking electoral outcomes; and the credibility factor, democratic governments being perceived as more credible regarding their agreements in the international area. See Nathan Jensen, "Global Corporations and Domestic Governance: The Political Economy of Foreign Direct Investment," Yale University, Department of Political Science, *Working Paper*, 2001 (unpublished).
27. See for a temporal analysis of the Mexican financial crisis Javier Santiso, "Wall Street and the Mexican Financial Crisis: A Temporal Analysis of Emerging Markets," *International Political Science Review*, vol. 20, no. 1, 1999, pp. 49–71; Jonathan Heath and Sidney Weintraub, eds., *Mexico and the Sexenio Curse: Presidential Successions and Economic Crises in Modern Mexico*, Washington, D.C., Center for Strategic & International Studies, 1999; Sebastian Edwards, ed., *Mexico 1994: Anatomy of an Emergency-Market Crash*, Washington D.C., Carnegie Endowment for International Peace, 2000.
28. Rudi Dornbusch, "Fewer Monies, Better Monies: Exchange Rates and the Choice of Monetary-Policy Regimes," *American Economic Review*, vol. 91, no. 2, May 2001, pp. 238–242.
29. See Beatriz Magaloni, "Institutions, Political Opportunism and Macroeconomic Cycles: Mexico 1970–1998," Stanford University, paper presented at *Stanford University Conference of the Social Science History Institute on Political Institutions and Economic Growth*, Stanford, April 14–15,

2000. As underlined there is a "Mexican paradox" in the fact that in spite of sound economic performances the PRI regime (and system) took several decades to survive. For an explanation based on central government's fiscal resources distribution among the federation and the incentives to "voice" or "exit" among voters, Alberto Díaz Cayeros, Beatriz Magaloni and Barry Weingast, "Democratization and the Economy in Mexico: Equilibrium (PRI) Hegemony and Its Demise," *Stanford University, Department of Political Science*, June 2000.

30. Interview, New York, February 15, 1997.
31. On the financial crisis of 1994, see Maxwell Cameron and Vinod Aggarwal, "Mexican Meltdown: States, Markets and Post-NAFTA Financial Turmoil," *Third World Quarterly*, vol. 17, December 1996, pp. 975–987; and Riordan Roett, ed., *The Mexican Peso Crisis. International Perspectives*, Boulder, Lynne Rienner Publishers, 1996.
32. On the socioeconomic transformation of Mexican elite and the rise of economists over the last decades, see Sarah Babb, *Managing Mexico: Economists from Nationalism to Neoliberalism*, Princeton, Princeton University Press, 2001.
33. See on Nafta negotiations and related issues Maxwell Cameron and Brian Tomlin, *The Making of Nafta: How the Deal was Done*, Ithaca, Cornell University Press, 2000; and for business perceptions within Mexico and outside Strom Cronan Thacker, *Big Business, the State and Free Trade: Constructing Coalitions in Mexico*, Cambridge, Mass., Cambridge University Press, 2000.
34. See William Goetzmann and Philippe Jorion, "Re-Emerging Markets," *NBER Working Paper*, No. 5906, January 1997; published in *Journal of Financial and Quantitative Analysis*, vol. 34, no. 1, March 1999. For a specific study of the integration of emerging markets into the world capital markets, see Geert Bekaert, Campbell Harvey and Robin Lumsdaine, "Dating the Integration of World Equity Markets," Columbia University, Duke University, Brown University and NBER, paper presented at *the 28th Annual Meeting of the European Finance Association*, Universitat Pompeu Fabra, Barcelona, August 22–25, 2001.
35. Between 1990 and 1994 Mexico alone received some US$ 102 bn., which accounted for almost 20 percent of total world capital flows over the same period. For comparative purposes, the Asian emerging economies taken together received US$ 261 bn. over the same period.
36. Barry Eichengreen, "The Baring Crisis in a Mexican Mirror," *International Political Science Review*, vol. 20, July 3, 1999, reprinted in Barry Eichengreen, Capital flows and crises, Cambridge, Mass., MIT Press, 2003.
37. See for a comparison between Mexican and Chilean financial crises Sebastian Edwards, "A Tale of Two Crises: Chile and Mexico," *NBER Working Paper*, 5794, October 1996; reprinted "Two Crises: Inflationary Inertia and Credibility," *The Economic Journal*, vol. 108, no. 448, May 1998, pp. 680–702.
38. See, on the politics of Mexican finance during the 1990s, Timothy Kessler, "Political Capital: Mexican Financial Policy Under Salinas," *World Politics*, vol. 51, October 1998, pp. 36–66.
39. During the 1960s and 1970s, the American universities were the compulsory education and socialization centers for the Latin American elites. Aspe completed his doctoral thesis at MIT in 1978, one year after Domingo Cavallo, the future architect of Argentina's move toward liberalism, had finished his dissertation at Harvard. Indeed it was in Cambridge, Massachusetts that the two young economists met one of the major Latin American reformers of the 1990s, the Chilean Alejandro Foxley, who at that time was a visiting scholar at MIT. For more information on the lives of this Latin American generation, see Jorge Domínguez, ed., *Technopols. Freeing Politics and Markets in Latin America in the 1990s*, University Park, The Pennsylvania State University Press, 1999.
40. Interviews, New York, February 14 and 15, 1997.
41. Tesobonos are short-term Mexican Treasury bills payable in pesos but indexed on the dollar. Cetes are short-term (28 days) peso-denominated treasury bills.
42. See Guillermo Calvo, Leonardo Leiderman and Carmen Reinhart, "Inflows of Capital to Developing Countries in the 1990s," *Journal of Economic Perspectives*, vol. 10, no. 2, Spring 1996, pp. 123–139; Ricardo french-Davis and Stephany Griffith-Jones, eds., *Coping with Capital*

Surges. The Return of Finance to Latin America, Boulder, Lynne Rienner, 1995; and for later dynamics Felipe Larraín, ed., *Capital Flows, Capital Controls and Currency Crises: Latin America in the 1990s*, Ann Arbor, University of Michigan Press, 2001; Stephany Griffith-Jones and Manuel Montes, eds., *Short-Term Capital Flows and Economic Crises*, Oxford, Oxford University Press, 2001.

43. The timing of the capital flows confirms the predominance of exogenous factors. Capital flows are not linked to the implementation of economic reforms or to the performance registered by the recipient country. Certain countries received financing although they had not embraced any reforms while others began to receive foreign investment only after having finalized reforms.
44. Interview, New York, February 11, 1997.
45. See Guillermo Calvo and Enrique Mendoza, "Mexico's Balance of Payments Crisis: A Chronicle of a Death Foretold," *Journal of International Economics*, vol. 41, no. 3–4, November 1996, pp. 235–264; Jeffrey Sachs, Aaron Tornell and Andrés Velasco, "The Mexican Peso Crisis: Sudden Stop Death or Death Foretold," *Journal of International Economics*, vol. 41, no. 3–4, November 1996, pp. 265–283.
46. Since 1991 Rudiger Dornbusch, an economist at MIT and the former mentor of Pedro Aspe, had continually argued in favor of a devaluation, especially in the columns of *La Epoca*. In June 1992 he repeated his recommendations to no avail to Carlos Salinas de Gortari and again to Pedro Aspe during the latter's visit to MIT the following winter. His campaign in favor of devaluation culminated with a speech delivered at the Brookings Institution in Washington in April 1994, when he strongly recommended a 20 percent devaluation so as to boost Mexican exports. See "Picking up Pieces. Mexico's Near Default can be Traced Back to Lost Opportunity," *The Wall Street Journal*, July 6, 1995. See also the paper published prior to the crisis and ex-post, Rudiger Dornbusch and Alejandro Werner, "Mexico: Stabilization, Reform and No Growth," *Brookings Papers on Economic Activity*, no. 1, 1994, pp. 243–315; and Rudiger Dornbusch, Ilán Goldfajn and Rodrigo Valdés, "Currency Crises and Collapse," *Brookings Papers on Economic Activity*, no. 2, 1995, pp. 735–754.
47. New York investment bank analysts were well aware of this and most paid close attention to Mexican political developments in 1994. See, e.g. the analysis of Arturo Porzecanski, *Quo Vadis Mexico*, New York, ING Securities, New York, June 17, 1994.
48. See the introduction of Charles Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*, New York, John Wiley & Sons, 4th edition, 2001.
49. See Arturo Porzecanski, *Emerging Markets Weekly Report*, New York, ING Securities, December 2, 1994.
50. Interview, New York, February 12, 1997.
51. Quoted by Sebastian Edwards, "The Mexican Peso Crisis: How Much Did we Know? When Did we Know It?" *NBER Working Paper*, No. 6334, December 1997, p. 8.
52. David Malpass and David Chon, *Mexican Pesos and Cetes are Attractive*, New York, Bear Stearns, November 7, 1994; JP Morgan, *Emerging Markets Outlook*, New York, Several Issues, 1994.
53. Interviews, New York, February 11, 12 and 14, 1997; telephone interview, New York, February 5, 1997.
54. See Andrés Oppenheimer, *Bordering on Chaos. Guerrillas, Stockbrokers, Politicians and Mexico's Road to Prosperity*, New York, Little, Brown & Co, 1996.
55. A number of these arguments, in particular those citing the lack of reliable information, reappeared a few years later during the crisis in Thailand and other countries of Southeast Asia. However, as we have been reminded by many economists, including Morris Goldstein of the Institute for International Economics, the financial markets and the international institutions had the necessary information for both Mexico and Thailand. He even demonstrates that there were warning signs that should have enabled the financial markets to forecast each of the 31 banking and monetary crises he analyzed.

56. Interview, Paris, March 6, 1997.
57. The overreaction can thus be explained as a downward spiral where information asymmetries led to moral hazard and adverse selection.
58. Interview in Paris on March 17, 1997. In this regard the analysis of the Mexican crisis leads one to look deeper into the conflicts that destabilized the increasingly fractured pyramid of the Mexican government. See Jong Gook Back, "The Mexican Crisis and the Internationalization of Finance," prepared for the XVIIth World Congress, *International Political Sciences Association*, Seoul, August 17–21, 1997 (unpublished).
59. See, on the distribution of congressional positions regarding the executive's pro-bailout agenda, Lawrence Broz, "The Political Economy of International Bailouts: Congressional Voting on Bailout Legislation in the 1990s," New York University, Department of Political Science, prepared for the *2001 Annual Meeting of the American Political Science Association*, San Francisco, August 30–September 2, 2001. U.S. Congress member position increases as the proportion of low-educated and low-skilled workers increases in their districts. At the same time, the most supportive members were those coming from states where the proportion of individuals employed in export competing sectors increases.
60. On the Clinton administration efforts to grapple with the Mexican crisis and more generally with monetary crisis in emerging markets during the 1990s see Riordan Roett, "The Mexican Devaluation and the U.S. Response: Potomac Politics, 1995-Style," in Riordan Roett, ed., *The Mexican Peso Crisis: International Perspectives*, Boulder, Col., Lynne Rienner, 1996, pp. 33–48; J. Bradford DeLong and Barry Eichengreen, "Between Meltdown and Moral Hazard: the International Monetary and Financial Policies of the Clinton Administration," University of California at Berkeley, prepared for the *Conference on the Economic Policies of the Clinton Administration*, Kennedy School of Government, June 26–29, 2001 (unpublished).
61. On the role of the IMF and more generally of industrial countries in emerging market crises see Jeffrey Frankel and Nouriel Roubini, "The Role of Industrial Country Policies in Emerging Market Crises," in Martin Feldstein, ed., *Economic and Financial Crises in Emerging Market Economies*, Chicago, Ill., University of Chicago Press, 2001. For a historical perspective on the IMF Michael Bordo and Anna Schwartz, "From the Exchange Stabilization Fund to the International Monetary Fund," *NBER Working Paper*, No. 8100, January 2001.
62. Telephone interview, Washington, October 7, 1997.
63. For a comparison of IMF bailouts, see Michael Bordo and Anna Schwartz, "Measuring Real Economic Effects of Bailouts. Historical Perspectives on How Countries in Financial Distress have Fared with and without Bailouts," *NBER Working Paper*, No. 7701, May 2000; and Michael Bordo and Anna Schwartz, "Under What Circumstances, Past and Present, Have International Rescues of Countries in Financial Distress been Successful?" *NBER Working Paper*, No. 6824, December 1998.
64. See the IMF's 1996 Annual Report, Washington, p. 137. See also for an analysis of the Mexican crisis issues by the IMF David Folkerts-Landau and Takatoshi Ito, eds., *International Capital Markets: Developments, Prospects and Policy Issues*, Washington, D.C., IMF, 1995.
65. In a study of some 100 developing countries over the period 1971–1992, Frankel and Rose concluded that a fairly weak FDI/debt ratio is associated with a monetary crisis. See Jeffrey Frankel and Andrew Rose, "Currency Crashes in Emerging Markets: Empirical Indicators," *NBER Working Paper*, No. 5437, January 1996, published in *The Journal of International Economics*, vol. 41, no. 3–4, November 1996, pp. 351–367.
66. See Jeffrey Frankel and Sergio Schmukler, "Country Fund Discounts and the Mexican Crisis of December 1994," *Open Economies Review*, vol. 7, no. 1, 996, pp. 511–534; Jeffrey Frankel and Sergio Schmukler, "Country Funds and Asymmetric Information," *International Journal of Finance and Economics*, vol. 5, July 2000, pp. 177–195. The U.S. Federal Reserve (FED) bulletins for the first half of 1996 also confirm the loss of confidence among Mexicans themselves in their own currency. While the government was negotiating financial support from the

international community to reimburse its short-term debt, contracted partly in the aftermath of the peso's devaluation, holders of Mexican capital continued their massive transfers to the United States. In its June 1996 report the FED disclosed that the funds of Mexican origin deposited in the United States totalled some US$ 25 bn. on December 31, 1995, twice as much as a year earlier. Mexicans alone hold 27.5% of all Latin American deposits in U.S. financial institutions, far ahead of Brazil, Argentina, Venezuela and Colombia, whereas in 1994 Mexico was in third place after Argentina and Venezuela. In 1995, apart from the Mexicans, only the Brazilians had considerably increased their deposits abroad.

67. On financial crisis contagion see the essays reproduced in Stijn Claessens and Kristin Forbes, eds., *International Financial Contagion*, New York, Kluwer Academic publishers, 2001; Michael Pettis, *The Volatility Machine: Emerging Economies and the Threat of Their Financial Collapse*, Oxford, Oxford University Press, 2001; Graciela Kaminsky and Carmen Reihnart, "On Crises, Contagion and Confusion," *Journal of International Economics*, vol. 51, no. 1, June 2000, pp. 145–168.
68. Empirical tests carried out by Barry Eichengreen, Andrew Rose and Charles Wyplosz on some twenty industrialized countries between 1959 and 1993 tend to give less weight to transmission via comparison of the fundamentals. They show in their survey that, in contrast to the tequila effect episode, the predominant transmission channel is still that of trade relations. See Barry Eichengreen, Andrew Rose and Charles Wyplosz, "Contagious Currency Crises," *NBER Working Paper*, 5681, July 1996.
69. See André Orléan, *Le pouvoir de la finance*, Paris, Editions Odile Jacob, 1999; André Orléan, "Contagion spéculative et globalisation financière: quelques enseignements tirés de la crise mexicaine," in André Cartapanis, ed., *Turbulences et spéculations dans l'économie mondiale*, Paris, Economica, 1996, pp. 27–45; André Orléan, "Le rôle des influences interpersonnelles dans le détermination des cours boursiers," *Revue Economique*, 5, September 1990, pp. 839–868.
70. Interview, New York, February 11, 1997.
71. Henry Kaufman, "Opening remarks," in *Mexico: Why didn't Wall Street Sound the Alarm?* New York, Group of Thirty, 1995 (not published).
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Deutsche Bank and the Research Department of the Inter-American Development Bank respectively: Jeffrey Frieden, Piero Ghezzi and Ernesto Stein, "Politics and Exchange Rates: A Cross Country Approach," in Jeffrey Frieden and Ernesto Stein, eds., *The Currency Game: Exchange-Rate Politics in Latin America*, Washington D.C., John Hopkins University and Inter-American Development Bank, 2001, pp. 20–63.

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Chapter Seven Conclusion: Financial Markets and the Memory of the Future

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    This problem of assymetric information is more pregnant in emerging countries. Developed markets appear in fact to have greater liquidity and greater informational efficiency than emerging markets, see on this aspect the findings, based on an empirical investigation using data from State Street Bank, which encompass over 3 mn. trades by client institutions, of Kenneth Froot, Paul O'Connell and Mark Seasholes, "The Portfolio Flows of International Investors," *NBER Working Paper*, No: 6687, August 1998, published and revised in the *Journal of Financial Economics*, vol. 59, no. 2, 2001, pp. 151–193; and for a discussion Kenneth Foort and Tarun Ramadorai, "The Information Content of International Portfolio Flows," *NBER Working Paper*, No. 72, September 2001.
17. Pamela Druckerman, "Argentina's Bankers have New Role. Now They are Helping Restructure the Debt They Once Sold," *The Wall Street Journal Europe*, Friday–Saturday, November 30–December 1, 2001, p. 8.
18. In the first debt swap of June 2001 the syndicate of bankers who managed the operation collected around US$130 mn. for the deal. According to Dealogic, the leading underwriters of Argentina's bond issues during the 1990s ranked by percentage share were: JP Morgan (22%), Deutsche Bank (14%), Credit Suisse First Boston (12%), Morgan Stanley Dean Witter (10%), Salomon Smith Barney, Goldman Sachs, UBS Warburg, Nikko Securities, Merrill Lynch and BNP Paribas with around 3–5 percent each.
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