Abstract

Emerging market economies are highly vulnerable to the volatility of international capital inflows and outflows. Since foreign capital supply helps economic growth for emerging market economies, these countries have a policy dilemma to choose between economic growth and stability. In this regard, proper managements of capital flows and policy responses are important to improve this trade-off. This paper critically examines the history of capitalism. It shows how virtually all of today's developed countries, the big supporters of capital market liberalization, used financial regulation policies to protect their industries in the early days of their economic development. It then argues that the supposedly "good" policies of capital market liberalization have led to a collapse in growth in the developing countries.