

Measuring the On-Going Changes in China's Capital Flow Management: A *De Jure* and a Hybrid Index Data Set

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Summary

We create a data set for new indices that measure the on-going changes in China's capital controls.

The indices are from 1999 to 2012 in monthly frequency, and comprise two groups, *de jure* and hybrid indices. Both groups include indices that are created for selected subcategories of China's capital account, including equities, bonds, money market instruments, commercial credits, financial credits, and FDIs. Similar indices are created for controls on inflows and outflows, residents and nonresidents transactions, as well as China's controls on current account payment flows.

The indices data are compiled by extracting detailed information from the text of the IMF's *Annual Report on Exchange Arrangements and Exchange Restrictions* (AREAER). China usually implements policies in a step by step gradualist style, we extract information about these steps of capital account liberalization from the lines of the text in the AREAER and supplementary materials from other sources.

To measure the change in intensity of capital controls, we set the level of capital controls in January 1999 as the benchmark and give a score of 0. Whenever there is a policy change that tightens capital controls, we add value 1 to the existing score. If there is a control-relaxing policy change, we subtract 1 from the existing score. Otherwise, we keep the score unchanged. In this way, a higher score represents tighter controls on capital flows.

In contrasting to other capital control indices that are compiled in yes-or-no style (e.g. Chinn-Ito index; Quinn, 1997; Schindler, 2009), we quantify the intensity of changes in China's capital controls. Our indices have more variation than others during the sample period.

Our indices reveal a persistent but uneven process of liberalizing China's capital account since 2000. China has been liberalizing controls on its capital account, although there was a temporary reversal relating to concerns about spillovers from the 2008 global financial crisis. The indices for the current account also indicate a liberalizing trend, but with a slower pace than for the capital account. In particular, during the period from 2005 to 2008, rather than continuing liberalizing, China tightened up trade payments controls. In general, China's controls on both current account and capital account move in tandem, revealing some coordination of controls on both accounts.