

# **Hoarding of International Reserves: A Comparison of the Asian and Latin American Experiences**

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April 2008

## **Summary**

The recent Asian financial crisis of 1997-98 was quite different from some previous crises including the 1982 Mexican debt crisis and the 1994 Tequila crisis. An astonishing development in the aftermath of the 1997-98 crisis is the large-scale build-up of international reserves among Asian economies, even among those who were not affected by the crisis. In contrast, we do not observe such an upsurge of international reserve holdings after the previous crises in Latin America.

The theme of our paper is to empirically assess the determinants of the demand for international reserves and to compare the Asian and Latin American economies' holdings of international reserves in the post-Asian financial period. Our empirical results indicate that different vintages of the model of international reserves give different inferences about the appropriate level of international reserves. The developed and developing economies have equations of the demand for international reserves that are quite different from each other. Further, the Asian economies and the Latin American economies have different empirical determinants of the demand for international reserves. Our results highlight the complexity of evaluating whether an economy is holding an excessive or deficient level of international reserves; the inference can be heavily dependent on the choice of a benchmark model.

A direct comparison affirms the perception that the Asian economies tend to hold more international reserves than the Latin American economies. That is Latin American economies are expected to hold more international reserves if they behave like a typical Asian economy. On the other hand, Asian economies are likely to hold less international reserves if they act as a typical Latin American economy.

There are a few questions that warrant investigation in the future. For instance, what are the factors that explain the difference in the accumulation behavior? Does the difference in the holdings of international reserves have implications for the stability of these economies? The answers to these questions should provide some useful insight into the international reserve accumulation mechanism and the related policy implications.