MVI Indicator Suggestion Form

The MVI is a composite index measuring structural vulnerability and structural (lack of) resilience at the national (member state) level. The selected indicators relate to concepts which have been shown to directly increase vulnerability or resilience in one of three domains – economic, environmental, or social. The selected indicators meet the principles and criteria agreed upon by the Panel (for example: multidimensionality, universality, exogeneity, data availability and data quality). Any indicators added must also meet these criteria.

The Panel Secretariat kindly request that suggestions of new or substitute indicators be offered using this form.

1. Name of indicator, units, database where it is promulgated and maintained, including web address

We propose to add two new indicators:

（1） Name of indicator: capital account liberalization. Database: 1)IMF Capital Account Openness Index
https://www.imf.org/external/datamapper/datasets/CL 2)Chinn-Ito Financial Openness Index
https://web.pdx.edu/~ito/Chinn-Ito_website.htm
both database are based on IMF's Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER).

（2） Name of indicator: industrialization.
Database: World Bank data on manufacturing, value added as percentage of GDP
https://data.worldbank.org/indicator/NV.IND.MANF.ZS

2. Pillar, domain, and concept where indicator should be located within the MVI framework

(1) The capital account liberalization indicator is suggested to be located under Domain "Economic Vulnerability" and Concept "Exposure to fluctuations in international trade and financial flows".

(2) The industrialization indicator is suggested to be located under Domain "Economic Resilience" and Concept " Domestic economic capacity".

3. Is your suggested indicator an addition or replacement?

Both suggested indicators are additions.

4. Provide a short justification focussing on the relationship of the indicator to structural vulnerability or structural resilience (**100 words**)

(1) Currently, Concept "Exposure to fluctuations in international trade and financial flows" has only one indicator, i.e. trade openness and lacks indicator to measure exposure to fluctuations in international financial flows. Capital account liberalization refers to easing restrictions on

capital flows across a country's borders and measures vulnerability against fluctuations in international financial flows. IMF's Annual Report on Exchange Arrangements and Exchange Restrictions provides a comprehensive description of restrictions on international trade and payments, capital controls, and measures implemented in the financial sector.

(2) Currently, Concept "Domestic economic capacity" lacks indicator to measure overall economic capabilities, in particular industrial and manufacturing capabilities, that is core to domestic economic resilience. The industrialization indicator measured as manufacturing as percentage of GDP proves an important factor in establishing domestic economic resilience and buffering against external economic shocks.

Example:

- export concentration: Indicator measures vulnerability to (negative) changes in export volumes/values.

[Please include empirical evidence on whether the variable measures a concept which is inherent or inherited]

5. Provide a simple Theory of Change (**250 words**)
   (1) Theory of change for capital account liberalization

1) Controls on capital account transactions represent a country's attempt to shield itself from risks associated with fluctuations in international capital flows. Many countries, in particular developing countries, have necessary capital account control measures in place to (i) prevent a mass exodus of capital outflows during a time of crisis; (ii) prevent a massive speculative assault on the currency; (iii) avoid an exodus of domestic savings and jeopardize the banking system's viability; (iiii) steer the composition of financial inflows toward more stable forms, such as FDI.

2) The higher the degree of capital account liberalization and less controls of capital account, the larger the effect on the economy from an externally driven economic and financial crisis, such as the 1997–98 Asian financial crisis, the 2007–2008 global financial crisis, and the poly-crises since the pandemic. For instance, premature liberalization of capital accounts in several ASEAN economies is widely acknowledged as one of the major reasons for 1997–98 Asian financial crisis (Radelet and Sachs, 1998), and those countries with higher degree of capital account liberalization (like Thailand) were more vulnerable to external economic shocks. In addition, currently, under

global financial turbulence, those economies with higher degree of capital account liberalization are more likely to experience exodus of capital, devaluation of local currencies, and difficulties in paying back debt services, thus more vulnerable to external shocks.

3) Conversely, the lower the degree of capital account liberalization and more controls of capital account, the smaller the effect on the economy from an externally driven economic and financial crisis.

Theory of change for industrialization

1) A broad and robust domestic manufacturing base is the key to successful economic development, since it helps i) generate virtuous and cumulative linkages with other sectors of the economy, ii) drives technological progress, iii) creates more jobs, and iiii) has the strongest potential for productivity gains, thus increasing domestic economic resilience and capacity. Goal 9 of SDG aims to promote inclusive and sustainable industrialization and raise industry's share of employment and GDP. Goal 4 of Agenda 2063 of the African Union includes manufacturing / industrialization and value addition.

2) The higher degree of a country's industrialization, and the larger share of manufacturing sector of GDP, the more likely for a country's economy to be diversified, making it less reliant on a single sector or commodity, more likely to maintain stability and security of industrial and supply chains, more likely to recover lost output, employment and productivity, and thus more resilient to economic shocks. Even advanced economies proposed re-industrialization and reshoring after the 2007-2008 financial crisis and sought to bring back industrial and supply chains in critical sectors.

3) Conversely, the lower degree of a country's industrialization, and the smaller share of manufacturing sector of GDP, the lower the ability to withstand or rebound – or even to preempt – disruptive changes such as demand shocks, industrial and supply chain disruptions, and trade conflicts, thus less resilient against external economic shocks.

Example: Theory of change for export concentration

- Export revenue supports (i) import capacity (terms of trade effect), (ii) fiscal balance, because developing country governments tend to rely on export taxes (e.g., mineral rents and tourism taxes), and (iii) external debt service (because developing countries need to rely on external capital).
- The more diversified a country's export structure, the smaller the effect on the economy from an externally driven negative export price shock (caused by a fall in demand).

[Briefly discuss any literature on the evidence for the Theory of Change, including the assumptions behind the Theory of Change]

6. Indicate which developing countries have missing data

Since the two indicators use IMF and World Bank data, so far we do not identify any developing countries that have missing data.

*Please take note of the following rules:

- Indicator has to be structural in nature
- There has to be clear evidence relating the indicator to the concept and domain
- UN data source must be prioritised
- The MVI will not be based on variables that present too many missing values, not more than 15 data points