

Capital Flight

Edsel L. Beja, Jr.
Ateneo de Manila University

Introduction

Financial Globalization

- Fin. liberalization and Crises (Kaminsky & Reinhart, 1999)
- Macroeconomic response to fin. flows (Palma, 2003)
- Financial flow, crisis, and flight (Beja, Junvith, & Ragusett, 2005)
- Economic regime, capital flows, and hollowing out (Pincus & Ramli, 2004)

Problem

Capital will be flowing into the country,
rather than going out

Deregulation and fin. liberalization will
reduce capital flight and bring about
capital accumulation

Definition of Capital Flight?

...is the movement of capital from a resource-scarce country in order to avoid social controls

Measurement of Capital Flight

Net unrecorded capital outflow

Residual between *net* officially recorded sources (inflows) and officially recorded uses (outflows) of foreign exchange

Measurement of Capital Flight

$$KF = \Delta Debt + NFI - CAD - \Delta RES$$

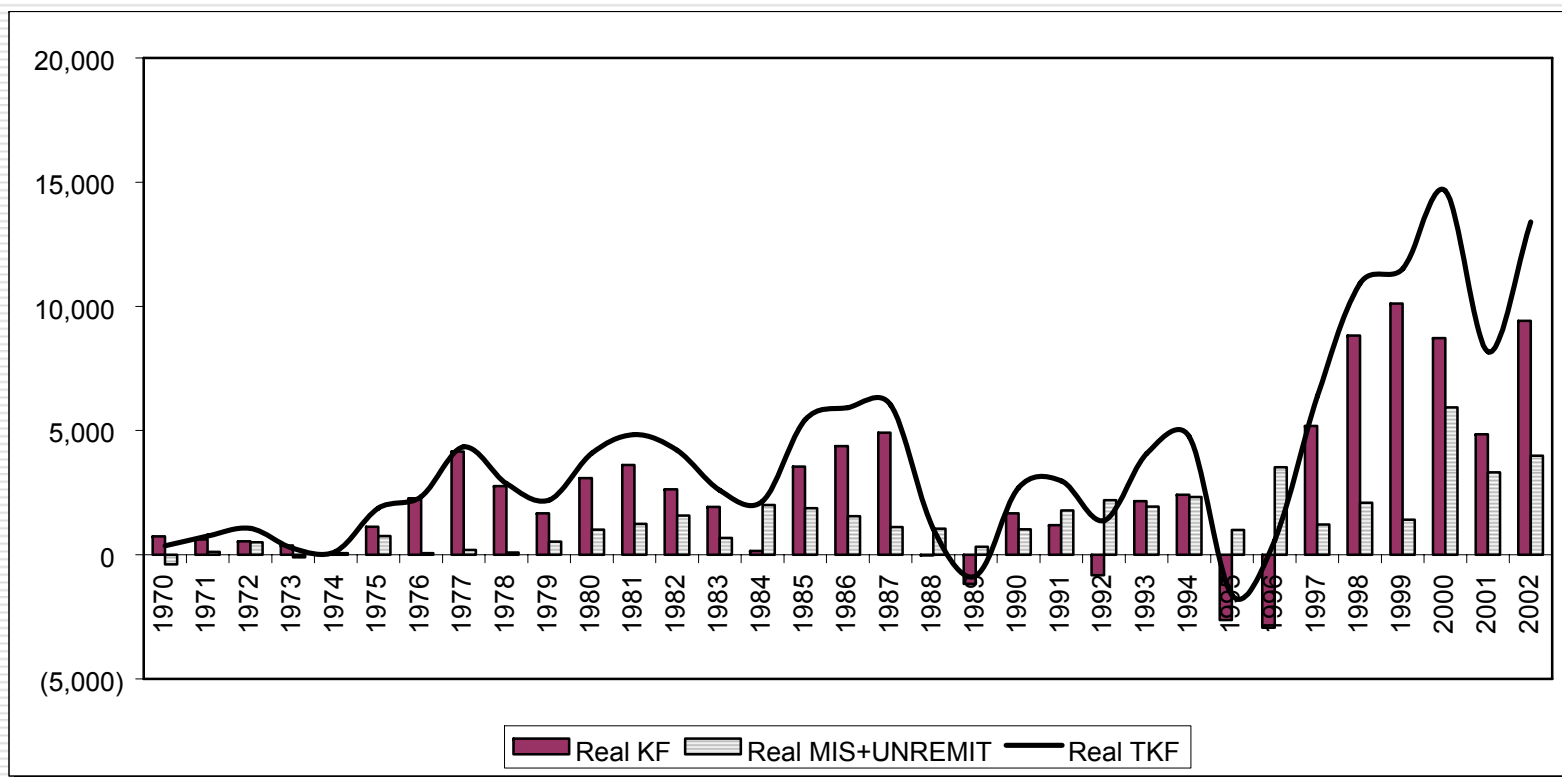
$$= \Delta Debt_{ADJ} + NFI_{ADJ} - CAD \\ - \Delta RES + MIS + UNREMIT$$

Philippine Capital Flight

Earlier studies

- Boyce & Zarsky (1988)
- Boyce (1992); Boyce (1993)
- Vos (1992)

Philippine Capital Flight



The Revolving Door Model

$$KF = f(CDET, SDET, Z)$$

$$CDET = f(KF, RES, Z)$$

where

KF = capital flight, adj.

CDET = net additions to external debt, adj.

SDET = total outstanding external debt

RES = total international reserves

Z = indirect variables

Specification and Main Results

$$KF = \alpha_0 + \alpha_1 CDET + \alpha_2 SDET + \alpha_3 Z + e_1$$

$$CDET = \beta_0 + \beta_1 KF + \beta_2 RES_{-1} + \beta_3 Z + e_2$$

Fuel linkages : $\alpha_1 > 0$; $\beta_1 > 0$

Drive linkages : $\alpha_2 > 0$; $\beta_2 > 0$

Results : $\alpha_1 = 0.3-0.4$; $\alpha_2 = 0.1$

: $\beta_2 = 0.6-.7$; $\beta_3 = 0.05 (0.5)$

Elasticity of Capital Flight

Elasticity	KF	Debt	KF	Debt
Δ Debt	0.35		0.49	
SDEBT	1.32		1.22	
KF		0.66		0.64
RES ₋₁		0.07		0.87
Dereg.	0.32	0.34		
Fin Lib			0.15	0.21

Some Policy Implications

Capital flows and external debt mgt

Debt relief

Strong domestic economy and sound institutions

Int'l cooperation and coordination

THANK YOU