

CHAPTER 1

DETERMINANTS OF ASIAN CAPITAL FLIGHT AND THE IMPACT OF 1997 ECONOMIC CRISIS

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This paper investigates the capital flight from five Asian countries, namely Thailand, the Philippines, Indonesia, Malaysia and South Korea, severely affected by the 1997 economic crisis. The evidence indicates, either by direct or indirect measurement of capital flight, that there is a relatively large amount of capital flight from these countries during the studies period from 1991 to 2000. Moreover, the 1997 economic crisis posed an extensive impact on the structure of the capital flight. The evidences also indicate that major factors, such as an increase in the domestic inflation rate, a spread between US and local interest rates, over value of local currency, foreign direct investment (FDI), government budget deficits and current account deficits, are important in explaining the capital flight from Asia.

1. Introduction

It is common for the open economy that its people participate in financial and economic transactions, including external financial claims with the people of other countries. Generally, local people would like to own foreign assets in order to maintain their purchasing power when the local currency expects to be depreciated or when there is a rapid increase in domestic inflation rates. Instability of domestic political situation also stimulates people to move their assets to safer places in foreign countries.