INTERNATIONAL CAPITAL FLOWS, 1985-1993

Cristina Rueda
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This paper was prepared by Cristina Rueda, a Woodrow Wilson Foundation Summer Intern, during the eight weeks of her internship at RAND in July and August 1995. It is being distributed in this form on the premise that the data Ms. Rueda collected, organized, and analyzed in a preliminary manner, may be of use and interest to others.

The problem I posed for Ms. Rueda at the outset of her internship was to collect and to structure--as far as the data permit--the pattern of international capital outflows and inflows, sources and destinations, for the period 1985-1994, covering the principal capital instruments and the principal geographic regions. Her paper is the result of this exploratory effort.
International Capital Flows, 1985-1993

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The 1980s witnessed an explosion of private capital flows, particularly in the form of portfolio equity, foreign direct investment (FDI) and bonds issued in international capital markets. However, international financial transactions in the decade of the eighties occurred primarily amongst industrialized nations, with the exception of some countries in Asia such as the Republic of Korea, Indonesia, Thailand, Singapore, Hong Kong and Taiwan which were able to tap significant private capital flows during these years. For the rest of the world, private capital flows stagnated during most of the 1980s. Most financial flows to developing countries during the eighties were official in nature, mainly in the form of grants and concessional loans.

Prior to the 1982 debt crisis, initiated by Mexico's default on its debt repayments, annual private capital flows to developing countries had reached 100 billion and official capital flows consisted of an additional 50 billion dollars (Turner, 1991). During the 1980s as a result of the debt crisis, private capital flows to developing countries dried out and most developing countries began to make net financial transfers abroad because their debt servicing payments exceeded new capital inflows. By the end of the 1980s, however, a shift in the directions of capital flows began to be observed. What is the nature of this change? How do the several sources of capital flows in the world compare to one another in their relative magnitudes in different regions of the world?

This paper will describe how global capital flows have changed since 1985. Based on my work as a summer intern at RAND, I will highlight trends in international capital transactions in the last nine years. This paper begins by describing how the research project was conducted. I will explain how I went about gathering capital flows data for
seven regions of the world—covering most of the countries in the world—, citing the sources I used, describing the inconsistencies and/or discrepancies I found, and defining the capital flows for which data was compiled. I will proceed to present an overview of my findings and then describe in more detail patterns of change in capital flows in each region being examined. This paper will conclude by summarizing the findings of my research at Rand, providing some tentative explanations for the trends in international finance revealed in this paper and describing a possible scenario for international capital flows in coming years.

1. Research methodology, sources and definitions.

The regions for which capital flows were compiled include East Asia and the Pacific, South Asia, the Middle East and North Africa, Europe and Central Asia, Latin America and the Caribbean, Sub-Saharan Africa, and all the industrialized or high-income countries which are classified in this paper as OECD member countries—except for Mexico and Turkey, which are included in the Latin America and the Caribbean, and the Europe and Central Asia regions, respectively. The data collected focused on five different kinds of capital flows, namely, foreign direct investment (FDI), portfolio equity flows, grants, long term public and publicly guaranteed debt flows,\(^1\) long term private non-guaranteed debt flows and short term flows.\(^2\) For countries with significant capital flows, where data were available, long-term public and publicly guaranteed debt flows were broken down into multilateral, bilateral, bonds, commercial bank and other private debt flows, and long term private non-guaranteed debt flows were broken down to commercial bank and bond debt flows. Long term and short term debt flows were approximated by subtracting outstanding and disbursed debt from one year to the year before. Thus, the figures indicated as debt flows in this paper do not represent new debt per se, but rather the new level of indebtedness including new debt. FDI and portfolio

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\(^1\) Long term public and publicly guaranteed debt and grant flows do not include loans or grants destined to buy arms.

\(^2\) The nature of short term debt flows, whether public or private, could not be determined by the data collected.
equity and investment figures are presented net with positive amounts indicating inflows and negative amounts outflows. Figures for all capital flows are presented in both current and 1994 constant dollars deflated by the gross domestic product implicit price deflator for the 1994 fiscal year. The analysis in this paper is presented in current dollars.

This paper uses the International Working Group on External Debt Statistics (IWGEDS) definitions for the different kinds of capital flows (BIS and OECD, 1994). Accordingly, FDI is defined as the ownership or control by a non resident of 10 percent or more of the ordinary shares of a corporate enterprise in a given country. Grants are defined as legally binding commitments that oblige a specific amount of funds to be disbursed for which there is no repayment required. Portfolio equity is defined as the sum of country funds, depository receipts and direct purchases of less than 10 percent of the shares in a given corporate enterprise by foreign investors. Long term debt is defined as debt that has an original or extended maturity of more than one year and is owed to non-residents. Short term debt is defined as debt with an original maturity of one year or less that is owed to non-residents.

The data were collected primarily from the World Bank Debt Tables, the International Financial Statistics and the Balance of Payments Yearbook from the International Monetary Fund (IMF), and from several publications from the Organization for Economic Cooperation and Development (OECD) and the Bank of International Settlements (BIS). Data were collected from 1985 to 1993. Nineteen ninety four figures were not collected because for most countries capital flow figures are still preliminary or simply not available. Although discrepancies were often found between figures listed in different organizations, only significant discrepancies, when figures were off by 40 percent or more, are reported. Discrepancies often arise from differences in the way some organizations define certain terms, different methods to gather the data,
and/or exchange rate changes which can affect the figures through their impact on stock and flows when converted to the U.S. currency.⁵

For Hong Kong and Taiwan, which do not participate in the Debt Reporting System (DBS) of the World Bank or the Creditor Reporting System (CRS) of the OECD, data was collected from publications of their respective governments. For Hong Kong the data after 1991 was unavailable, as well as breakdown figures for long term public and private debt flows. Similarly, data for external short and long term debt flows was not accessible for most of the OECD member countries, except for Mexico, Turkey and Portugal. Finally, FDI figures for the United Arab Emirates and Quatar were unavailable as well as a breakdown figures for private and public long term debt flows.

II. Capital Flows since 1985

Since the late 1980s the world has witnessed the rapid entry of a selected number of developing countries into private capital markets. International transactions in equities, bonds and other securities to the so called emerging markets have experienced a spectacular escalation in value since the late 1980s. Equity has been the most rapidly growing component of private capital flows to developing countries, rising from 761 million dollars in 1987 to 47 billion dollars in 1993, before falling back to an estimated 40 billion in 1994 (World Bank, 1994; p.142)

FDI to developing countries, as well, grew consistently since 1985. This rise occurred in spite of the worldwide reduction of FDI flows since 1990, due to Japan’s cutback in outward investment since 1990. Global FDI fell from its peak of 234 billion in 1989 to 150 billion dollars in 1991 (The Economist, 1993). While worldwide FDI was falling, however, FDI to developing countries was steadily expanding from nine billion

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⁵The World Bank, the IMF, the OECD and the BIS in an effort to reconcile balance of payments and external debt data organized in 1992 the International Working Group on External Debt Statistics (IWGEDS). As a result in recent years fewer discrepancies have arouse from the information reported by the different organizations.

Portfolio equity and FDI have become the two principal forms of capital transfers to developing countries since the early 1990s, surpassing by far official capital transfers as well as commercial bank loans to these countries. In 1993 private capital flows to developing countries increased by about 55 percent from the year before to a staggering 159 billion dollars of which FDI and portfolio equity flows accounted for more than two thirds.

Private debt flows have increasingly moved towards bond issuance rather than commercial bank loans. In the 1980s commercial bank loans to less developed economies dried out as a result of the debt crisis. Only until the late 1980s, transactions between the private sector of developing countries and commercial banks began to take place. In spite of the significant growth in commercial bank debt flows to developing economies, private enterprises in developing countries have indicated in recent years a preference for bonds as financial tools to raise capital abroad. In 1993, according to the World Bank, bond issuance accounted for one quarter of all private capital flows to developing countries. In the industrialized world as well, bond issuance has become the preferred financial tool used by private enterprises to raise capital abroad.

While private capital flows have swelled at spectacular rates in the last few years, official development loans and grant flows have remained stable. The only trend observed in official finance was among some of the countries classified by the World Bank as severely indebted countries where concessional loans have been shifted to grants.

Amongst the selected group of developing nations which were able to accrue substantial net capital flows through their access to capital markets were China, Thailand, Singapore, Indonesia, Malaysia, the Republic of Korea and the Philippines, Hong Kong and Taiwan in East Asia and the Pacific Rim; India and to a lesser extent
Pakistan in South Asia; and Argentina, Brazil, Mexico, Chile, and to a lesser extent Peru and Colombia in Latin America. Transition economies in Europe and Central Asia, such as the Czech Republic, Poland and Hungary have become recipients of net capital inflows in the form of loans and FDI inflows since the early 1990s.

The privileged group of developing countries able to tap portfolio and FDI finance ended up with significant net capital inflows. The World Bank reports that between 1989-93 Argentina, Brazil and Mexico accounted for about 40 percent of all long-term bond financing flows to developing countries. Between 1989-93 as well, more than half of portfolio equity flows were distributed between Brazil, Mexico and the Republic of Korea. Similarly, half of the total FDI to developing countries was concentrated in Argentina, China, Malaysia, Mexico and Taiwan.

III. Regional Trends in Capital Flows

Latin America and the Caribbean

Latin America, after transferring capital abroad for almost ten years to pay off its external debt, began in 1991 to absorb international financial resources. Portfolio equity has become the principal source of external finance in this region, although FDI has also steadily increased in the past few years (figure 1.1 and 1.2). Grant flows to Latin America between 1985 and 1993 remained stable, with modest increases across the border (figure 1.3).

Long Term public and publicly guaranteed debt flows substantially decreased in the late 1980s and showed some recovery in 1993 and 1994 as the estimated figure by the World Bank suggests (figure 1.4). Long term private debt flows to Latin America, on the other hand, grew considerably beginning in 1990 (figure 1.5). This increase occurred as a result of the almost explosive growth in bond issuing, although commercial bank loans to the private sector revealed a moderate increase. In 1993, almost half of the total flows from international bond issues that went to developing countries went to Latin America.
Finally, short term debt flows to Latin America grew steadily between 1985 and 1990, but rapidly decreased since its peak of 15 billion in 1990 (figure 1.6).

Portfolio equity flows to Latin America experienced an exponential growth between 1990 and 1993. In 1993, net portfolio equity inflows to Latin America reached 25 billion dollars, the largest amount of portfolio equity inflows to have ever entered Latin America. For 1994 the World Bank’s projected figure for portfolio equity flows to Latin America and the Caribbean was of 10 billion dollars. This dramatic reduction was explained by the World Bank as resulting from a severe drop in the prices of many of the Latin American equities, which occurred because many emerging markets were significantly overvalued in 1993. Most of the portfolio equity flows to this region went to Mexico, Argentina and Brazil, with Mexico accounting for approximately 70 percent of all portfolio equity flows to Latin America from 1990 to 1993 (figure 1.7).

The year 1991 marked the resurgence of FDI flows to Latin American countries following a decade of modest inflows in direct investment. In 1990 seven billion dollars were invested in Latin American countries, in 1991 this figure augmented to 11 billion dollars, in 1992 FDI flows totaled 13 billion dollars and the projected figure for 1994 is of 18 billion dollars (World Bank Debt Tables, 1994-95). Between 1985 and 1993 most FDI flows went to Brazil, Argentina and Mexico although FDI flows to Chile and Colombia were significant. Approximately 35 percent of all net FDI inflows to Latin America went to Mexico, 17 percent to Brazil, 20 percent to Argentina, nine percent to Colombia and six percent to Chile. FDI flows grew most rapidly in Argentina and Mexico in the period being studied (figure 1.8).

East Asia and the Pacific

For several countries in East Asian and Pacific Rim the 1980s was a period of rapid economic growth. Due to this strong economic performance of several countries in East Asia and the Pacific, this region has been able to attract a great deal of investment capital from abroad and since the early 1980s the East Asia and Pacific region has
experienced a consistent inflow of private finance capital. FDI is the most significant source of capital flows to East Asian and Pacific Rim countries, although portfolio equity flows soared in the last three years (figure 2.1).

Grant flows to East Asia and the Pacific remained stable between 1985 and 1993 (figure 2.2). Between 1985 and 1993 long term public and publicly guaranteed debt inflows oscillated between 11 and 20 billion dollars, except for 1988, when this region as a whole experienced net outflows of 1.5 billion dollars in the form of repayment of long term public loans – these figures do not include Hong Kong, Taiwan and Singapore. Long term private debt flows to countries in East Asia and the Pacific steadily increased since 1985. The projected figure by the World Bank for 1994 reiterates this pattern of growth in long term private debt flows. Contrary to Latin America, commercial bank long-term loans to the private sector of the East Asia and Pacific region are the most important component of long term private debt flows. Nonetheless, since 1989 the private sector has increasingly raised capital abroad by issuing bonds. In 1989 inflows resulting from long-term privately issued bonds sold in the international capital markets totaled 111 million dollars, by 1993 this figure had increased to two billion dollars. Short term debt flows to East Asia and the Pacific varied considerably from year to year between 1985 and 1993, as can be observed in figure 2.3.

Portfolio Equity flows to the East Asia and Pacific region did not become a significant source of finance until 1989 (figure 2.1). The biggest recipients of portfolio equity finance in this region between 1985 and 1993 were the Republic of Korea, followed by China, Malaysia, Thailand and Indonesia (figure 2.4). In figure 2.1 we can observe the rapid growth of portfolio equity finance since 1989. It should be noted that this figures do not include Hong Kong, Taiwan or Singapore’s portfolio equity flows. In 1993, portfolio equity flows to East Asia and the Pacific reached almost 18 billion dollars, representing almost a 200 percent increase from the year before. According to the projected figures for 1994 portfolio equity flows to this region have reached some kind of
stability. In both 1993 and 1994 portfolio equity flows to the East Asia and Pacific region totaled 18 billion dollars.

FDI flows to East Asia and the Pacific increased steadily since 1985, except for 1989 when direct investment flows experienced a slight reduction (figure 2.5). The growth in FDI flows has been particularly rapid since 1991. This growth resulted from the dramatic increment in FDI flows to China. Between 1991 and 1993, FDI flows to China went from four billion dollars in 1991 to 26 billion dollars in 1993. In fact, in 1993, China became the largest recipient of FDI in the world. Other countries in this region that received significant inflows of FDI between 1985 and 1993 include Singapore, Malaysia, Thailand, Indonesia, Republic of Korea, the Philippines and Papua New Guinea in decreasing order of their share of total FDI to East Asia and the Pacific. Taiwan since 1988 became a net exporter of FDI (figure 2.6). In recent years Taiwan has become one of the largest investors in other East Asian economies, particularly in China, Indonesia, Thailand and Malaysia (OECD, 1995; Louis T Wells, Jr., 1992). Hong Kong has also become an important source of direct investment in East Asia. For instance, at the end of 1990, Hong Kong accounted for 60 percent of FDI flows to China (OECD, 1995). FDI net flow figures for Hong Kong were only available from 1985 to 1990.

**South Asia**

Between 1985 and 1993, the largest recipients of capital flows in South Asia were India and Pakistan. Together India and Pakistan accounted for 79 percent of all net capital flows to South Asia between 1985 and 1993, 63 and 16 percent respectively. Bangladesh followed, accounting for 12 percent of all capital flows to South Asia during the years being examined in this paper.

India and Pakistan, as well, were the two countries with the most significant inflows of private capital, and the only two countries in this region to receive portfolio equity flows. Portfolio equity flows to these two countries became significant in the early 1990s, with a particularly explosive growth in India in 1993 (figure 3.1). From 1992 to
1993, portfolio equity flows to India went from 241 million dollars to almost two billion dollars in 1993.

FDI flows to this region were also concentrated in India and Pakistan. While India experienced some variation in FDI net inflows during the years being examined in this paper, Pakistan’s FDI flows increased steadily since 1985, surpassing India’s FDI flows in 1990 (figure 3.2). Other countries with significant FDI flows in South Asia between 1985 and 1993 were Sri Lanka, Bangladesh and Bhutan in decreasing order according to their share of net FDI inflows.

Grant flows to South Asia remained stable between 1985 and 1993 (figure 3.3). The largest recipients of grant flows were Bangladesh, followed by India, Pakistan, Sri Lanka, Nepal, Maldives and Bhutan (figure 3.4). Long term public and publicly guaranteed debt flows also remained stable for all countries in South Asia except for India during the period being examined. In India, long term public debt flows reached a peak 23 billion dollars in 1987 and decreased after this year, though experiencing a new high in 1989 (figure 3.5). Long term private debt flows, largely in the form of commercial bank loans to the private sector, were only significant in India, Pakistan, Sri Lanka and Nepal. In 1993, India experienced a huge jump in its long term private debt flows due to the large number of bonds issued by India’s private sector in the international capital markets. In 1993 private enterprises in India issued 794 million dollars in bonds in the international capital markets. Nineteen ninety three was in fact the first year that India’s private sector raised finance capital abroad by issuing bonds. Short term debt flows to South Asia remained stable for all the countries in this region, except for India. Since 1991, India has experienced short term debt outflows.

Europe and Central Asia

Except for Turkey, most countries in Europe and Central Asia are countries in transition from centrally planned economies to market economies. As a result, capital flows for most of the countries in this region began only to be tabulated in the early
1990s and information for the 1980s tends to be incomplete. Nonetheless, important patterns in Europe and Central Asia’s international financial flows were revealed by the data collected for this paper.

Private capital flows, particularly FDI, have steadily increased since 1985 and most rapidly since 1991 (figure 4.1). The largest recipients of FDI flows since 1985 have been, in decreasing order according to their share of FDI, Turkey, the Czech Republic, Poland, Hungary, the Russian Federation, Ukraine, the Former Yugoslavia, Malta and Romania. Portfolio equity transactions until 1993, only took place in Turkey, Hungary and the Czech Republic (figure 4.2). In these three countries portfolio equity flows were small and inconsistent, but will probably become an important source of finance for the private sector in years to come.

Since 1990, long term private debt flows increased steadily for some of the largest economies in Europe and Central Asia (figure 4.3). Recipients of long term loans to the private sector between 1985 and 1993 in descending order according to their share of this type of debt flow included Turkey, Poland, Croatia, Hungary, Slovenia, FYR Macedonia, the Czech Republic, Estonia and Ukraine. The former Yugoslavia, experienced since 1986 net outflows of long term private debt.

The most important source of international financial flows for countries in Europe and Central Asia during the years being examined were long term public and publicly guaranteed debt flows (figure 4.4). Net long-term public debt flows to Europe and Central Asia from 1985 to 1993 averaged 13 billion dollars per annum, of which Turkey’s flows averaged two billion dollars. The largest recipients for long term private and publicly guaranteed debt were Romania, Turkey, Poland, the Russian Federation, Hungary, Bulgaria, the Czech Republic, and the former Yugoslavia (figure 4.5).

Grant flows to Europe and Central Asia increased significantly from 1990 to 1993 (figure 4.6). From 1993 to 1994 the growth of grant flows was slight, with inflows in both years reaching approximately seven billion dollars. Short term debt flows varied from
year to year between 1985 and 1993 (figure 4.7). Most countries in this region began
borrowing short term loans only after 1990, although the largest economies in this region
such as Turkey, Poland, Hungary, the Czech Republic, Bulgaria and the Russian
Federation had been borrowing short term loans from abroad since 1985. The largest
recipient of short term debt flows in Europe and Central Asia was Turkey.

**Middle East and North Africa**

Information for some countries in the Middle East and North Africa region such
as Israel, Bahrain, the United Arab Emirates, Quatar and Saudi Arabia was for the most
part incomplete. As a result, the analysis in this section is inconclusive.

According to the data collected, capital flows to the Middle East and North
Africa were primarily official in nature, particularly grant flows and long term public
and publicly guaranteed debt flows. Grant flows to this region did not suffer great
variation for the years being examined in this paper (figure 5.1). Nonetheless, grants
were one of the most important source of external finance for all the developing
countries in this region. Long term public and publicly guaranteed flows, were as well a
very important source of external finance for countries in the Middle East and North
Africa region (figure 5.2). Between 1985 and 1993, long term public debt flows averaged
seven billion dollars per annum, with the largest inflows having entered this region in
the mid 1980s.

Countries in the Middle East and North Africa region were not successful in
tapping private international finance capital during the years being examined in this
paper. FDI after reaching a peak in 1990, fell significantly between 1991 and 1993 (figure
5.3). The primary host for FDI in this region was Egypt followed by Bahrain, Morocco,
Tunisia, Oman and Saudi Arabia (figure 5.4). Between 1985 and 1993, net FDI flows to
Kuwait were negative, totaling four billion dollars in outflows.

The only recipient of portfolio equity flows in the Middle East and North Africa
between 1985 an 1993 was Israel. In 1994, however, the World Bank reported for the first
time portfolio equity flows in developing countries in the Middle East and North Africa. Although still preliminary, the World Bank estimated that 1994 portfolio equity flows in developing countries in this region had reached 345 million dollars, indicating that portfolio equity transactions are starting to be used as a source of external finance in this region.

Long term private debt flows to the Middle East and North Africa were concentrated in four countries, the Islamic Republic of Iran, Egypt, Tunisia and Morocco. Private long term loans were stable for all the years being examined except for 1993 when this long term private non-guaranteed debt flows experienced a dramatic jump (figure 5.5). This jump occurred as a result of the large amount of long term private debt that entered the Islamic Republic of Iran in this year, which was in fact the first year that this country had received this type of debt flows. Total short term and long term debt flows (both private and public long term debt flows) to the Middle East and North Africa varied considerably from year to year between 1985 and 1993, as can be observed in figures 5.6 and 5.7.

Although consistent and comprehensive data on capital inflows and outflows for the major petroleum exporters was unavailable, the United Nations “World Economic and Social Survey” for 1994 highlighted some of the most important trends in international finance in these countries. The major petroleum exporters which include Bahrain, Oman, Qatar, Kuwait, Saudi Arabia, the United Arab Emirates, Brunei Darussalam, Iran, Iraq and the Libyan Arab Jamhiriya, according to this publication, since the early 1980s have continuously draw net capital inflows into their economies, primarily through loans. These countries began to borrow heavily from abroad in 1982, when oil prices went down and also in great part to finance the war between the Islamic Republic of Iran and Iraq that lasted from 1980 until 1988 and later on in 1990 the Gulf War. Petroleum Exporters continued to draw on international resource transfers to finance the post-war reconstruction.
Sub-Saharan Africa

Between 1985 and 1993 most finance capital flows to Sub-Saharan Africa consisted in official flows in the form of grants and concessional loans with private capital flows largely avoiding this region. The United Nations reports that Sub-Saharan Africa annual net resource transfers from 1985 to 1993 were close to zero when not negative (United Nations, 1994).

Since the late 1980s private flows to this region have steadily shrunk in relation to private finance capital flows to other developing countries. Between 1985 and 1992, there were no portfolio equity flows to this region. In 1993 Liberia became the first country in Sub-Saharan Africa to received net portfolio equity inflows. According to the 1994 portfolio equity flow figure projected by the World Bank, this region absorbed a total of 803 million dollars in portfolio equity flows in this year. FDI flows to Sub-Saharan Africa were also considerably small in comparison to the rest of developing countries during the period being examined in this paper (figure 6.1). Net FDI flows to this region oscillated between 600 million and two billion dollars between 1985 and 1993.

The only countries which received long term private non guaranteed debt flows between 1985 and 1993 were Cameroon, Cote d’Ivoire, Ghana, Kenya, Malawi, Mozambique, Senegal, Sudan, Tanzania, Uganda and Zambia. For all these countries long term private debt flows were very small or negative, as in the case of Cameroon, a country that transferred abroad long term private debt flows throughout almost the whole period being examined (figure 6.2). Short term debt flows experienced great variability in Sub-Sub-Saharan Africa between 1985 and 1993, but for the most part this region received short term debt inflows and only in 1987 did this region transfer out net short term debt flows (figure 6.3).

Most of the finance capital that entered Sub-Saharan Africa consisted in grants and long term public and publicly guaranteed debt flows. Grant flows to this region increased steadily between 1985 and 1993 (figure 6.4). The 1994 projected figure by the
World Bank suggests that grant flows are likely to continue growing, although slowly, in years to come. Long term public and publicly guaranteed debt flows to this region after reaching a peak of 23 billion dollars in net inflows in 1987 have decreased ever since (figure 6.5). In 1991 and 1992, the Sub-Saharan region transferred abroad net long term debt outflows. However in 1994 this region as a whole experienced once again net inflows in long term public and publicly guaranteed debt.

The OECD Member Countries

While a selected number of developing countries have become the primary recipients of capital flows, for the third year in a row since 1991, the industrialized nations were the world’s net suppliers of funds and in increasing amounts. The United Nations in its “World Economic and Social Survey” of 1994 reported that OECD member countries in 1993 transferred 119 billion dollars, more than double the net outflows in 1992, 55 billion dollars, which had also more than doubled the net outflow in 1991 of 28 billion dollars.

Figures on the net external debt of the OECD member countries were for the most part unavailable and as a result it was impossible to determine how much net debt finance capital had these countries received or exported during the years being studied in this paper. Information on publicly and privately issued bonds was, however, available. According to the data collected between 1986 and 1993, industrialized countries consistently absorbed net inflows from publicly issued bonds (figure 7.1) and exported capital from privately issued bonds (figure 7.2).

Information on private capital flows revealed that OECD member countries as a whole have become the largest suppliers of FDI flows in the world. FDI net outflows from the OECD countries have steadily increased since 1985 (figure 7.3). The change in the United States position in relation to FDI had a lot to do with the growth that FDI outflows from the OECD countries experienced after 1991. The United States after absorbing FDI flows since 1985 became a net supplier in 1991, and consistently

Other OECD countries with significant net FDI flows included Germany, France and the United Kingdom. Germany was a net supplier of FDI flows since 1985. Germany’s net FDI outflows peaked in 1990 with 20 billion dollars. The United Kingdom transferred abroad net FDI flows from 1985 to 1989 and once again in 1993, and absorbed net FDI flows from 1990 to 1992. Finally, France was a net supplier of FDI between 1986 and 1992, but in 1993 received net FDI inflows.

Portfolio equity flows to the OECD member countries experienced great movement during the period being examined in this paper. In 1991, OECD countries experienced 30 billion dollars of net outflows of portfolio equity flows. This development was reversed in 1992 and 1993. In this two years, OECD countries received net inflows of portfolio equity. In 1993, industrialized countries received 40 billion dollars, the largest amount in portfolio equity inflows experienced by the industrialized countries since 1985. The United States became a net supplier of portfolio equity flows in 1987 and continued to transfer portfolio equity flows until 1993. In 1993 the United States experienced net portfolio equity outflows of 42 billion dollars. The United Kingdom’s portfolio equity flows during the period being studied oscillated a great deal from one year to another as can be observed in figure 7.4. Japan reached a peak of 59 billion dollars in net portfolio outflows in 1987 and decreased its outflows ever since. In 1991 Japan received 43 billion dollars in net portfolio inflows. Germany became a net supplier of portfolio equity flows in 1990 and reached a peak of 43 billion dollars in

IV. Cross-Regional Comparisons

Private capital flows in the form of portfolio equity, FDI and long term private non-guaranteed debt flows --in particular bonds-- have become a predominant form of financial flows to a selected number of developing countries. These three types of private financial flows began a steady growth in 1990 for the East Asia and the Pacific, Europe and Central Asia, Latin America and South Asia regions.

Portfolio equity has been the most rapidly growing component of private capital flows since 1990. In the mid 1980s, as can be observed in figure 8.1, portfolio equity flows were only significant among OECD countries. Since 1990 portfolio equity flows to East Asia and the Pacific and Latin America grew steadily and by 1993 these two regions had acquired a huge share of the market in portfolio equities. Between 1985 and 1989, the share of global portfolio equity flows of East Asia and the Pacific was nine percent and the share of Latin America was one percent (figure 8.2). Between 1990 and 1993, the share of the global portfolio equity market increased to 28 percent for East Asia and the Pacific and to 45 percent for Latin America. The OECD countries which between 1985 and 1990 had practically monopolized the market in portfolio equities with an 89 percent of the share of the market, saw this figure shrink to 26 percent between 1990 and 1993 inspite of the significant growth of portfolio equity inflows to these countries in 1992 and 1993 (figure 8.3).

FDI flows, as well, steadily increased since 1990 for the East Asia and the Pacific, Europe and Central Asia, Latin America and South Asia regions (figure 8.4). The percentage increment in FDI flows during the 1990-93 period in relation to the 1985-89 period was 55 percent for East Asia and the Pacific, 87 percent for Europe and Central Asia, 39 percent for Latin America and 29 percent for South Asia. The principal suppliers
of FDI funds from 1985 to 1993 were the OECD countries. In fact, OECD countries’ net FDI outflows rose consistently since the mid 1980s (figure 8.5). Net FDI outflows from industrialized nations increased by 41 percent during the 1990-93 period in relation to the 1985-89 period.

Long term private non-guaranteed flows grew steadily since 1990 (figure 8.6). During the 1990-93 period long term private non-guaranteed debt flows increased most significantly for the East Asia and the Pacific, Latin America and Europe and Central Asia. The dramatic expansion of long term private non-guaranteed debt flows to East Asia and Latin America had to do primarily with the explosive growth of bond issuance in the international capital markets by private enterprises since the early 1990s in these two regions (figures 8.6 and 8.7). Between 1985 and 1993, in both of these regions total international private to private bond transactions surpassed privately non-guaranteed commercial bank debt inflows. From 1990 to 1993 bond transactions brought into Latin America 14 billion dollars compared to 5 billion dollars that came in from commercial bank loans. During this same time frame, bond transactions accounted for 71 percent of all the long term private non-guaranteed debt inflows to East Asia and the Pacific and the rest 29 percent accounted for privately non-guaranteed commercial bank loans. OECD countries also experienced a lot of activity in the market for privately issued bonds. During most of the period being examined for this paper, industrialized countries were net exporters of bond finance (figure 8.8). The key element of long term private non-guaranteed debt inflows to East Asia and the Pacific was privately non-guaranteed commercial bank loans. This region absorbed very little capital from bonds issued by domestic private enterprises in the international capital markets.

Not all developing countries were participants in the rapid expansion of private capital flows between 1985 and 1993. The Middle East and North Africa and Sub-Saharan Africa regions, for instance, experienced a significant reduction in their share of FDI. In addition, only three regions of developing countries, of the six examined in this
paper, received significant flows of portfolio equity finance between 1985 and 1990, namely Latin America, East Asia and the Pacific and South Asia. Furthermore, long term private non-guaranteed debt flows were practically non-existent for countries in Sub-Saharan Africa from 1985 to 1993 and very scarce for countries in the Middle East and North Africa.

The expansion in the 1990s of private capital flows to a relatively few number of developing countries has been counterpoised by the reduction and/or stabilization of official financial flows in the form of long-term public and publicly guaranteed debt and grant flows. From 1985 to 1989, as can be observed in figure 8.9, grant flows increased steadily, although slowly, for all the six developing regions being examined. Since 1990, however, grant flows have remained stable and experienced very little movement (figure 8.10). The growth of private capital inflows for many developing countries that begun in 1990 might have played a big role in the stabilization of grant flows. Although the distribution of grant inflows to all developing regions was not significantly altered during the 1990-93 period in relation to the 1985-89 period the total amount of grant inflows to developing countries remained practically unchanged from 1990 to 1993 (figures 8.11 and 8.12). The only region which experienced a significant rise in grants inflows from 1990 to 1993 was Europe and Central Asia. From the late 1980s to the early 1990s grant flows to Europe and Central Asia increased by about 92 percent. The share of grant flows of this region with the rest of developing countries increased by about nine percent during the 1990-93 period in relation to the 1985-89 period.

Long term public and publicly guaranteed debt flows for all the developing regions being examined underwent a 52 percent reduction during the 1990-93 period in relation to the 1985-89 period. Between 1985 to 1989 net long term public and publicly guaranteed flows totaled 394 billion dollars. Between 1990 to 1993, this figure came down to 186 billion dollars. The only region which experienced growth in long term
public and publicly guaranteed debt flows during the 1990-93 period in relation to the 1985-89 period was Europe and Central Asia.

The expansion of official capital flows to Europe and Central Asia during the 1990-93 period has had to do primarily with the dissolution of the Soviet Union and the fact that most of the countries in this region are in transition from centrally planned economies to market economies and as a result have received increasing amounts of official financial inflows since the early 1990s to help sustain and ease this transition. In addition, official capital flows -- as well as private capital flows -- to most of the countries in Europe and Central Asia were seldom tabulated prior to the fall of the Soviet Union.

The regions which received substantial inflows of private capital were also the ones which experienced the most significant growth in short term debt inflows, namely East Asia and the Pacific and Latin America. Nonetheless, for Sub-Saharan Africa, a region whose share of private capital inflows was almost nil between 1985 and 1990, short term debt inflows grew considerably. In this region short term debt inflows increased by almost 76 percent during the 1990-93 period in relation to the 1985-89 period. The rest of the regions examined in this paper whose external debt data was available experienced a significant reduction in their share of short term flows during the 1990-93 period (figures 8.13 and 8.14).

V. Conclusion

International capital flows have experienced a rapid evolution since the mid 1980s. This paper has shown how the form, size and destinations of international financial flows have changed dramatically in the past nine years. This rapid change became particularly noticeable in the early 1990s. In the 1980s most financial flows outside of industrialized nations were in the form of long term public and publicly guaranteed debt and grant flows. For the most part, private financial transactions during the 1980s took place among industrialized nations and left developing countries
on the sidelines. Moreover, during most of the 1980s developing countries became net exporters of capital as their external debt amortization exceeded finance capital inflows. By the early 1990s, however, a selected number of developing countries began to tap private financial flows. Between 1990 and 1993 private capital flows in the form of portfolio equity, long term private non-guaranteed bonds and FDI flows to developing countries soared.

Although it is impossible to evaluate in this paper in great detail the reasons that have underpinned the surge in private capital flows to developing countries I would like to share some of my thoughts on this phenomena. Perhaps the most telling characteristic of this development has been that only a relatively few number of countries are receiving private capital inflows. The fact that only a selected number of countries have gained access highlights one of the main reasons that has influenced foreign investment to emerging markets. Most countries which have tapped private finance since the early 1990s are believed to be creditworthy. Countries in East Asia and the Pacific, the first group of developing countries which experienced a surge in private capital flows, gained the confidence of foreign investors through their apparent fiscal austerity, macroeconomic stability and consistently strong economic performance since the late 1970s. Similarly, in Latin America, the most important hosts of international capital have negotiated their external debt and as a whole their debt service obligations look manageable. Moreover, most of these countries have launched macroeconomic plans aimed at maintaining economic and fiscal stability. Among the policies implemented by these governments are liberalization of trade and investment rules and privatization of state-owned enterprises. Other countries in Europe and Central Asia which have agreed to have the IMF monitor their economies and implement IMF economic policy suggestions and in this form have increased their creditworthiness in international eyes have seen substantial increments in private financial flows enter their economies (WZ Michalak, 1993).
The reduction and/or stabilization of official capital flows since the early 1990s has had to do in great part with the surge in private capital flows during this same period. The majority of countries which have experienced a reduction in official capital flows in the form of long term public and publicly guaranteed debt and/or grant flows are at the same time the ones which have experienced a surge in private capital flows. As countries gain access to private capital markets their need for official capital flows and in particular development finance are assumed to be reduced. Two additional reasons that have influenced the stabilization of official capital flows are the recession that several industrialized countries underwent in the early 1990s that forced many donor countries to reduce their foreign aid, and second substantial cuts in United States foreign aid in the past few years.

Private capital flows to developing countries will most likely continue to grow during the rest of 1990s. Moreover, as more developing countries are able to negotiate their external debts, reform and stabilize their economies and show promising signs of growth, the number of countries with access to private capital markets will also increase and the competition for private capital flows among developing countries will intensify. FDI will continue to grow in coming years and will probably become the most important and most desired type of private capital flow. OECD countries will remain as the principal suppliers of FDI during the rest of decade although FDI outflows will most likely continue increasing in some East Asia and Pacific countries and in the largest Latin American economies. Portfolio equity flows will not experience the explosive growth the early 1990s witnessed, nonetheless, portfolio equity transactions will continue to increase rapidly in coming years. Bonds will also continue to be an important tool used by private corporations to raise finance capital abroad. The expansion of international capital markets, the increasing access to information, the rapid economic growth of some developing countries in comparison to industrialized nations and the diversification of risk that portfolio investment --in the form of
equities, bonds and other papers—procures, will continue to make it a preferred form of investment by foreigners. Private non-guaranteed commercial bank loans will most likely increase during the rest of the 1990s, in particular as competition among developing countries for private financial flows becomes more fierce and finance capital more scarce. While private capital flows will continue to grow, official capital flows in the form of grants and public and publicly guaranteed debt will probably experience a slow but consistent reduction in coming years. Official flows will be placed under much more scrutiny, as their overall amounts are reduced, and will probably be given only to those countries which do not have access to any other type of financial capital flows Latin America and the Caribbean
Figure 1.4

Latin American Long Term Public and Publicly Guaranteed Debt Flows

Figure 1.5

Latin American Long Term Private Debt Flows

*Negative amounts indicate outflows

Figure 1.6

Latin American Short Term Debt Flows
Figure 1.7

Latin America Portfolio Equity

Figure 1.8

Latin America FDI

East Asia and The Pacific

Figure 2.1

Portfolio Equity Flows to East Asia and the Pacific
Figure 2.5

Yearly FDI Flows to East Asia and the Pacific Countries

![Graph showing yearly FDI flows to East Asia and the Pacific countries.]

Figure 2.6

FDI Flows to East Asia and the Pacific*

![Graph showing FDI flows to East Asia and the Pacific countries, with a legend indicating different countries and their contributions.]

*Negative amounts indicate outflows

South Asia

Figure 3.1

South Asia Portfolio Equity Flows

![Graph showing South Asia portfolio equity flows with a legend indicating India and Pakistan.]
Figure 3.4

South Asia Grant Flows

Figure 3.5

South Asia Long Term Public and Publicly Guaranteed Debt Flows
Europe and Central Asia

Figure 4.1

Yearly FDI to Europe and Central Asia

Figure 4.2

Europe and Central Asia FDI

Figure 4.3

Europe and Central Asia Long Term Private Debt Flows
Figure 4.7

Europe and Central Asia Short Term Debt Flows

Middle East and North Africa

Figure 5.1

Grant Flows to the Middle East and North Africa

*These figures only include developing countries in this region
Figure 5.2

Long Term Public and Publicly Guaranteed Debt Flows to the Middle East and North Africa

*This graph only includes figures for developing countries in this region

Figure 5.3

Yearly FDI Flows to the Middle East and North Africa

Figure 5.4

Middle East and North Africa FDI Flows

*Negative amounts indicate outflows
Figure 5.5

Middle East and North Africa Long Term Private Debt Flows

Figure 5.6

Middle East and North Africa Total Long Term Debt Flows
Figure 5.7

Middle East and North Africa Short Term Debt Flows

Sub-Saharan Africa

Figure 6.1

Sub-Saharan Africa FDI Flows

Projected figure by the World Bank for 1994
Figure 6.2

Sub-Saharan Long Term Private Debt Flows

Projected figure by the World Bank for 1994

*All long term private non-guaranteed debt flows are commercial bank loans to the private sector

Figure 6.3

Sub-Saharan Short Term Debt Flows

Projected figure by the World Bank for 1994

Figure 6.4
**Sub-Saharan Africa Grant Flows**

Projected figure by the World Bank for 1994

Figure 6.5

**Sub-Saharan Long Term Public Debt Flows**

Project figure by the World Bank

Figure 7.1

**OECD Member Countries**

Figure 7.2

**OECD Countries Publicly Issued Bonds**
Cross-Regional Comparisons

Figure 8.1

Portfolio Equity Flows 1986-93

Figure 8.2

Portfolio Equity Flows 1986-89

Figure 8.3

Portfolio Equity Flows 1990-93
Figure 8.10

Total Grant Flows by Region 1990-93

Figure 8.11

Grant Flows 1985-89
Figure 8.12

Grant Flows 1990-93

- Sub-Saharan Africa: 45%
- East Asia and the Pacific: 10%
- Europe and Central Asia: 10%
- Latin America: 11%
- Middle East and North Africa: 15%
- South Asia: 9%

Figure 8.13

Short Term Debt Flows 1985-89

- Sub-Saharan Africa
- South Asia
- Middle East and North Africa
- Latin America
- Europe and Central Asia
- East Asia and the Pacific

*Current Dollars
Figure 8.14

Short Term Debt Flows 1990-93

*Current Dollars
Bibliography


