



## Capital Flight: China's Experience

Yin-Wong Cheung, XingWang Qian

First published: 14 April 2010

<https://doi.org/10.1111/j.1467-9361.2010.00549.x>

Citations: 29

Cheung acknowledges the financial support of faculty research funds of the University of California, Santa Cruz.

### Abstract

We study the empirical determinants of China's capital flight. In addition to the covered interest differential, our empirical exercise includes a rather exhaustive list of macroeconomic variables and a few institutional factors. Overall, our regression exercise shows that China's capital flight is quite well explained by its own history and covered interest differentials. The other possible determinants offer relatively small additional explanatory power. It is also found that China's capital flight responds differently to the components of covered interest differentials and to the positive and negative components of these variables. The response pattern, however, depends on the choice of data frequency. The general impression is that the monthly results are more intuitive than the quarterly ones.

### References

Aliber, Robert Z., "The Interest Rate Parity Theorem: A Reinterpretation," *Journal of Political Economy* 81 (1973): 1451-59.

| [Web of Science®](#) | [Google Scholar](#) |

Boyce, James K., "The Revolving Door? External Debt and Capital Flight: A Philippine Case Study," *World Development* 20 (1992): 335-49.

| [Web of Science®](#) | [Google Scholar](#) |

Boyce, James and Leonce Ndikumana, "Is Africa a Net Debtor? New Estimates of Capital Flight from Severely Indebted Sub-Saharan African Countries, 1970-98," *Journal of Development Studies* 38 (2001): 27-56.

| [Web of Science®](#) | [Google Scholar](#) |

Blanchard, Olivier and Francesco Giavazz, "Rebalancing Growth in China: A Three-Handed Approach," *China and World Economy* 14 (2006): 1–20.

[Web of Science®](#) | [Google Scholar](#)

---

Chang, Ching-Gwan and Ta-Chung Liu, "Monthly Estimates of Certain National Product Components, 1946–49," *Review of Economics and Statistics* 33 (1951): 219–27.

[Web of Science®](#) | [Google Scholar](#)

---

Cheung, Yin-Wong and Kon S. Lai, "Finite-Sample Sizes of Johansen's Likelihood Ratio Tests for Cointegration," *Oxford Bulletin of Economics and Statistics* 55 (1993): 313–28.

[Web of Science®](#) | [Google Scholar](#)

---

Cheung, Yin-Wong and Kon S. Lai, "Lag Order and Critical Values of a Modified Dickey–Fuller Test," *Oxford Bulletin of Economics and Statistics* 57 (1995): 411–19.

[Web of Science®](#) | [Google Scholar](#)

---

Cheung, Yin-Wong and Xingwang Qian, "Empirics of China's Outward Direct Investment," *Pacific Economic Review* 14 (2009a): 312–41.

[Web of Science®](#) | [Google Scholar](#)

---

Cheung, Yin-Wong and Xingwang Qian, "Capital Flight: China's Experience," SUNY Buffalo State College working paper (2009b).

[Google Scholar](#)

---

Cheung, Yin-Wong, Menzie D. Chinn, and Eiji Fujii, "China, Hong Kong, and Taiwan: A Quantitative Assessment of Real and Financial Integration," *China Economic Review* 14 (2003): 281–303.

[Web of Science®](#) | [Google Scholar](#)

---

Cheung, Yin-Wong, Menzie D. Chinn, and Eiji Fujii, *The Economic Integration of Greater China: Real and Financial Linkages and the Prospects for Currency Union*, Hong Kong: Hong Kong University Press (2007a).

[Google Scholar](#)

---

Cheung, Yin-Wong, Menzie D. Chinn, and Eiji Fujii, "The Overvaluation of Renminbi Undervaluation," *Journal of International Money and Finance* 26 (2007b): 762–85.

[Web of Science®](#) | [Google Scholar](#)

Chow, Gregory C. and An-loh Lin, "Best Linear Unbiased Interpolation, Distribution, and Extrapolation of Time Series by Related Series," *Review of Economics and Statistics* 53 (1971): 372-75.

[Web of Science®](#) | [Google Scholar](#)

---

Claessens, Stijn and David Naudé, "Recent Estimates of Capital Flight," Policy Research Working Paper Series 1186, World Bank, Washington, DC (1993).

[Google Scholar](#)

---

Clark, Ephraim and Octave Jokung, "Risk Aversion, Wealth and International Capital Flows," *Review of International Economics* 6 (1998): 507-15.

[Google Scholar](#)

---

Collier, Paul, Anke Hoeffler, and Catherine A. Pattillo, "Flight Capital as a Portfolio Choice," IMF working paper 99/171 (1999).

[Google Scholar](#)

---

Conesa, Eduardo, "The Causes of Capital Flight from Latin America, 1970-85," manuscript, Inter-American Development Bank (1987).

[Google Scholar](#)

---

Cuddington, John, "Capital Flight: Estimates, Issues, and Explanations," Princeton Studies in International Finance, No. 58 (1986).

[Google Scholar](#)

---

Cuddington, John, "Capital Flight," *European Economic Review* 31 (1987): 382-88.

[Web of Science®](#) | [Google Scholar](#)

---

Diwan, Ishac, "Foreign Debt, Crowding Out and Capital Flight," *Journal of International Money and Finance* 8 (1989): 121-36.

[Web of Science®](#) | [Google Scholar](#)

---

Dooley, Michael P., "Country-Specific Risk Premiums, Capital Flight and Net Investment Income Payments in Selected Developing Countries," IMF departmental memorandum DM/86/17 (1986).

[Google Scholar](#)

---

Dooley, Michael P., "Capital Flight: A Response to Differences in Financial Risks," *International Monetary Fund Staff Papers* 35 (1988): 423-36.

[Google Scholar](#)

---

Dooley, Michael and Peter Isard, "Capital Controls, Political Risk, and Deviations from Interest-Rate Parity," *Journal of Political Economy* 88 (1980): 370–84.

[Web of Science®](#) | [Google Scholar](#)

---

Dooley, Michael P., William Helkie, Ralph Tryon, and John Underwood, "An Analysis of External Debt Positions of Eight Developing Countries through 1990," *Journal of Development Economics* 21 (1986): 283–318.

[Web of Science®](#) | [Google Scholar](#)

---

Dornbusch, Rudiger, " External Debt, Budget Deficits and Disequilibrium Exchange Rates," NBER working paper 1336 (1984).

[Google Scholar](#)

---

Eaton, Jonathan and Mark Gersovitz, "Debt with Potential Repudiation: Theoretical and Empirical Analysis," *Review of Economic Studies* 48 (1981): 289–309.

[Web of Science®](#) | [Google Scholar](#)

---

Eichengreen, Barry and Hui Tong, "Is China's FDI Coming at the Expense of Other Countries?" *Journal of the Japanese and International Economies* 21 (2007): 153–72.

[Web of Science®](#) | [Google Scholar](#)

---

Elliott, Graham, Thomas J. Rothenberg, and James H. Stock, "Efficient Tests for an Autoregressive Unit Root," *Econometrica* 64 (1996): 813–36.

[Web of Science®](#) | [Google Scholar](#)

---

Feenstra, Robert and Shang-Jin Wei, " Introduction to China's Growing Role in World Trade," NBER working paper 14716 (2009).

[Google Scholar](#)

---

Frankel, Jeffrey and Charles M. Engel, "Do Asset-Demand Functions Optimize over the Mean and Variance of Real Returns? A Six-Currency Test," *Journal of International Economics* 17 (1984): 309–23.

[Web of Science®](#) | [Google Scholar](#)

---

Gibson, Heather D. and Euclid Tsakalotos, "Testing a Flow Model of Capital Flight in Five European Countries," *The Manchester School* 61 (1993): 144–68.

[Web of Science®](#) | [Google Scholar](#)

---

Gunter, Frank R., "Capital Flight from the People's Republic of China: 1984–1994," *China Economic Review* 7 (1996): 77–96.

[Web of Science®](#) | [Google Scholar](#)

---

Gunter, Frank R., "Capital Flight from China: 1984–2001," *China Economic Review* 15 (2004): 63–85.

[Web of Science®](#) | [Google Scholar](#)

---

Hale, Galina and Cheryl Long, "Are There Productivity Spillovers from Foreign Direct Investment in China?" *Pacific Economic Review* (2010) (forthcoming).

[Google Scholar](#)

---

Harrigan, Jane, George Mavrotas, and Zulkornain Yusop, "On the Determinants of Capital Flight: A New Approach," *Journal of the Asia Pacific Economy* 7 (2002): 203–41.

[Google Scholar](#)

---

Hung, Juann H., "China's Approach to Capital Flows since 1978: A Brief Overview," in Yin-Wong Cheung and Wong Kar-Yiu (eds), *China and Asia: Economic and Financial Interactions*, New York: Routledge (2008): 44–63.

[Google Scholar](#)

---

Jeanne, Olivier, "International Reserves in Emerging Market Countries: Too Much of a Good Thing?" in William C Brainard and George L. Perry (eds), *Brookings Papers on Economic Activity* 1, Washington, DC: Brookings Institution Press (2007): 1–55.

[Google Scholar](#)

---

Kant, Chandler, "Foreign Direct Investment and Capital Flight," *Princeton Studies in International Finance*, No. 80, April (1996).

[Google Scholar](#)

---

Kar, Dev and Devon Cartwright-Smith, *Illicit Financial Flows from Developing Countries: 2002–2006*, Washington, DC: Global Financial Integrity (2008).

[Google Scholar](#)

---

Khan, Mohsin and Nadeem Haque, "Capital Flight from Developing Countries," *Finance and Development* 7 (1987): 29–37.

[Web of Science®](#) | [Google Scholar](#)

Lane, Philip R. and Sergio L. Schmukler, "The International Financial Integration of China and India," World Bank Policy Research Working Paper Series 4132 (2007).

[Google Scholar](#)

---

Lessard, Donald and John Williamson, *Capital Flight and the Third World Debt*, Washington, DC: Institute of International Economics (1987).

[Google Scholar](#)

---

Ljungwall, Christer and Zijian Wang, "Why Is Capital Flowing Out of China?" *China Economic Review* 19 (2008): 359-72.

[Web of Science®](#) | [Google Scholar](#)

---

Ma, Guonan and Robert N. McCauley, "The Efficacy of China's Capital Controls—Evidence from Price and Flow Data," *Pacific Economic Review* 13 (2008): 104-23.

[Web of Science®](#) | [Google Scholar](#)

---

Ma, Guonan, Corrinne Ho, and Robert N. McCauley, "The Markets for Non-Deliverable Forwards in Asian Currencies," *BIS Quarterly Review*, June (2004): 81-94.

[Google Scholar](#)

---

Mandilaras, Alex and Helen Popper, "Capital Flows, Capitalization, and Openness in Emerging East Asian Economies," *Review of International Economics* 17 (2009): 734-50.

[Web of Science®](#) | [Google Scholar](#)

---

Mikkelsen, Jan G., "An Econometric Investigation of Capital Flight," *Applied Economics* 23 (1991): 73-85.

[Web of Science®](#) | [Google Scholar](#)

---

Obstfeld, Maurice, "The Renminbi's Dollar Peg at the Crossroads," Center for International and Development Economics Research, Working Paper Series 1066, Institute for Business and Economic Research, UC Berkeley (2006).

[Google Scholar](#)

---

Pastor, Manuel, *Capital Flight and the Latin American Debt Crisis*, Washington, DC: Economic Policy Institute (1990).

[Google Scholar](#)

Prasad, Eswar and Shang-Jin Wei, "China's Approach to Capital Inflows: Patterns and Possible Explanations," in Sebastian Edwards (ed.), *Capital Controls and Capital Flows in Emerging Economies: Policies, Practices and Consequences*, Chicago: University of Chicago Press (2007): 421–80.

[Web of Science®](#) | [Google Scholar](#)

---

Rodrik, Dani, "What's So Special About China's Exports?" NBER working paper 11947 (2006).

[Google Scholar](#)

---

Rojas-Suarez, Liliana, "Risk and Capital Flight in Developing Countries," IMF working paper WP/90/64 (1990).

[Google Scholar](#)

---

Sicular, Terry, "Capital Flight and Foreign Investment: Two Tales from China and Russia," *The World Economy* 21 (1998): 589–602.

[Web of Science®](#) | [Google Scholar](#)

---

Smit, B. W. and B. A. Mocke, "Capital Flight from South Africa: Magnitude and Causes," *South African Journal of Economics* 59 (1991): 101–17.

[Web of Science®](#) | [Google Scholar](#)

---

Tseng, Wanda and Harm Zebregs, "Foreign Direct Investment in China: Some Lessons for Other Countries," IMF policy discussion paper 02/03, Washington, DC (2002).

[Google Scholar](#)

---

Wilcox, James A., "Disaggregating Data using Related Series," *Journal of Business and Economic Statistics* 1 (1983): 187–91.

[Google Scholar](#)

---

World Bank, *World Bank Report*, Washington, DC: World Bank (1985).

[Google Scholar](#)

---

World Bank, "Box 2.3: Round-Tripping of Capital Flows between China and Hong Kong," *Global Development Finance* (2002): Ch. 2.

[Google Scholar](#)

---

Wu, Friedrich and Leslie Tang, "China's Capital Flight, 1990–1999: Estimates and Implications," *Review of Pacific Basin Financial Markets and Policies* 3 (2000): 59–75.

[CAS](#) | [PubMed](#) | [Google Scholar](#)

**ABOUT WILEY ONLINE LIBRARY**

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research DE&I Statement and Publishing Policies](#)

[Developing World Access](#)

**HELP & SUPPORT**

[Contact Us](#)

[Training and Support](#)

[DMCA & Reporting Piracy](#)

**OPPORTUNITIES**

[Subscription Agents](#)

[Advertisers & Corporate Partners](#)

**CONNECT WITH WILEY**

[The Wiley Network](#)

[Wiley Press Room](#)