

Capital Flight: China's Experience

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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.

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