International flows of capital

Marcello Colitti

The Institute of International Finance, IIF, has analysed the flaw of investment from the Mature Countries , USA and Europe, to Emerging Countries : Asia , Africa, Latin America , and Emerging Europe , that is , the part of Europe which is considered Emerging , including Russia.

The dollar inflow to Emerging Countries (table 1) has been reduced in 2013 and, with a smaller reduction, also in the 2014, but according to IIF will pick up again in 2015. The slowdowns were not deep and due in part to the change in the USA economic and financial strategy, from easy money to a stricter rule; and also to short time adjustments in some receiving countries. The forecasts prepared by the IIF present the 2015 as the year of the start of a new period of growth.

Table 1- Capital Flow: Inflow to Emerging Market Economies
(Billion dollars)

Inflow	2012	2013	2014	2015
Total	1,268	1,146	1,133	1,176
Change	-	-122	-13	+43
Private inflow	1,231	1,119	1,079	1,138
Change	-	-112	-40	+54
Equity Investment	670	639	664	696
Change	-	-31	+25	+321
Of which: Direct Investment	546	554	560	585
Change	-	+8	+6	+25

Note: figures are estimated for 2012, 2013, forecast for 2014 and 2015

The large inflow to Emerging Countries has created an inverse flow from the receiving Countries either to other similar countries, or to Europe and the USA, where investments are necessary to keep up their share in their rich markets. In the case of China, investment abroad are both to give the Country a steady supply of imported energy, and to sustain the large flow of consumers Chinese goods sold in Europe and the USA. In some Emerging Countries the outflow is about half the inflow. Flow and counter flow seem to be both necessary elements of world capitalism. However, the meaning of the figures, and of the hypothesis of a rebound of the economy next year, may not be the same for the various members of the group of mature countries.

Table 2 - Capital Flow: Outflow from Emerging Market Economies
(Billion dollars)

Outflow	2012	2013	2014	2015
Total	1,296	1,374	1,360	1,354
Change	-	+105	-14	-6
Private	947	972	1,054	1,049

Change	-	-25	+82	-5
Invest abroad	324	393	379	394
Change	-	+69	-14	+14
Reserves	-349	-402	-306	-305

Note: sign – for reserves means increase in reserves

Table 3 - Inflow and outflow in and from
Emerging Market Economies by Areas in 2014
(Billion dollars)

Flows	Asia	Africa, Mid East	Europe	Lat. America
Inflow	521	103	217	291
Outflow	510	176	195	172
Diff.	11	73	22	119
Reserves	-242	-87	17	6

The IIF does not consider the origin of the flow of capital towards the Emerging Countries, which comes from "Mature Countries"including the USA,"Mature Europe"including Switzerland, and perhaps Canada. Considering the difference between Europe and the USA in generating capital, the capital moved from the Mature Countries towards the Emerging ones might be quite different, and the various flows might have a different meaning. The USA has been for quite a time trying to start up a slugging economy and to reduce unemployment by offering capital at very convenient conditions.
Some of this money must have been invested in the Country, perhaps to develop the new technology for producing crude oil and natural gas, or, even, to improve the control of the shareholders over their companies. However, probably a good part went abroad to create new production capacity worldwide and perhaps for the investment needs of the American companies already working abroad.

For Europe, where economy is actually stagnating, and an increase of one per cent is considered relevant, the meaning of capital exports may be completely different. It might be an attempt to take some business out of stagnation, and to invest in areas where the growth of the economy promises to offer good profits. Take the case of Italy. For example, the relocation abroad of light industries, textiles and apparel, has been going since quite a time, with the effect of reducing the number of workers, and the overall volume of production of the Country.

The relocation has gone on for quite a while, and often the economic results has not been positive, given, for example, the insufficient skill of the workers , so the quality of the product was often not comparable with the original production.

So, the forecast of IIF for an increase of the inflow from mature countries to emerging ones might foster a general growth of the world economy, but it will not touch Europe, which is not growing at all. It is very easy to forecast that the year 2014 will not see the pickup of Europe, still controlled by the absurd fear of inflation amid general deflation, and a strenuous resistance to using the capacity of the State to inject some vitality in a market in phase of strong deflation.