Unit 2 discussion board

Executive Briefing There are no definite or standard definition of what actually capital flight is however, roughly it is termed as a phenomenon where it leads to cross border movement of capital and financial resources of good enough magnitude having the capability of affecting the financial markets of any nation. (McLeod, 2002).

Historically, the capital flow to the countries which provide best returns to the investors on their investments with a certain degree of acceptable risk. It was because of this reason that the capital flew to the more developed countries, however, as developed economies started to move towards perfect markets with stricter regulations like corporate governance and SOX, Investors started to pull out their capital towards countries which provide highest returns.

The capital flight towards emerging markets and less developed countries is the part of the same phenomenon as capital is flowing towards those countries because with the passage of time, they not only have been able to develop their physical infrastructure and put in favorable environment in order to attract the foreign capital in the country.

Less developed and emerging markets provide tax incentives, favorable terms to the foreign investors, and higher returns in terms of capital and money market instruments especially higher stock market returns. Probably the most important reason why capital is flowing from developed countries to less developed and emerging markets is the ease with which the investors can pull back their investments. Strict anti-money laundering laws have made it more inflexible for the genuine investors to move their capital at will within developed world therefore investors are now shifting their investments to less develop and emerging markets.

Finally, the capital flight towards the less developed and emerging markets is taking place because governments of those countries are executing liberal monetary as well as fiscal policies raising the prospects of their country to be more lucrative and attractive to the foreign investors to bring in their capital and in due course improve upon their economies on more solid footings.

Distinction between less developed and emerging markets

“ Emerging markets are countries that are restructuring their economies along market-oriented lines and offer a wealth of opportunities in trade, technology transfers, and foreign direct investment.” (Li, 2008) Whereas less developed economies are those economies which show lowest indictors on the various scales developed by many international bodies specially United Nations. Though they may be market oriented economies however they necessarily do not provide various opportunities in trade, technology transfer and FDI.

References

Li, C. (2008). What Are Emerging Markets? Retrieved May 5, 2008, from The University of Iowa center for International finance and development: http://www. uiowa. edu/ifdebook/faq/faq_docs/emerging_markets. shtml

McLeod, D. (2002). Capital Flight. Retrieved May 5, 2008, from The Concise Encyclopedia of Economics: http://www. econlib. org/library/Enc/CapitalFlight. html