International Capital Movement


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Meaning

International capital movement (or Flows) refers to the outflow and inflow of capital from one country to another country.

They do not relate to movement of goods or payment for exports and imports between countries.

- Refer to the borrowing and lending between countries

Example:

– A Taiwanese bank lends to a Thai firm

– Japanese residents buy stocks in Thailand

Types of International Capital Movements

1. Direct Movement:

   The flow of direct capital movement means that the concern of investing country exercise holding a specified position over the assets of other country. setting up a corporation in a investing country for specific purpose for assembling the parent product, its distribution , sale and exports or creation of fixed assets by investing in infrastructures like power, railways and highways etc

2. Indirect Movement/portfolio investment:

   The movement of indirect capital means investment in other country by purchasing securities, shares or debenture.

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3. Private and Government Capital :

Private capital movement means lending or borrowing from abroad by private individuals and institutions.

Private capital is generally guaranteed by the government or the central bank of the borrowing country.

profit motive is the principal factor behind such investment

On the other hand, government capital movements imply lending and borrowing between governments. Such capital movements are under the direct control of government.

in fact government are important international lenders

they make stability loan, loan to finance exports and imports and to finance particular projects

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4. Home and foreign capital:

Home capital is concerned with investments made abroad by residents of the country. Thus home capital refers to the out flow of capital,

On the other hand, foreign capital implies investments made by foreigners in the country. Foreign capital is concerned with the inflow of capital.

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5. Foreign Aid:

It refers to public foreign capital on hard or soft terms, in cash or in kind and inter- government grants.

foreign aid is tied or untied .aid may be tied by project and by commodities

untied loan is a general purpose aid and is known as non-project loan

6. Short- term and Long- term Capital:

Short- term capital movements are for a period of less than one year maturity while long- term capital movements are of more than one- year maturity.

Factors affecting International capital Movements

The following factors affecting international capital movements:

1. Interest Rates:

   The most important factor which effect international capital movement is the difference among current interest rates in various countries.

   rate of interest shows rate of return over capital

   Capital flows from that country in which the interest rates are low to those where interest rates are high because capital yields high return there.

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2. Speculation:

Speculation related to expecting variations in foreign exchange rates or interest rates affect short capital movements.

When speculators feel that the domestic interest rates will increase in future, they will invest in short- term foreign securities to earn profit. This will lead out flow of capital.

On the other hand if possibility of fall of in domestic interest rates in future, the foreign speculator investing securities at a low price at present. This will lead to inflow of capital in the country.

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3.Expectation of profits:

A foreign investor always has the profit motives in his mind at the time of making capital investment in the other country. Where the possibility of earning profit is more, capital flows into that country.

4. Bank Rate:

A stable bank rate of the central bank of the country also influences capital movements because market interest rates depend on it.

If bank rate is low, there will be out flow of capital and vice versa

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5. Production Costs:

Capital movements depends on production costs in other countries. In countries where labor, raw materials, etc are cheap and easily available, more private foreign capital flows there.

The main reasons of huge capital investment in Korea, Singapore, Hong Kong, Malaysia and other developing countries by MNCs is low production cost there.

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6. Economic Condition:

The economic condition of a country, especially size of the market, availability of infrastructure facilities like the means of transportation and communication, power and other resources, efficient labor, etc encourage the inflow of capital there.

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7. Political Stability:

Political stability, security of life and property, friendly relation with other countries, etc. encourage the inflow of capital in the country.

8. Taxation Policy:

The taxation policy of a country also affects the inflow or outflow of capital. To encourage the inflow of capital, Soft taxation policy should be followed, give tax relief to new industries and foreign collaborations , etc.

Con,t

9) Foreign capital policy:

the government policy relating to foreign capital affects capital movements

provision of different facilities relating

- to transferring profits
- dividend, interest etc to foreign investors will attract foreign capital

similarly fiscal and monetary policy of a country also affect capital inflow and outflow

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- Marginal efficiency of capital:

MEC is directly related with the inflow of capital

investors usually compare MEC in different countries and like to invest in a country where MEC is high comparatively