Capital mobility in South America - does it contribute to growth?

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Abstract

In general, flows and capital mobility allow countries with limited savings to attract external financing for productive investment projects, to foster the diversification of investment risk, to promote inter-temporal trade and contribute to the development of financial markets. However, the events observed after the global financial crisis of 2008-2009 have highlighted once again the importance of capital controls and its effects on economic activity.

In the case of Bolivia, even though the capital market was liberalized after the period of hyperinflation in the 1980's, in last years, different instruments (limits on foreign investments of financial institutions, taxes for capital inflow and outflow, etc.) have been actively used. These instruments are considered to have an effect on capital flows, emphasizing their importance in the regulation and signaling economic policy.

In this regard and in light of the resurgence of debate about both positive and negative effects of free capital mobility, this paper aims to empirically analyze the relationship between economic growth and capital mobility in the economies of South America taking into account the indicator of international financial liberalization designed by Quinn (1997).

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