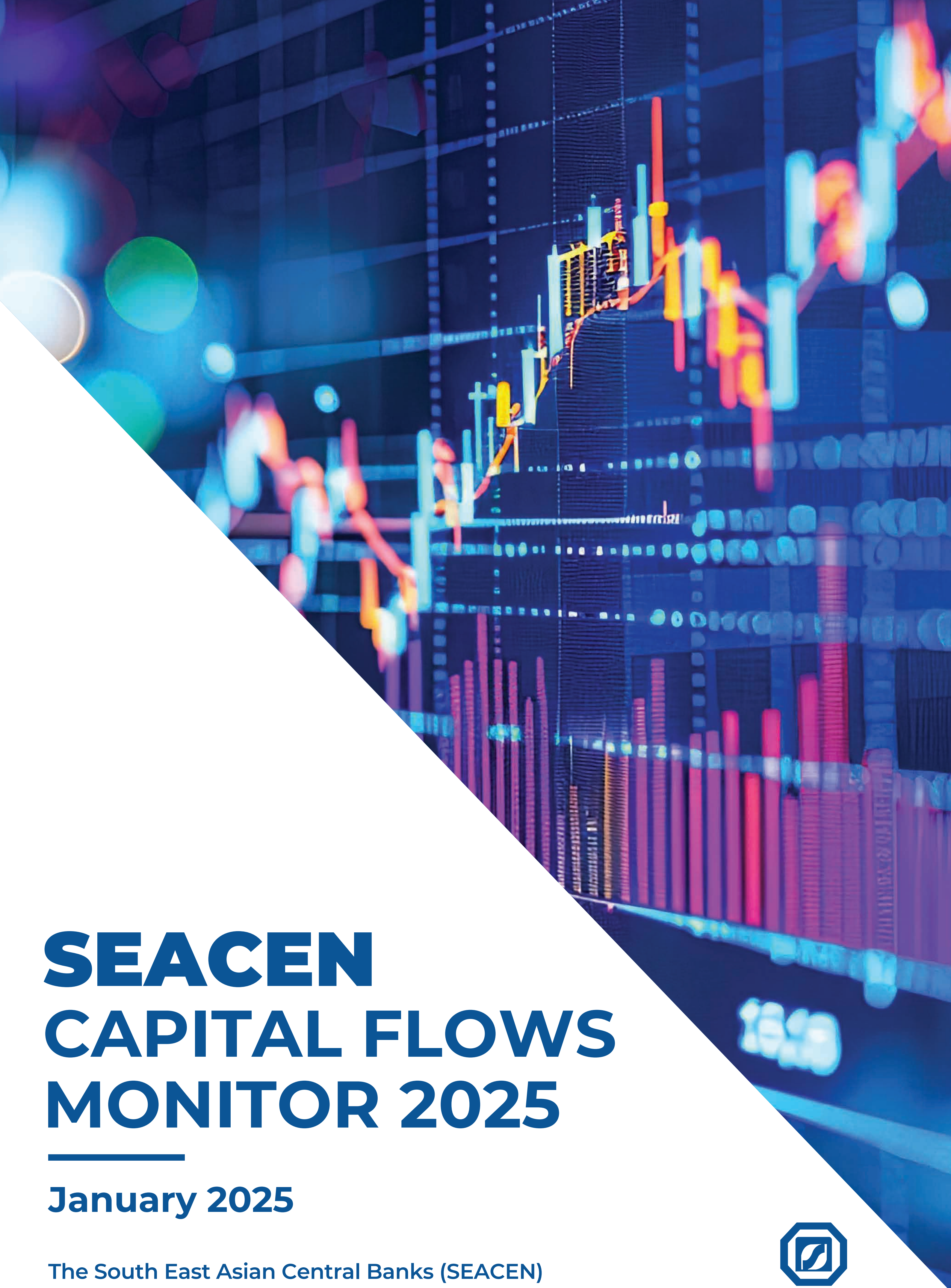

SEACEN
CAPITAL FLOWS MONITOR 2025

January 2025

The South East Asian Central Banks (SEACEN)
Research and Training Centre

The SEACEN Centre

SEACEN
CAPITAL FLOWS MONITOR
2025

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Research and Training Centre

The **SEACEN** Centre

Level 5, Sasana Kijang, Bank Negara Malaysia,
2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
Tel. No.: +603 9195 1888
Fax. No: +603 9195 1801
Email: **enquiries@seacen.org**

For comments and questions, please contact:
Rogelio Mercado, Ph.D.
Senior Economist, Macroeconomics and Monetary Policy Management Division
The SEACEN Centre
Email: **rogelio.mercado@seacen.org**

Notes:

The SEACEN Centre recognises "China" as the People's Republic of China," "Hong Kong, China" as the Hong Kong SAR, China, and "Korea" as the Republic of Korea.

USD or US$ refers to the U.S. dollar.

IMF and national source data were accessed through the CEIC Database and Haver Analytics. The data cut-off is 31 December 2024.

Asian economies include the nineteen economies of the SEACEN member central banks and monetary authorities with available data. It includes Brunei Darussalam; Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Myanmar; Nepal; Papua New Guinea; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand and Vietnam. This report also discusses subregional groupings. Asia Advanced Economies include Hong Kong, China, Korea, Singapore, and Chinese Taipei. ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asian Emerging and Developing Market Economies (EDMEs) include Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Myanmar, Nepal, Papua New Guinea, and Sri Lanka, whenever data are available.

This report has been approved by Dr. Cyn-Young Park (Executive Director). Dr. Ole Rummel (Director of Macroeconomic and Monetary Policy Division—MMPM) also edited and reviewed the report. Dr. Rogelio Mercado (Senior Economist, MMPM) authored Sections 1 to 3 and supervised the production of the report. Mr. Ahmad Aizudeen provided research assistance. Ms. Yun Yee Seow edited the draft sections, and Mr. Aizul Fazli Zulkifli of Swift Cursor Studio designed, typeset, and layout the report.

CONTENTS

ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BoP	Balance of Payments
BPM6	Balance of Payments Manual 6
IMF	International Monetary Fund
IIF	Institute of International Finance
IIP	International Investment Position
SEACEN	South East Asian Central Banks (SEACEN) Research and Training Centre
SEG	SEACEN Expert Group on Capital Flows

CONCEPTS

Net IIP or NFA	Net International Investment Position or Net Foreign Assets are computed as total foreign (international) investment assets minus total foreign (international) investment liabilities.
Resident capital flows	Net purchases of foreign assets by residents are commonly referred to as "gross capital outflows." The data refers to the Financial Account Assets of the Balance of Payments Financial Account Balance.
Nonresident capital flows	Net purchases of domestic assets by nonresidents are commonly referred to as "gross capital inflows." The data refers to the Financial Account Liabilities of the Balance of Payments Financial Account Balance.
Net resident capital flows	Computed as resident capital flows minus nonresident capital flows. Positive values may suggest that domestic residents are purchasing more foreign assets than nonresidents purchasing domestic assets.

FOREWORD

We are pleased to present the latest edition of the SEACEN Capital Flows Monitor. This bi-annual report has been serving as an essential reference for understanding the complexities of cross-border financial transactions and investments, which are critical for managing economic risks and seizing opportunities. The SEACEN Expert Group (SEG) on Capital Flows, comprising nineteen member central banks and monetary authorities in the Asia and the Pacific region, recognizes the importance of understanding these flows. Our aim is to empower policy makers with the knowledge necessary to navigate the intricacies of capital movement, ensuring that they can effectively design their policies to support economic growth and safeguard financial stability.

Capital flows inform us about the flow of funds driven by cross-border investments and transactions that support a range of business and economic activities. By facilitating the free movement of capital, both source and recipient countries can optimize the allocation of their financial resources for more productive use. Foreign capital plays a pivotal role in driving growth and industrialization in emerging markets, creating jobs and expanding opportunities. Cross-border trade and investment also facilitate risk sharing and transfer of knowledge, therefore benefiting investors seeking to diversify portfolios, access new markets, or capitalise on comparative advantages of different economies.

The report is structured into three key sections. The first section reviews recent global and regional trends that impact capital flows in Asia. The second section analyses the latest composition, patterns, and trends of capital flows and international investment positions of SEACEN member economies. The third section is an analytical segment that focuses on a specific policy-relevant topic related to capital flows and international investment positions. In this issue, the analytical section highlights the significant increase in Asia's outward foreign investments over the past three decades. It finds that the composition of the region's resident flows has shown marked shifts in terms of types of outward investment and sectoral drivers since the late 1990s. As the region's resident capital outflows grew in value, they also became more volatile and exhibited stronger positive co-movement with non-resident capital inflows.

We hope this report will serve as a valuable resource for understanding the multifaceted nature of capital flows and their implications for monetary and financial policies. The insights shared herein reflect the collective expertise of our contributors and stakeholders, whose support is invaluable in our mission to foster sustainable growth and financial stability in the region.

Thank you for your continued engagement with the SEACEN Centre as we strive to enhance our understanding of capital flows in an ever-evolving economic landscape.

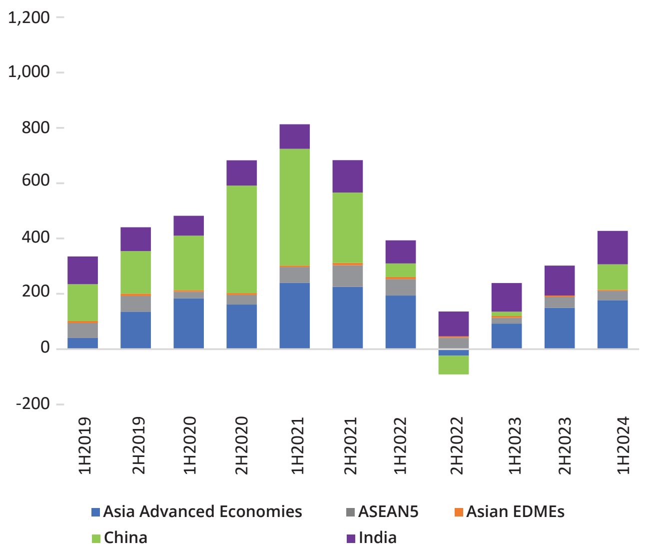
Cyn-Young Park
Executive Director
The SEACEN Centre

January 2025

SEACEN Capital Flows Monitor January 2025: Highlights

- *Asian economies, as a group, witnessed a marked increase in cross-border resident and nonresident capital flows in the first half of 2024.*
- *The region's aggregate net foreign asset position remained positive, although some economies continued to have net borrower position in the first half of 2024.*
- *Economic growth in Asia remained robust in the first three quarters of 2024, although growth slightly slowed in the third quarter.*
- *As inflationary pressures continued to subside, most central banks and monetary authorities in the region and elsewhere, including the United States, have started to cut policy rates.*
- *While most regional currencies remained weak, financial market conditions improved in 2024.*
- *Moving forward, the region's growth momentum will likely be sustained in 2025, and inflation will remain moderate, but risks to economic growth and inflation outlook are tilted on the downside.*
- *The composition of the region's resident flows exhibited mark shifts in terms of types of outward investment and sectoral drivers since the late 1990s.*
- *As Asia's resident capital outflows grew in value, they became more volatile compared to nonresident capital flows and showed stronger positive co-movement with foreign capital inflows.*
- *The region has experienced episodes of very large resident capital outflows (flights) and inflows (retrenchments). These extreme episodes warrant evaluating the usefulness and consequences of restricting resident flows, differentiating between crisis- and non-crisis capital flights, and monitoring sectoral resident flows.*

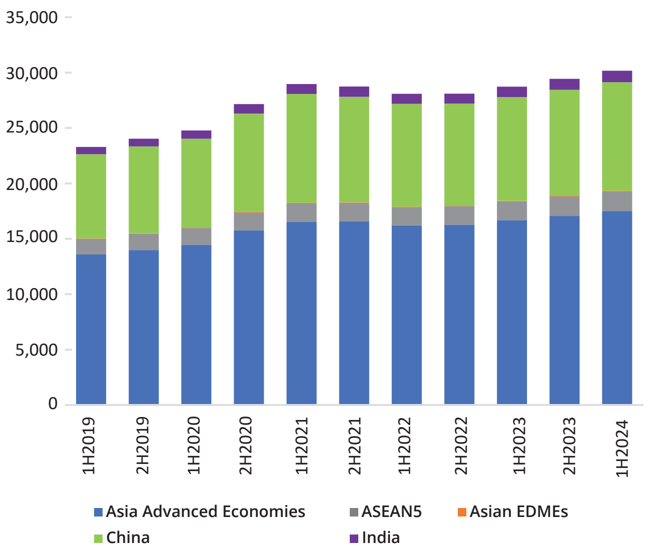
Figure H1: Nonresident Capital Flows, Asia,
by Sub-region *(US$ billion)*



Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through the CEIC Database (downloaded November 2024).

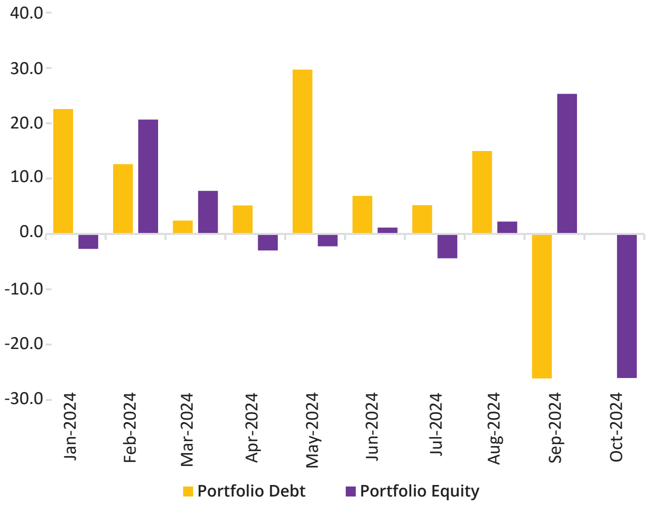
Figure H2: International Investment Assets,
by Sub-region *(US$ billion)*



Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN-4 includes Indonesia, Malaysia, Philippines, and Thailand. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Mongolia, and Nepal.

Source: SEACEN staff calculations using data from IMF's International Investment Position accessed through the CEIC Database (downloaded November 2024).

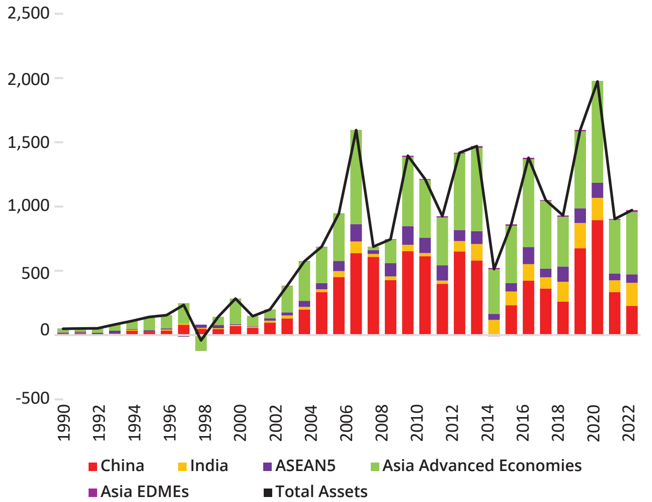
Figure H3: Nonresident Portfolio Flows
Selected Asian Economies *(US$ billion)*



Notes: The sample for nonresident portfolio equity flows includes China, India, Indonesia, Korea, Malaysia, Mongolia, the Philippines, Sri Lanka, Chinese Taipei, Thailand, and Vietnam. The sample for nonresident portfolio debt flows includes China, India, Indonesia, Korea, Malaysia, Mongolia, the Philippines, and Thailand.

Source: SEACEN staff calculation using data from the Institute for International Finance.

Figure H4: Asia's Resident Capital Flows,
by Sub-region *(US$ billion)*



Notes: ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. Asian Emerging and Developing Market Economies (EDMEs) include Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Nepal, Papua New Guinea, and Sri Lanka.

Source: SEACEN staff calculations using IMF's Balance of Payments Statistics.

SECTION I: RECENT GLOBAL AND REGIONAL ECONOMIC AND FINANCIAL TRENDS AND DEVELOPMENTS

This section reviews the global and regional economic and financial trends that impacted capital flows to Asia in 2024. It highlights several key developments:

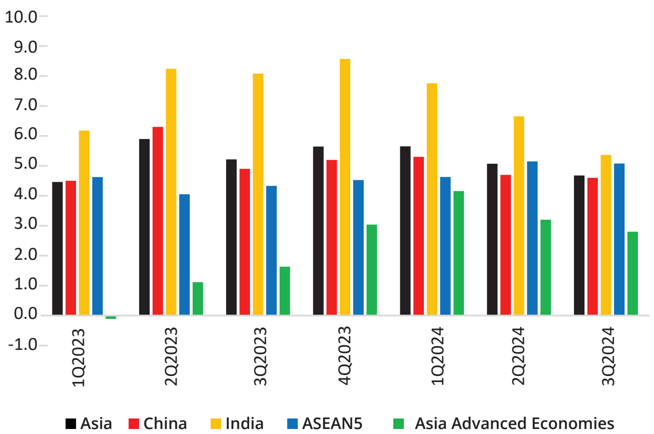
- *Economic growth in Asia remained robust in the first three quarters of 2024, although growth slightly slowed in the third quarter.*
- *As inflationary pressures continued to subside, most central banks and monetary authorities in the region and elsewhere, including the United States, have started to cut policy rates.*
- *While most regional currencies remained weak, financial market conditions continued to improve.*
- *Moving forward, the region's growth momentum will likely be sustained in 2025, and inflation will remain moderate, but risks to economic growth and inflation outlook are tilted to the downside.*

Economic growth in Asia remained robust in the first three quarters of 2024, although growth slowed in the third quarter. The economic output of selected Asian economies expanded, on average, by 5.1% year-on-year in the first three quarters of the year, which is slightly lower than the 5.2% year-on-year average growth in the first three quarters of the previous year. As a group, the region's GDP growth slowed to 4.7% in the third quarter (3Q2024) as consumption weakened in several key regional economies **(Figure 1.1).**[1] China's economy grew by 4.6% in 3Q2024 as weaker domestic demand offset export growth. India's output growth also slowed to 5.4% due to weaker industrial output. Asia Advanced Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei), likewise, registered slower growth at 2.8% during the period because of tepid consumption and slower external demand for semiconductors. In contrast, ASEAN5's (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) output growth remained robust at 5.1% in the third quarter, driven by strong consumption and investment.

Inflation continued to ease in most Asian economies in 2024, down from its peaks in 2022-23. For most economies in the region, the inflation downtrend continued into the second half of the year, while for the rest, inflation slightly edged up in the second half, albeit still within or below the target range of central banks or monetary authorities for the year **(Figure 1.2a-b).** In China and Thailand, the consumer price index grew faster in the second half of the year but was still below 1% year-on-year. In India, inflation accelerated by an average of 5.7% from September to November 2024 due to higher food prices caused by adverse weather conditions, while inflation in the Lao PDR remained in the double digits throughout the year, driven by elevated food prices amid weak domestic production and currency depreciation.

Most central banks in the region and elsewhere cut policy rates in 2024 as inflationary pressures continued to subside. Korea, Mongolia, Nepal, Philippines, Sri Lanka, and Thailand cut their policy rates, mainly in the second half of the year **(Figure 1.3a-b).** The People's Bank of China also cut policy rates further throughout the year to help boost economic growth.

Figure 1.1: Quarterly GDP Growth, Selected Asian Economies *(% change, year-on-year)*



Notes: Regional growth rates are weighted averages of individual growth rates, using GDP in PPP as weights. Asia Economies include China, India, Mongolia, ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam), and Asia Advanced Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei).

Source: SEACEN staff calculations using data from national sources accessed through the CEIC Database.

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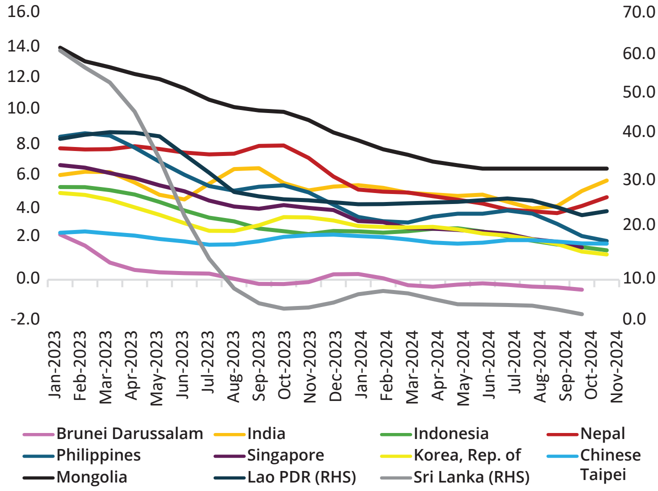
1. Aggregate GDP growth rates and inflation were computed using GDP at Purchasing Power Parity (PPP) in US dollars sourced from IMF's World Economic Outlook Database (October 2024) as weights.

Meanwhile, India, Malaysia, and Vietnam kept their policy rates on hold in 2024. In the case of Chinese Taipei, although it raised its policy rate in March, it kept it on hold thereafter. Indonesia raised its policy rate in April by 25 basis points to 6.25%, but then lowered it by 25 basis points to 6.00% in September. The U.S. Federal Reserve (Fed) and European Central Bank (ECB) also cut their policy rates. The Fed reduced the Federal funds target rate thrice from September to December, while the ECB lowered its policy rates four times from June to December. The policy rate cuts throughout the year coincided with tapered global commodity price increases during the year, as global crude oil prices rose by only 1.20% in the first eleven months from the previous year, while global food and beverage prices decreased by 1.16% in the same period.

Expectations that the U.S. policy rate will remain elevated for longer weakened most regional currencies against the U.S. dollar. The Korean won, Philippine peso, and NT dollar depreciated by over 3% year-to-date in 2024 **(Figure 1.4).** In the case of the Korean won, it weakened by 7% year-to-date, weaker than its 4% depreciation the previous year. The Indian rupee,

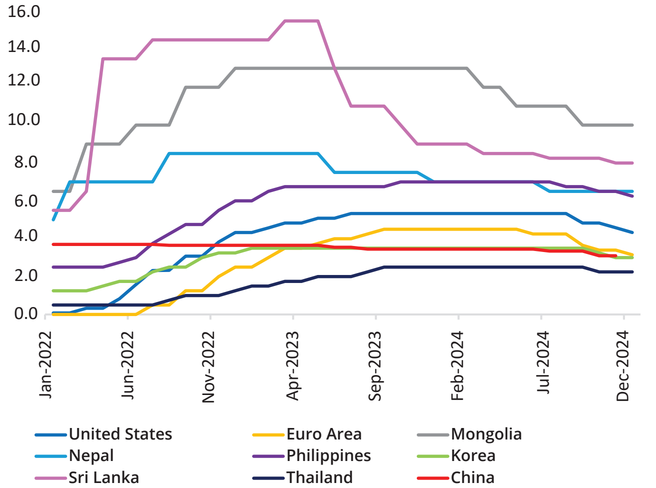
Figure 1.2a: Monthly Inflation,
Selected Asian Economies *(% change, year-on-year)*



Notes: RHS = right-hand scale. Values are three-month moving averages of year-on-year monthly changes in the consumer price index.

Source: SEACEN staff calculations using data from national sources accessed through the CEIC Database.

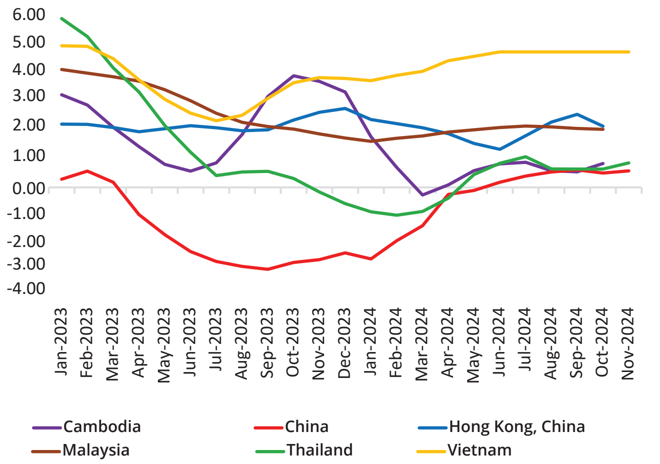
Figure 1.3a: Policy Rates in Selected Advanced and Asian Economies *(% per annum)*



Notes: The policy rate for the United States refers to the effective Fed Funds rate. Data for China pertains to the one-year loan prime rate sourced from the Bank for International Settlements (BIS) Data Portal. The policy rate for the Euro Area is the main refinancing fixed rate of the European Central Bank.

Sources: Data from national sources accessed through the CEIC Database and BIS Data Portal.

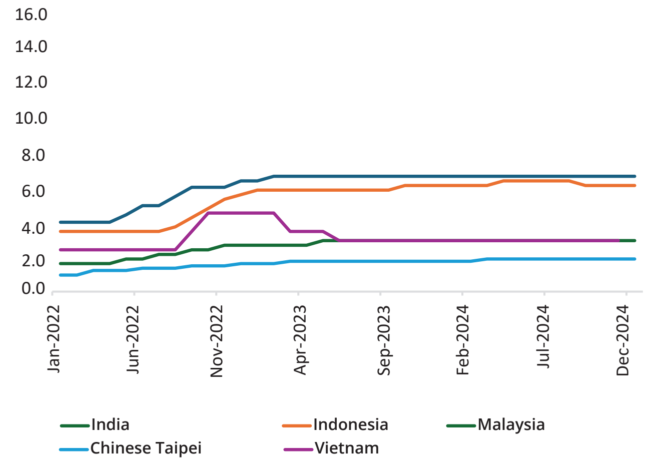
Figure 1.2b: Monthly Inflation,
Selected Asian Economies *(% change, year-on-year)*



Notes: Values are three-month moving averages of year-on-year monthly changes in the consumer price index.

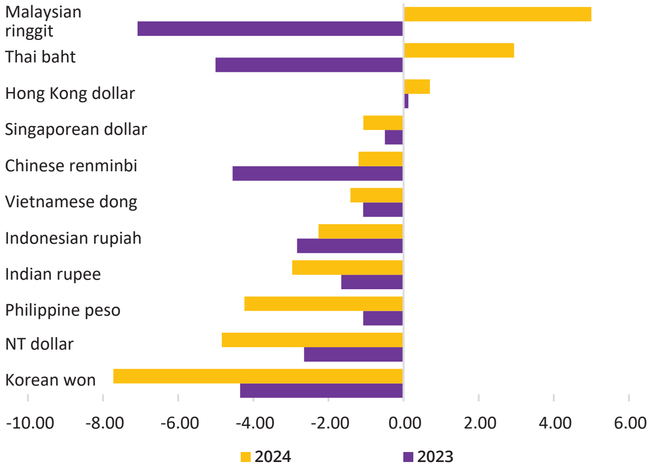
Source: SEACEN staff calculations using data from national sources accessed through the CEIC Database.

Figure 1.3b: Policy Rates in Selected Asian Economies
(% per annum)



Source: Data taken from national sources accessed through CEIC Database.

Figure 1.4: Exchange Rate Changes,
Selected Asian Economies *(% change, year-to-date)*



Notes: Year-to-date values are computed as the monthly difference between the first and last data points within a year. Positive changes refer to an appreciation of the local currency versus the U.S. dollar, and negative changes refer to depreciation.

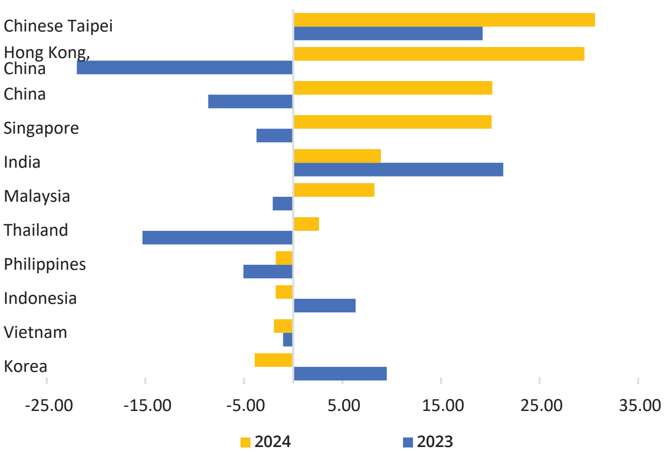
Source: SEACEN staff calculations using data accessed through the CEIC Database.

Indonesian rupiah, and Vietnamese dong also weakened against the U.S. dollar by less than 3% year-to-date. Meanwhile, the Thai baht and Malaysian ringgit appreciated against the U.S. dollar in the same period. The Malaysian ringgit appreciated by 5% year-to-date, a significant turnaround from its 7% depreciation in 2023. As most Asian currencies weakened during the year, the U.S. dollar has appreciated over 5% year-to-date, which is stronger than its 0.3% appreciation the previous year.

Financial market conditions in the Asian region improved in 2024, backed by moderating inflationary pressures and sustained economic performance of the region. Benchmark stock price indices in the region ended mostly in positive territories in 2024, as most of the region's central banks and monetary authorities slashed policy rates, and technology stocks continued to rally. Benchmark stock price indices of Hong Kong, China; and Chinese Taipei increased by around 30% on a year-to-date basis, with Hong Kong, China, reversing the previous year's losses, while Chinese Taipei sustained gains from last year **(Figure 1.5).** Similarly, the benchmark stock price indices of China, Singapore, India, Malaysia, and Thailand grew by 3% to 20% on a year-to-date basis, while those of the Philippines, Indonesia, Vietnam, and Korea decreased by around 2% - 4% year-to-date. Meanwhile, risk premiums in selected Asian economies, measured by year-to-date changes in sovereign credit default swap (CDS) spreads, continued to narrow during the year by a simple average of 1.5 basis points (bps) **(Figure 1.6).** This follows a narrowing of risk premiums by a simple average of about 19.0 bps the previous year.

However, 5-year sovereign bond yields ended the year with mixed results. Bond yields rose modestly (by less than 1.0%) on a year-to-date basis in Vietnam; Chinese Taipei; Indonesia; Hong Kong, China; Malaysia; and Singapore **(Figure 1.7).** Uncertainties related to future Federal Reserve easing and U.S. elections kept regional bond yields from rising further during the review period. In contrast, sovereign bond yields in the Philippines, Thailand, India, Korea, and China declined on a year-to-date basis. Long-term bond yields in China and India dropped in 2024 on the expectation of

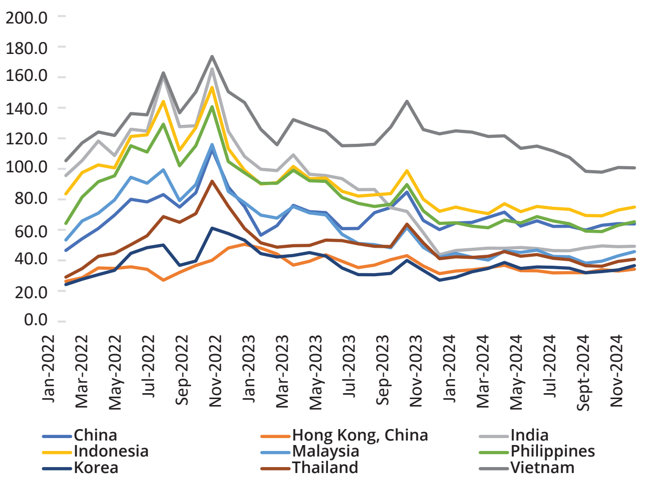
Figure 1.5: Changes in Benchmark Stock Price Indices,
Selected Asian Economies *(% change, year-to-date)*



Notes: Year-to-date values are computed as the monthly difference between the first and last data points within a year.

Source: SEACEN staff calculations using data accessed through the CEIC Database.

Figure 1.6: 5-Year Sovereign Credit Default Swap,
Selected Asian Economies *(basis points)*



Notes: 5-Year USD Credit Default Swap par mid-rate in basis points.

Source: CMA Datavision and Haver Analytics downloaded from Haver Analytics.

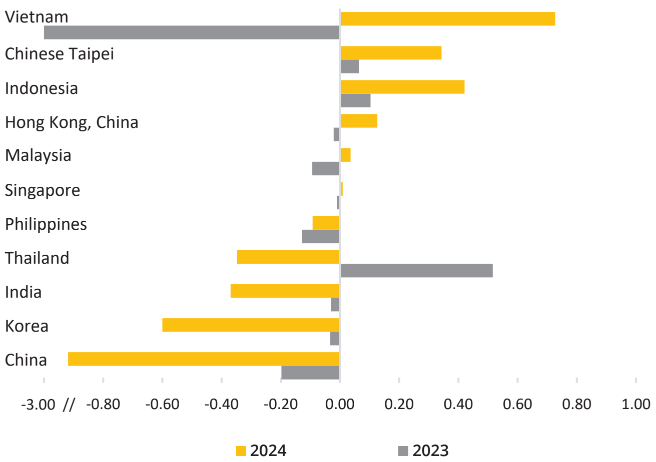
further monetary policy easing.

Regarding portfolio capital flows, nonresident portfolio equity flows to selected Asian economies registered inflows of about US$18.8 billion in the first ten months of 2024, almost double the equity inflows of US$9.5 billion reported in the same period the previous year **(Figure 1.8).**[2] Nonresident portfolio debt flows in the region also reported inflows of around US$73.4 billion in the first nine months of 2024, a significant turnaround from nonresident portfolio debt outflows of around US$50.7 billion in the same period the previous year. Excluding China, foreign portfolio debt inflows to selected Asian economies would be about US$42.3 billion, driven mainly by inflows to India, Indonesia, and Korea.

Despite uncertainties about the Fed's monetary policy actions and U.S. elections, global investor risk aversion was muted, and Asia's financial markets showed no signs of stress during the year. The Chicago Board of Exchange Volatility Index (VIX) continued to trend downwards in 2024, below the index level of 20 **(Figure 1.9).** However, there was an uptrend from August to October around the period of the Federal Reserve's rate cut and upcoming U.S. elections in early November. In addition, Asia's financial market stress indices from January to November 2024 suggest no signs of financial sector distress **(Figure 1.10).** Taken together, these two measures suggest that there were no visible signs of global investor risk aversion and financial market distress in the region during the review period.

Moving forward, the region's economic growth will maintain momentum in 2025, but slightly slower than in 2024, while inflation will remain moderate. Asian economies, as a group, are expected to grow by 5.1% in 2024, somewhat slower than the output growth of 5.3% in 2023 **(Figure 1.11a).**[3] However, output growth will likely be lower in 2025 due to the weak property sector in China, higher U.S. tariffs, and expectations of slower Federal Reserve easing (ADB, 2024). Consequently, Asia is expected to grow by 4.8% in 2025, with China, India, and Asia Advanced Economies posting slower growth in 2025 at 4.4%, 6.6%, and 2.3%, respectively, compared to 2024. In contrast, ASEAN5 and Asian EDMEs (Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Myanmar, and Sri Lanka) will likely grow faster in 2025 at 5.0% and 3.7%, respectively. The region's

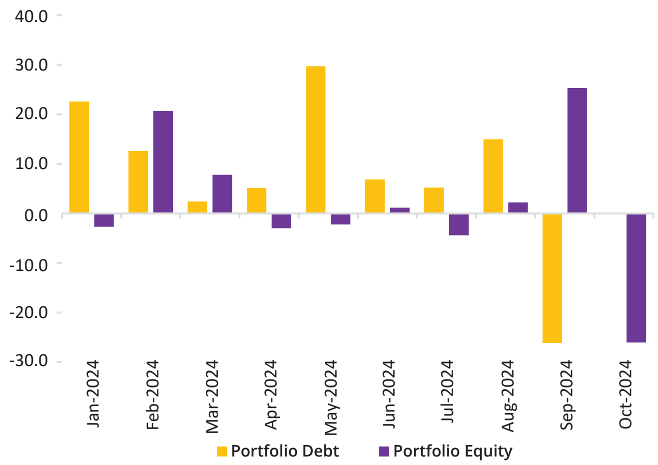
Figure 1.7: Changes in Sovereign Bond Yields,
Selected Asian Economies *(% change, year-to-date)*



Notes: Year-to-date values are computed as the monthly difference between the first and last data points within a year.

Source: SEACEN staff calculations using data accessed from Haver Analytics.

Figure 1.8: Nonresident Portfolio Flows,
Selected Asian Economies *(US$ billion)*

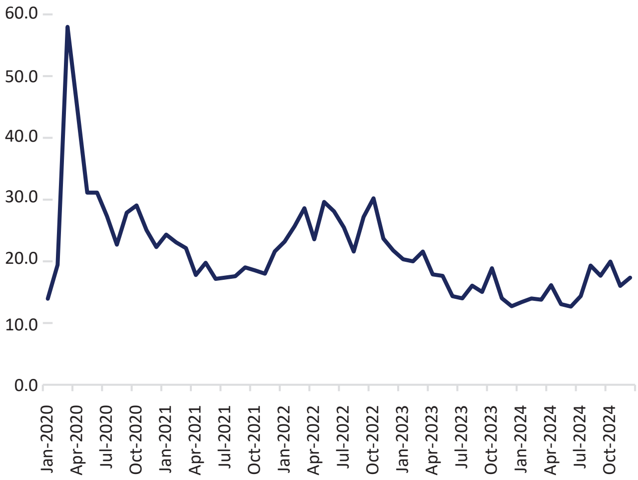


Notes: The sample for nonresident portfolio equity flows includes China, India, Indonesia, Korea, Malaysia, Mongolia, Philippines, Sri Lanka, Chinese Taipei, Thailand, and Vietnam. The sample for nonresident portfolio debt flows includes China, India, Indonesia, Korea, Malaysia, Mongolia, Philippines, and Thailand.

Source: SEACEN staff calculation using data from the Institute for International Finance.

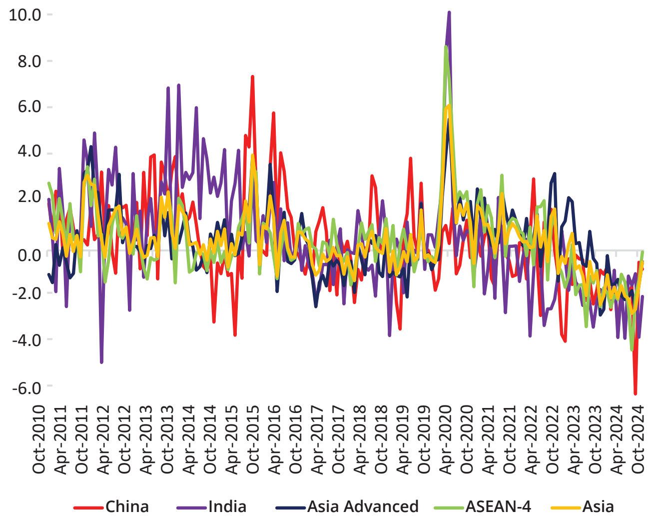
2. Monthly nonresident portfolio debt and equity flows data were sourced from the Institute for International Finance. For portfolio equity flows, the sample includes China, India, Indonesia, Korea, Malaysia, Philippines, Sri Lanka, Chinese Taipei, Thailand, and Vietnam. The sample for portfolio debt flows include China, India, Indonesia, Korea, Malaysia, Mongolia, Philippines, and Thailand.
3. The GDP growth and inflation forecasts for 2024 and 2025 are sourced from Focus Economics consensus forecasts accessed through Haver Analytics in December 2024.

Figure 1.9: Volatility Index (VIX)



Source: Chicago Board of Exchange.

Figure 1.10: Financial Stress Indices,
Selected Asian Economies



Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN-4 includes Indonesia, Malaysia, Philippines, and Thailand. Financial stress indices for Asia Advanced Economies and ASEAN-4 are computed as a simple average of individual country financial stress indices. Individual country financial stress indices are calculated following the methodology of Park and Mercado (2014) but use financial sector beta instead of banking sector beta. Financial market stress indices are computed starting in 2010. The threshold value represents two standard deviations above the sample mean.

Sources: SEACEN staff calculations using CEIC Database and Haver Analytics data.

Figure 1.11a: GDP Growth Outlook
(% change, year-on-year)

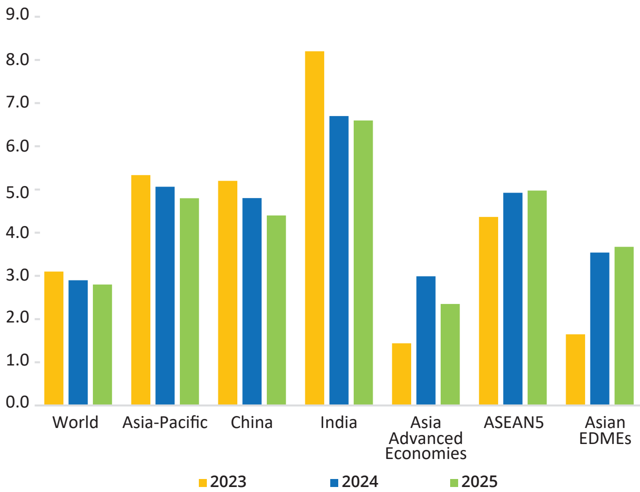
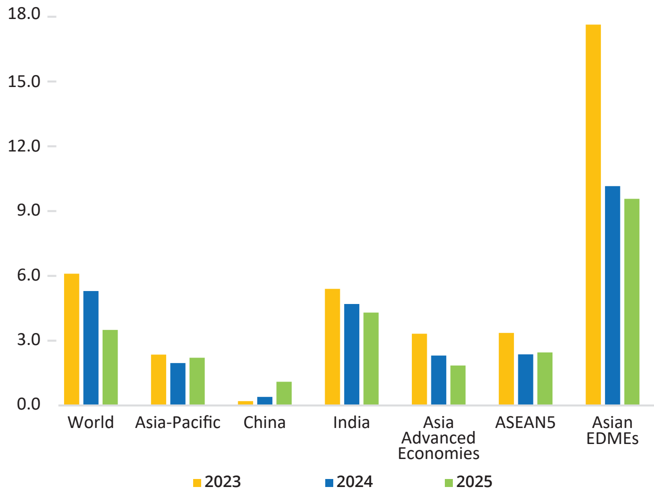


Figure 1.11b: Inflation Outlook
(% change, year-on-year)



Notes: Values for regional growth rates and inflation are weighted averages of individual growth rates and inflation, using GDP in PPP current international dollars ($) as weights. Asian economies include China, India, Asia Advanced Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei), ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam), and Asia EDMEs (Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Myanmar, and Sri Lanka).

Source: SEACEN staff calculations using data from Focus Economics consensus forecasts accessed through Haver Analytics in December 2024.

inflation will likely remain moderate in 2024, increasing by 2.0% year-on-year from the previous year **(Figure 1.11b).** Inflation will also likely remain moderate in 2025 at 2.2% year-on-year as China's inflation rate is expected to exceed a 1.0% year-on-year growth following two years of less than 1.0% year-on-year increase.

Risks to the region's economic outlook in 2025 are tilted to the downside. First, extreme weather events, natural disasters, and geopolitical risks might cause supply disruptions and increase food and fuel prices. These risks could stoke inflationary pressures in the region and elsewhere. Second, stronger-than-expected growth in the U.S.

can limit further policy rate cuts, thereby keeping interest rates higher for longer. Third, continued property sector woes in China can further soften its growth prospects and weaken its domestic demand. Lastly, abrupt and larger-than-expected policy shifts in the U.S., notably higher U.S. tariffs on imports, can weaken the region's external demand and export growth.

Although improved policy frameworks have made the region more resilient in the face of short- to medium-term domestic and external challenges, the region faces potential challenges from long-term structural shifts. The region's resiliency can be attributed to its improved policy frameworks and central bank independence (Adrian, Natalucci, and Wu, 2024). For instance, central banks and monetary authorities in the region and elsewhere have successfully curbed intense inflationary pressures post-COVID-19 pandemic through policy rate hikes. Then, some eased monetary policy ahead of the U.S. Federal Reserve rate cut in September 2024 as domestic inflationary pressures subsided, and local economic conditions permitted. Yet, the region faces potential challenges from long-term structural shifts. First, the region is vulnerable to the adverse effects of climate change, with nearly 70% of its population vulnerable to extreme weather events (UNDP, 2024). But the transition to net zero emissions presents challenges to growth, jobs, and financial stability. In particular, financial systems need support in managing climate-related risks and mobilising capital for green and low-carbon investments. Second, digitalisation can help boost productivity, create new jobs, enhance economic efficiency, and support policymaking. However, it comes with risks, such as cybersecurity, which could threaten financial stability. Finally, the region faces a demographic shift due to an aging population. This strains pension systems, adds to fiscal pressure, and could weaken future economic growth. These long-term structural shifts complicate policymaking, given their potential adverse effects on the region.

SECTION II: RECENT TRENDS IN CAPITAL FLOWS AND EXTERNAL POSITIONS

This section reviews the trends and compositions of capital flows and international investment positions of Asian economies in the first half of 2024 (1H2024).[4]

- *Asian economies, as a whole, witnessed a marked increase in cross-border resident and nonresident capital flows in 1H2024.*
- *The region's aggregate net foreign asset position remained positive, although some economies continued to have net borrower position in the first half of 2024.*

A. Trends in Capital Flows and International Investment Positions

Net resident capital flows of Asian economies, as a group, amounted to US$285 billion in the first six months of 2024.[5] Net acquisition of foreign assets by residents (Financial Account Assets) reached US$712 billion, while net incurrence of liabilities to nonresident (Financial Account Liabilities) amounted to US$427 billion, bringing net resident capital outflows to around US$285 billion. Resident capital outflows continued to recover in 1H2024, despite higher global and regional interest rates during the period. Most of the net acquisitions of foreign assets were direct investments abroad, followed by portfolio equity and debt assets **(Figure 2.1a).** The region's resident investment abroad in these categories were driven by Asia Advanced Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei) and China. Likewise, net incurrence of liabilities to nonresident also grew in 1H2024, by around 43% from the second half of 2023 (2H2023) and 79% in the first half of 2023 (1H2023). Nonresident inflows were mostly in the form of foreign direct investment, followed by portfolio debt liabilities, and other investments **(Figure 2.1b).**[6] The largest recipient of foreign direct investment (FDI) in the first half of 2024 was Asia Advanced Economies, followed by ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam). In the case of China, it registered nonresident direct investment outflows during the period.

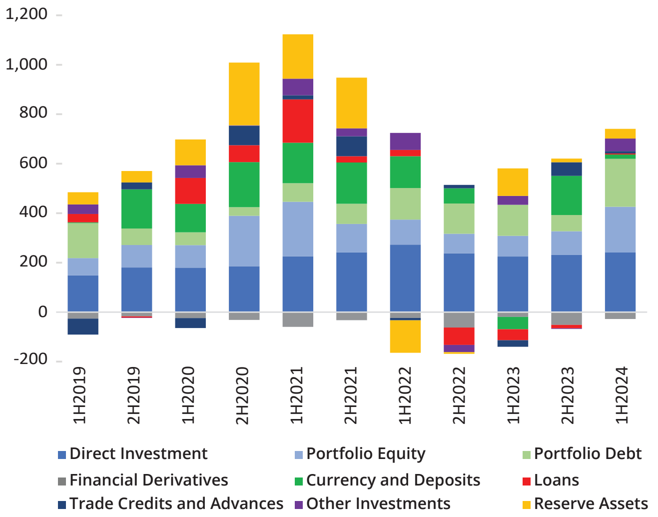
Across economies and subregions, Asia Advanced Economies and China reported the largest resident outflows, followed by India, ASEAN5 and Asian Emerging and Developing Market Economies (EDMEs), which include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka **(Figure 2.2a).** For nonresident capital inflows, Asia Advanced Economies received the largest nonresident capital flows in 1H2024, followed by India **(Figure 2.2b).** ASEAN5 and Asian EDMEs received smaller nonresident inflows, compared to 2H2023; while China reported US$92 billion nonresident inflows in 1H2024, a turnaround from the US$2 billion nonresident outflows in 2H2023.

Figures 2.1a-2.2b clearly show a marked increase in cross-border resident and nonresident capital flows in 1H2024, compared to previous periods. The observed improvement in the region's cross-border capital flows occurred during the time of, then, still high global and regional policy rates, albeit declining inflationary pressures. It is expected that further global and regional rate cuts would encourage greater cross-border investments to and from the region.

The region's net resident capital flows coincided with a narrower current account surplus in 1H2024 of around US$264 billion, which was slightly less than the surplus posted in 2H2023 of around US$285 billion. The region's trade in goods balance remained in surplus, albeit significantly lower as China's trade in good surplus declined further to US$288 billion in 1H2024 from US$307 billion in 2H2023 **(Figure 2.3).** In contrast, the region's trade in services registered another deficit during the period due to larger deficits from China and the Philippines. Meanwhile, Asia's

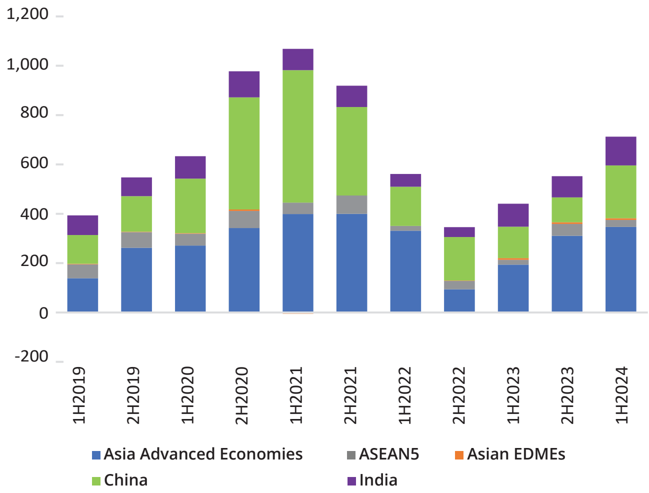
4. Asian economies in this monitor include Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand; and Vietnam with available data (whenever possible). These economies are also SEACEN member economies. The primary source of Balance of Payments (BoP) and International Investment Position (IIP) data are from the International Monetary Fund (IMF) accessed through CEIC. Data from the IMF are consistently classified and standardised series in U.S. dollars across economies. All figures and data in this section exclude Brunei Darussalam, Myanmar, and Papua New Guinea due to unavailable 2024 data.
5. The value of US$285 billion net capital flows refers to net acquisition of foreign assets by residents minus net incurrence of liabilities to nonresident.
6. In this section, other investments include other receivables (payables), other equity, insurance and pension, and SDRs (for liabilities). Currency and deposits, loans, and trade credits and advances are treated as separate items in this report.

Figure 2.1a: Resident Capital Flows, Asia, by Category *(US$ billion)*



Notes: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand; and Vietnam. Other investments include other receivables; other equity; and insurance and pension.

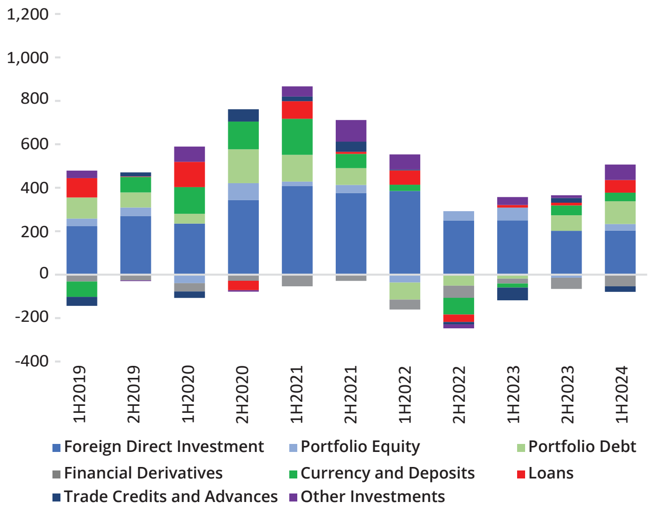
Figure 2.2a: Resident Capital Flows, Asia, by Sub-region *(US$ billion)*



Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka.

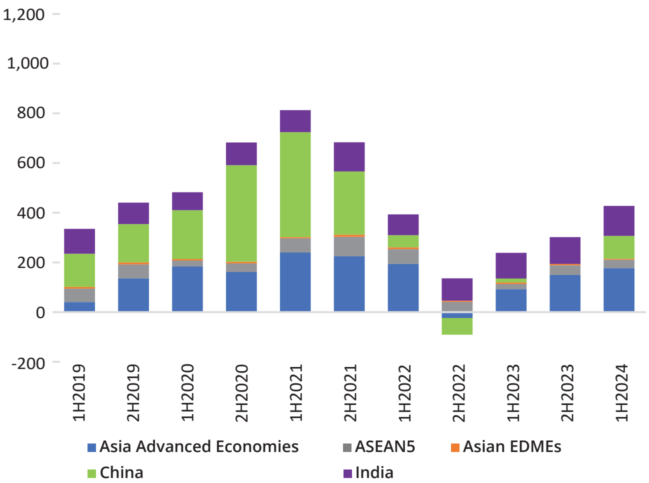
Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded November 2024).

Figure 2.1b: Nonresident Capital Flows, Asia, by Category *(US$ billion)*



Notes: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand; and Vietnam. Other investments include other payables, other equity, insurance and pension, and SDRs liabilities.

Figure 2.2b: Nonresident Capital Flows, Asia, by Sub-region *(US$ billion)*



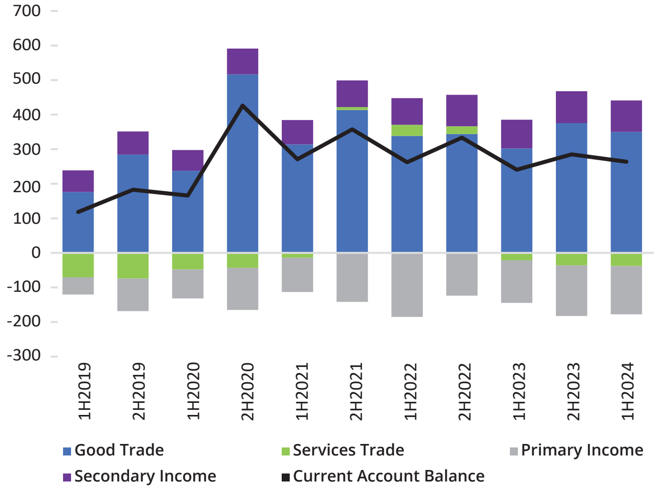
Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded November 2024).

primary income deficit (which includes investment income) continued to improve from a deficit of US$146 billion in 2H2023 to a deficit of around US$139 billion in 1H2024, whereas the secondary income balance (which includes remittances) remained in surplus at US$91 billion, which was slightly lower than the reported surplus of US$92 billion in the previous period. Across regional economies, the current account balances of Cambodia, India, Indonesia, Mongolia, and the Philippines were in deficit during the period, while the rest posted current account surpluses. But the current account surpluses of most Asian economies (including China) narrowed in 1H2024, while those of Hong Kong, China; Korea; Malaysia; and Singapore widened.

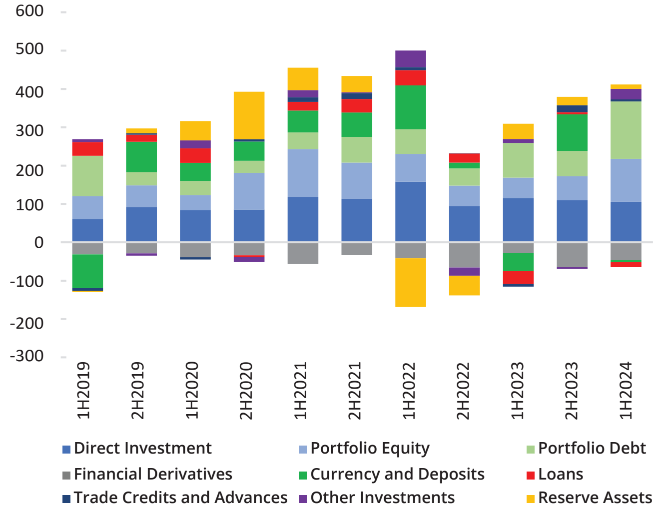
The resident capital outflows of most Asian economies increased in 1H2024, compared to 2H2023, but they declined in ASEAN5. China's resident capital outflows increased in 1H2024 compared to 2H2023, primarily due to larger direct investment overseas, portfolio debt and equity investments abroad, and positive resident outflows on loans and other investments **(Figure 2.4a).** In addition, China's reserve asset decumulation slowed significantly during the period compared to the previous period. Resident capital outflows of Asia Advanced Economies and India, likewise, increased during the period, while those of ASEAN5 and Asian EDMEs declined. Asia Advanced Economies resident capital outflows grew by 12% in 1H2024 to US$345 billion from US$311 billion in 2H2023 due to larger resident outward investments in portfolio equity and debt, as well as other investments **(Figure 2.4b).** India's resident investment abroad increased by 35% from US$117 billion in 1H2024 to US$86 billion in 2H2023 because of the continued increase in resident currency and deposits abroad and financial derivatives **(Figure 2.4c).** In contrast, ASEAN5's resident investments abroad declined to US$28 billion in 1H2024 to US$48 billion in 2H2023 due to a large drop in overseas currency and deposits and foreign reserve decumulation **(Figure 2.4d).** For Asian EDMEs, most resident overseas investment categories declined during the period **(Figure 2.4e).**

Figure 2.3: Current Account Balance, Asia
(US$ billion)



Notes: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Lao PDR; Malaysia; Mongolia; Nepal; Philippines; Singapore; Sri Lanka; Chinese Taipei; Thailand, and Vietnam.

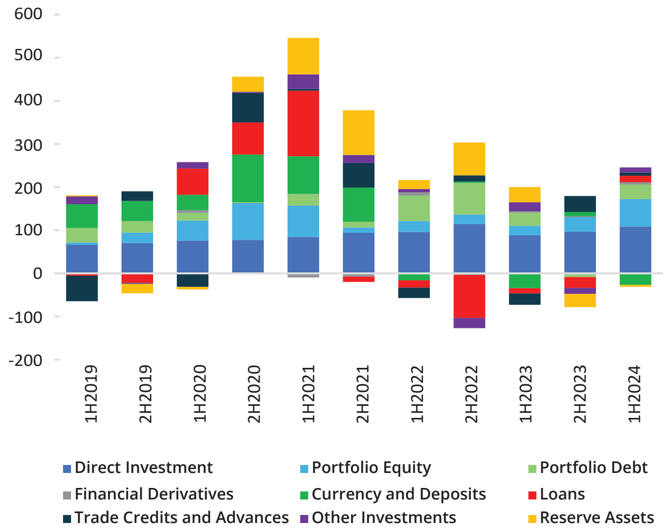
Figure 2.4b: Resident Capital Flows, Asia Advanced Economies *(US$ billion)*



Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. Other investments include other receivables; other equity; and insurance and pension.

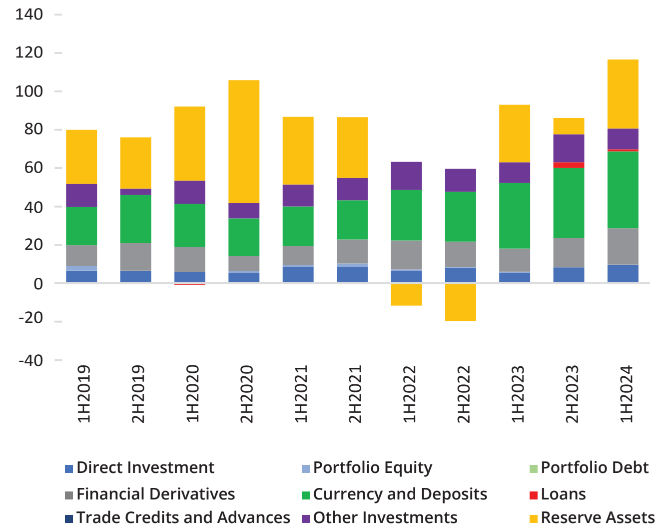
Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded November 2024).

Figure 2.4a: Resident Capital Flows, China,
(US$ billion)



Notes: Other investments include other receivables; other equity; and insurance and pension.

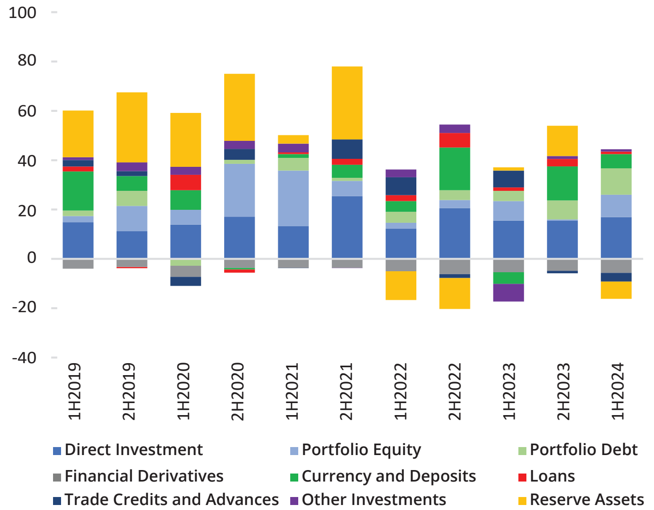
Figure 2.4c: Resident Capital Flows, India
(US$ billion)



Notes: Other investments include other receivables; other equity; and insurance and pension.

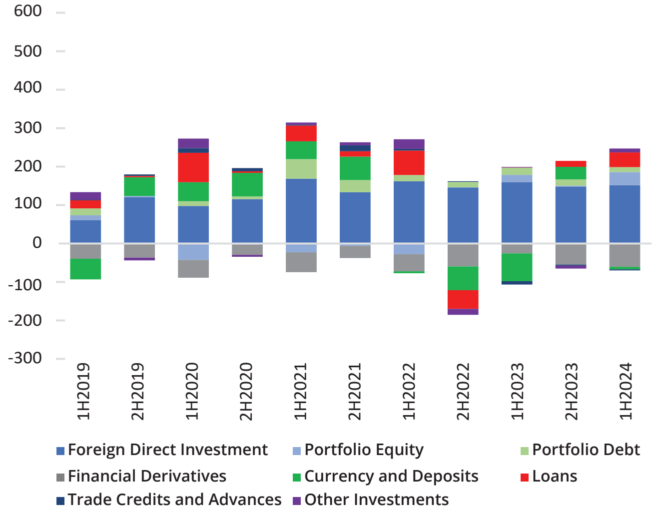
Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded November 2024).

Figure 2.4d: Resident Capital Flows, ASEAN5, *(US$ billion)*



Notes: ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Other investments include other receivables; other equity; and insurance and pension.

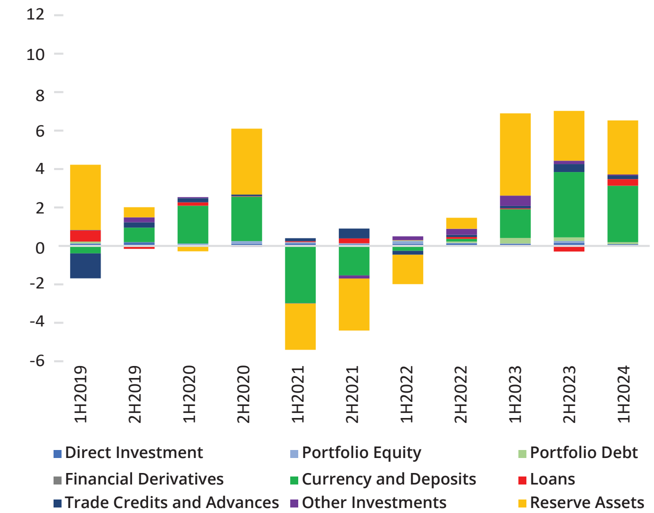
Figure 2.5a: Nonresident Capital Flows, Asia Advanced Economies, *(US$ billion)*



Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

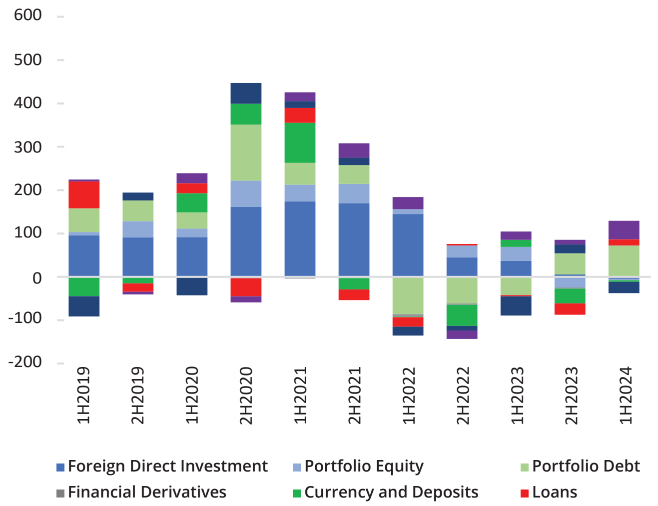
Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded November 2024).

Figure 2.4e: Resident Capital Flows, Asian Emerging and Developing Market Economies, *(US$ billion)*



Notes: Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka. Other investments include other receivables; other equity; and insurance and pension.

Figure 2.5b: Nonresident Capital Flows, China, *(US$ billion)*

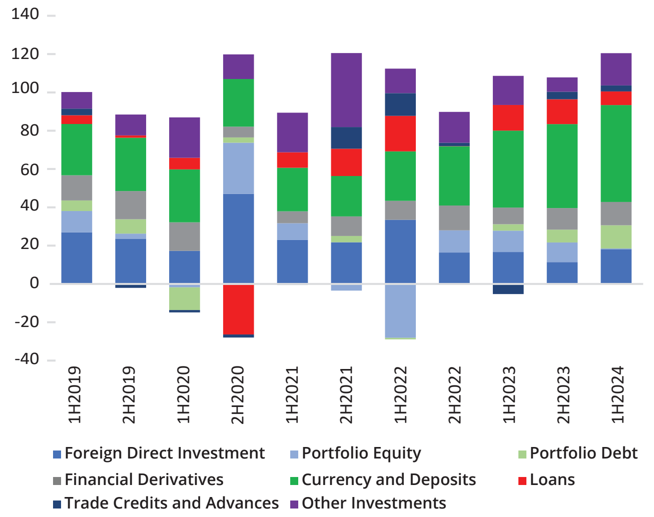


Notes: Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded November 2024).

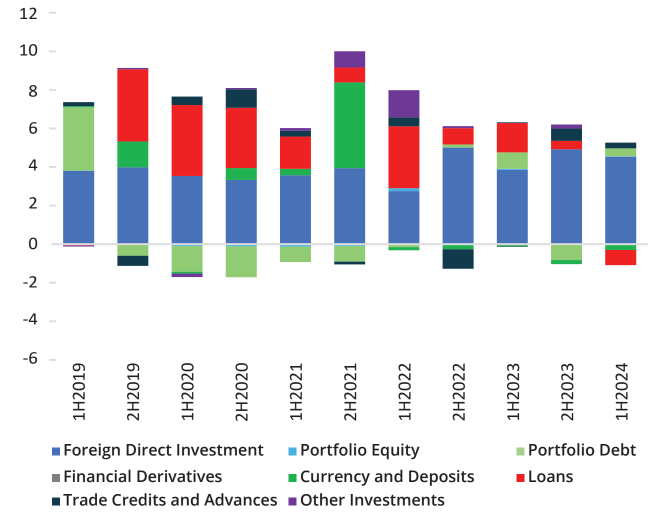
During the first half of 2024, nonresident capital inflows to the region witnessed a division between economies with higher nonresident capital inflows and those with lower capital inflows. Nonresident capital inflows to Asia Advanced Economies, China, and India increased during the review period. Nonresident capital inflows to Asia Advanced Economies grew from US$150 billion in 2H2023 to US$177 billion in 1H2024 due to higher cross-border nonresident direct investments, portfolio equity, and loans **(Figure 2.5a).** China's nonresident capital inflows improved in the 1H2024 to US$92 billion, following a reversal of US$2 billion in 2H2023, driven by increases in portfolio debt and other investment inflows, as well as increased foreign loans **(Figure 2.5b).** India also registered a significant increase in nonresident capital inflows of around US$121 billion in 1H2024, from US$108 billion in 2H2023, driven by foreign currency and deposit inflows **(Figure 2.5c).** In contrast, ASEAN5 and Asian EDMEs reported lower nonresident capital inflows. Foreign capital inflows to ASEAN5 economies dropped from US$39 billion in 2H2023 to US$34 billion in 1H2024 as the subgroup experienced a

Figure 2.5c: Nonresident Capital Flows, India, *(US$ billion)*



Notes: Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

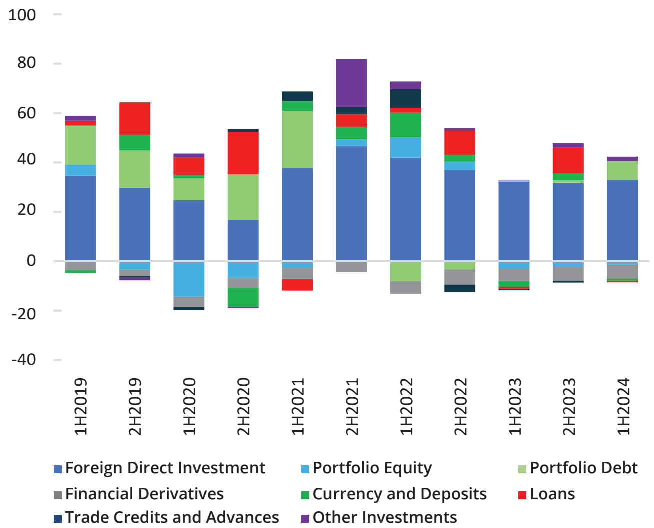
Figure 2.5e: Nonresident Capital Flows, Asian Emerging and Developing Market Economies, *(US$ billion)*



Notes: Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Lao PDR, Mongolia, Nepal, and Sri Lanka. Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded November 2024).

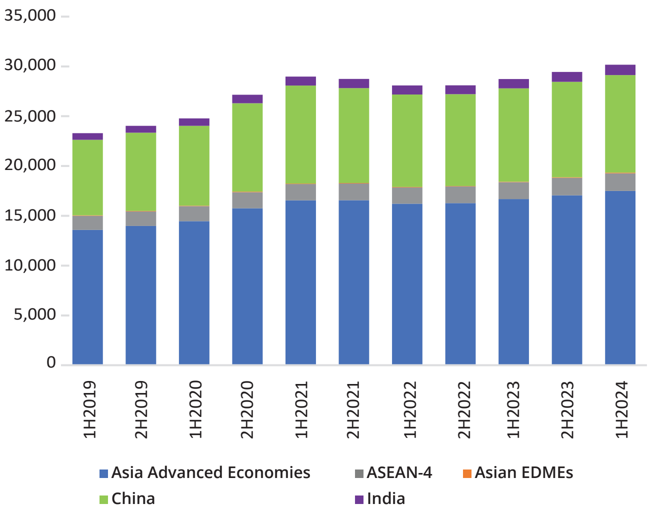
Figure 2.5d: Nonresident Capital Flows, ASEAN5, *(US$ billion)*



Notes: ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Other investments include other payables, other equity, insurance and pension, and SDR liabilities.

Source: SEACEN staff calculations using data from IMF's Balance of Payments Statistics accessed through CEIC Database (downloaded November 2024).

Figure 2.6a: International Investment Assets, by Sub-region, *(US$ billion)*



Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN-4 includes Indonesia, Malaysia, Philippines, and Thailand. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Mongolia, and Nepal.

Source: SEACEN staff calculations using data from IMF's International Investment Position accessed through CEIC Database (downloaded November 2024).

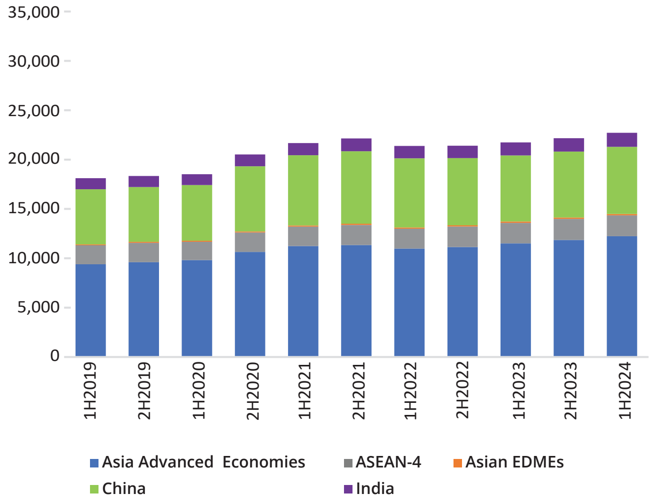
small reversal of foreign loan flows **(Figure 2.5d).** Asian EDMEs also registered a drop in nonresident capital flows due to smaller foreign direct investments as well as slight outflows of foreign loans **(Figure 2.5e).**

The increase in the region's cross-border investments is, likewise, noticeable relative to regional GDP. Asia's resident and nonresident capital flows increased to around 2.4% and 1.5% of GDP, respectively, in the first half of 2024. This is a marked improvement from the second half of 2022, when the region reported low resident and nonresident capital flows, of around 1.2% and 0.2% of GDP, respectively, due to then rising global and domestic policy rates. This suggests that the region's total cross-border investments in the first half of 2024 have recovered from their lows in 2022.

Total international investment assets of Asian economies reached US$30.2 trillion in mid-2024, up by 2.5% from US$29.4 trillion at end-2023. Among Asian economies, Asia Advanced Economies, as a subgroup, held the largest international financial assets amounting to US$17.5 trillion, followed by China (US$9.8 trillion), ASEAN-4 (US$1.8 trillion), India (US$1.0 trillion), and Asian EDMEs (US$61 billion), respectively. The international investment asset holdings of Asia Advanced Economies and China alone comprised around 90% of the region's total international investments **(Figure 2.6a).** Across asset categories, direct investment abroad (US$9.2 trillion) and official reserve assets (US$6.4 trillion) comprised the bulk of the region's foreign asset holdings in mid-2024, followed by portfolio equity (US$4.4 trillion), portfolio debt (US$3.5 trillion), and currency and deposits (US$ 3.0 trillion). The region's portfolio investment assets are now tilted towards portfolio equities rather than portfolio debt, whereas they were equally distributed between the two in 2019 **(Figure 2.6b).** Excluding financial derivatives, the debt-equity asset ratio stood at 1.19 as of mid-2024, which was slightly lower than 1.23 as of end-2023.[7] Compared to 2018-19 when the debt-equity asset ratio stood at 1.43, the continued decline of the debt-equity ratio for international assets suggests a growing preference for equity-type investments which could offer higher returns.

Total international investment liabilities of Asian economies increased by 2.5% to US$22.7 trillion as of mid-2024, up from US$22.2 trillion at end-2023. Among Asian economies, Asia Advanced Economies had the highest international financial liabilities amounting to US$12.2 trillion in mid-2024, again followed by China at US$6.8 trillion and ASEAN-4 at US$2.1 trillion, respectively **(Figure 2.7a).** Across investment types, the region incurred foreign direct investment liabilities amounting to US$10.8 trillion, followed by portfolio equity investment at US$3.5 trillion and currency and deposits at US$2.9 trillion, respectively. **(Figure 2.7b).** Excluding financial

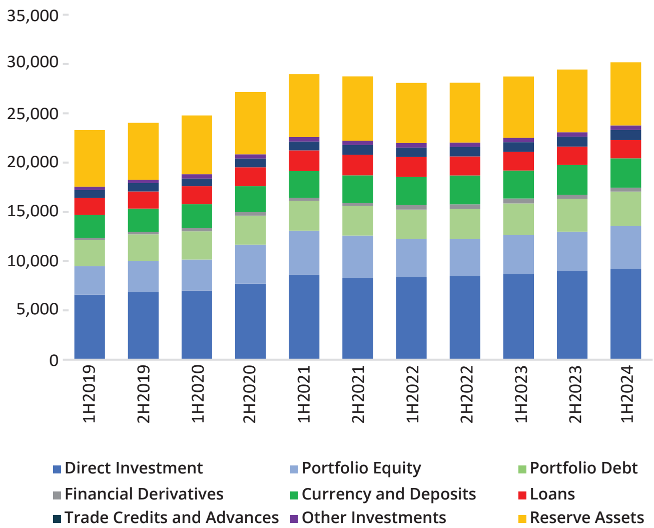
Figure 2.7a: International Investment Liabilities,
by Sub-region *(US$ billion)*



Notes: Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. ASEAN-4 includes Indonesia, Malaysia, Philippines, and Thailand. Asian Emerging and Developing Market Economies (EDMEs) include Cambodia, Mongolia, and Nepal.

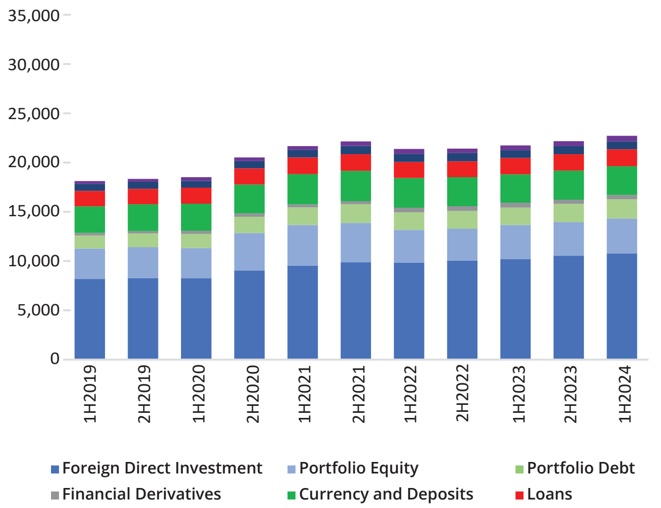
Source: SEACEN staff calculations using data from IMF's International Investment Position accessed through CEIC Database (downloaded November 2024).

Figure 2.6b: International Investment Assets,
by Category, *(US$ billion)*



Notes: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Malaysia; Mongolia; Nepal; Philippines; Singapore; Chinese Taipei; and Thailand. Other investments include other receivables; other equity; and insurance and pension.

Figure 2.7b: International Investment Liabilities,
by Category *(US$ billion)*



Notes: Asia includes Cambodia; China; Hong Kong, China; India; Indonesia; Korea; Malaysia; Mongolia; Nepal; Philippines; Singapore; Chinese Taipei; and Thailand. Other investments include other receivables; other equity; and insurance and pension.

Source: SEACEN staff calculations using data from IMF's International Investment Position accessed through CEIC Database (downloaded November 2024).

7. Debt investments include portfolio debt, currency and deposits, loans, trade credits and advances, other investments, and official reserve assets.

derivative liabilities, the debt-equity liabilities ratio stood at 0.56 as of mid-2024, the same as end-2023, reflecting a continued tilt towards equity liabilities.

Asian economies, as a group, remained a net capital exporter in mid-2024 as their positive net foreign asset position stood at US$7.5 trillion, higher than the US$7.3 trillion at end-2023. However, within Asian economies, there was a clear divide between net capital exporters and net capital importers. China; Hong Kong, China; Korea; Malaysia; Nepal; Singapore; Chinese Taipei; and Thailand were net capital exporters as they have positive net foreign asset position in mid-2024. In contrast, Cambodia, India, Indonesia, Mongolia, and Philippines have negative net foreign asset position, indicating they were net capital borrowers. Across subregions, the net negative position of ASEAN4 economies continued to improve in mid-2024, whereas the net negative position of India and Asian EDMEs remained the same over the past two years.

B. Outlook on Capital Flows and International Investment Positions

As a group, Asian economies will most likely sustain its positive net resident capital outflows and net foreign asset position in 2024, but at slightly lower levels compared to 2023. The region's net resident capital outflows, as a group, will most likely remain positive in 2024, buoyed by the region's current account balance which is expected to remain positive according to the latest IMF World Economic Outlook 2024 (IMF, 2024). Compared to 2023, however, net resident capital outflows in Asia will most likely slightly decrease in line with the region's narrower projected current account surplus for 2024. Meanwhile, given the expected current account surpluses in 2024, the region will likely maintain its positive net foreign asset position, although divergence between economies with positive and negative positions will persist due to varying current account balances, exchange rate movements, and capital gains in 2024.

SECTION III: ASIA'S RESIDENT CAPITAL FLOWS

This analytical section focuses on Asia's resident capital outflows, or more commonly known as *"gross capital outflows"*, by looking into their size, composition, volatility, and co-movement with nonresident capital flows or *"gross capital inflows"* from a long-term perspective.[8] The main findings are as follows:

- *Asia's resident capital outflows, as a group, amounted to US$1.2 trillion, on average, from 2010 to 2023, more than double the average in 2000-09 and over twelve-fold the average in the 1990s.*
- *The composition of the region's resident flows witnessed marked shifts in terms of types of outward investment as well as sectoral drivers since the late 1990s.*
- *As Asia's resident capital outflows grew in value, they have become more volatile and exhibit stronger positive co-movement with nonresident capital inflows.*
- *The region has experienced episodes of very large resident capital outflows and inflows, which can either be stabilising or disruptive.*
- *Considerations include the use of restrictions on resident flows, differentiating between crisis- and non-crisis capital flights, and monitoring sectoral resident flows.*

A. Trends and Patterns of Asia's Resident Capital Flows

Monitoring and managing capital flows in emerging and developing economies, including those in Asia, have mostly focused on nonresident capital inflows due to their volatility, potential adverse effects, and risks to financial stability. Yet, resident capital flows can, likewise, be disruptive, more so because they have increased substantially in the past three decades. Policy discussions and the empirical literature on capital flows to emerging and developing market economies (EDMEs) have mostly centred on nonresident capital inflows or gross capital inflows due to their volatility, potential adverse impacts, and risks to macroeconomic and financial stability. The reason for this is that most of these economies have far less investment abroad, which is the case in the 1990s, and that they are more vulnerable to external policy and risk spillovers, crises, and contagion effects due to their relatively less developed financial systems and greater financial frictions (Bluedorn et al., 2013; CGFS, 2021; Kawai and Takagi, 2008; and Ostry et al., 2010). However, since the financial crises of the 1990s, emerging and developing economies, including those in the Asia region, have accumulated official reserve assets. Moreover, greater capital account liberalisation has allowed households, non-financial corporates, and non-bank financial institutions, such as pension and insurance companies and investment funds, to diversify their investments overseas. These led to the rise of resident-driven capital flows, particularly those from Asia. But we still know little about the patterns and potential impacts of very large resident capital flows. For instance, although resident capital outflows can help improve an economy's net foreign asset position, specifically when resident-driven capital outflows are greater than nonresident capital inflows, episodes of extremely large resident outflows, known as *"flight"*, may lead to greater exchange rate depreciation (Brooks, 2024). This section focuses on Asia's resident capital flows with the aim of drawing stylised facts on their magnitude, patterns, volatility, and co-movement with the region's nonresident capital inflows.

Asia's resident capital outflows, as a group, amounted to around US$1.2 trillion, on average, from 2010 to 2023, more than double the average of US$0.6 trillion in 2000-09 and twelve-fold the average of US$0.1 trillion in the 1990s. Resident capital outflows are net acquisitions of foreign financial assets by residents of an economy.[9] Financial assets include direct investment abroad, portfolio equity and debt, financial derivatives, other investments, and official reserve assets. Asia's resident capital outflows averaged around

8. In this section, Asia includes China, India, Asia Advanced Economies (Hong Kong, China; Korea; Singapore; and Chinese Taipei), ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) and Asian EDMEs (Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Myanmar, Nepal, Papua New Guinea, and Sri Lanka). These 19 economies are SEACEN member economies.

9. The primary data source for resident capital flows is the Financial Account Balance of the Balance of Payments Statistics. As resident capital flows are net acquisition of foreign financial assets, positive values (resident capital outflows) mean that residents' purchase of foreign assets are greater than their sale of foreign assets, while negative values (resident capital inflows) imply that residents' sale of foreign assets are greater than their purchases.

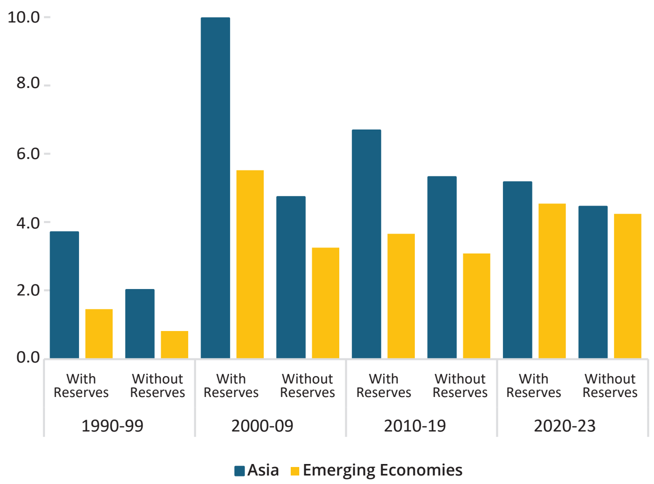
US$1.4 trillion in 2020-23. This value is more than 25% higher than the region's reported average value of US$1.1 trillion in 2010-19; more than two-fold the US$0.6 trillion average in 2000-09; and twelve-fold larger than the average of US$0.1 trillion in 1990-99. These values clearly indicate that the region's resident capital outflows have grown consistently and significantly in magnitude over the last three decades. The continued rise of resident capital outflows coincides with the region's sustained current account surpluses of around 3.0% of regional gross domestic product (GDP), on average, since the Asian financial crisis.

Relative to the size of regional GDP, the increase in Asia's resident flows is also remarkable. The region's resident outflows averaged around 5.2% of regional GDP in 2020-23, which is higher than the 3.7% reported in 1990-99 **(Figure 3.1).** Excluding official reserve assets, Asia's average resident outflows stood at 4.4% of regional GDP in 2020-23, more than double the 2.0% in 1990-99. Compared to other emerging economies, Asia has significantly larger resident capital outflows, with or without official reserve assets, albeit other emerging economies have also increased their resident investment overseas in 2020-23. These show that the magnitude of the region's resident capital outflows has grown since the 1990s, and that the region's overseas investments remained larger compared to other emerging economies outside the region.

The composition of the region's resident capital flows witnessed marked shifts since the Asian financial crisis. First, across types of investment, the value of official reserve assets amounted to an average of 60% of total resident flows from 1999-2010 **(Figure 3.2).** This proportion has since gone down to only about 20% in 2011-2023. In fact, there were years when the region, as a whole, recorded decumulation of foreign reserve assets, most notably in 2015-16 primarily due to China. In addition, from 2011 to 2018, the shares of equity- and debt-type investments were roughly equal, but since 2019, the share of equity-type investments rose to an average of around 60% of total resident capital flows, which is larger than those of official reserve assets and debt-type investment.[10] This underscores a clear compositional shift in the region's overseas investments.

Second, across sub-regions, the bulk of Asia resident capital flows came from China and Asia Advanced Economies, which include Hong Kong, China; Korea; Singapore; and Chinese Taipei **(Figure 3.3).** But since 2014, India's share has increased, while those of ASEAN5 (Indonesia, Malaysia, Philippines, Thailand, and Vietnam) and Asian EDMEs (Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Myanmar, Nepal, Papua New Guinea, and Sri Lanka) stayed the same. The large shares of resident flows from China and Asia Advanced Economies mirrored their sustained current account surpluses in the past three decades.

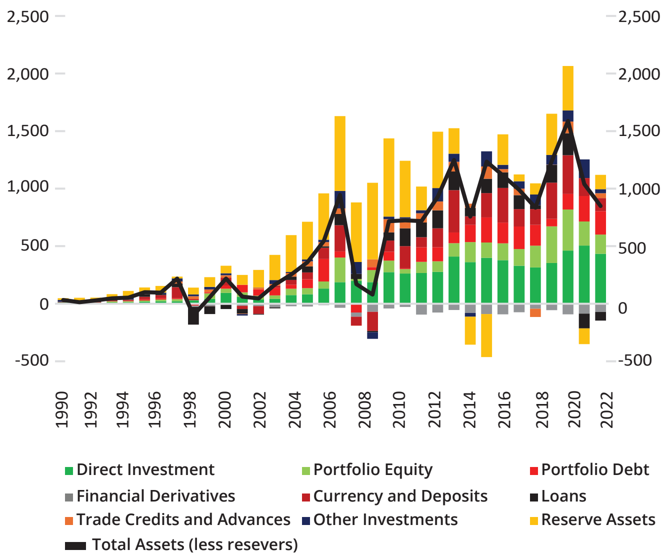
Figure 3.1: Resident Capital Flows,
by Economic Group, *(% of GDP)*



Notes: Values refer to the regional total of resident capital flows with and without official reserve assets in percent of regional nominal gross domestic product. Asian economies include China, India, ASEAN5, Asia Advanced Economies and Asian EDMEs. Emerging Economies include Brazil, Chile, Colombia, Hungary, Mexico, Poland, Russia, Saudi Arabia, South Africa, and Turkey.

Source: SEACEN staff calculations using IMF's Balance of Payments Statistics.

Figure 3.2: Asia's Resident Capital Flows,
by Investment Type, *(US$ billion)*

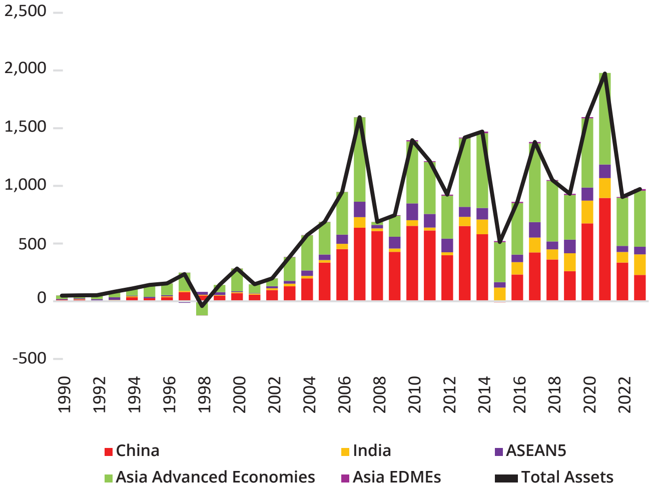


Notes: Other investments include other equity investments; insurance, pension and standardised guarantee schemes; and other accounts receivable.

Source: SEACEN staff calculations using IMF's Balance of Payments Statistics.

10. Equity-type investment includes direct investment abroad and portfolio equity, while debt-type investment includes portfolio debt, financial derivatives, other investments, and official reserve assets, which include debt securities.

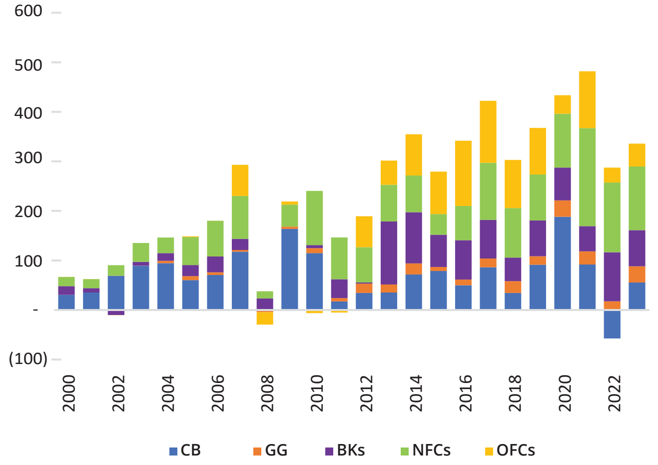
Figure 3.3: Asia's Resident Capital Flows, by Sub-region, *(US$ billion)*



Notes: ASEAN5 includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Asia Advanced Economies include Hong Kong, China; Korea; Singapore; and Chinese Taipei. Asian Emerging and Developing Market Economies (EDMEs) include Brunei Darussalam, Cambodia, Lao PDR, Mongolia, Nepal, Papua New Guinea, and Sri Lanka.

Source: SEACEN staff calculations using IMF's Balance of Payments Statistics.

Figure 3.4: Resident Sectoral Capital Flows, *(US$ billion)*



Notes: CB = central bank, GG = general government, BKs = banks, NFCs = non-financial corporates, and OFCs = other financial corporates.

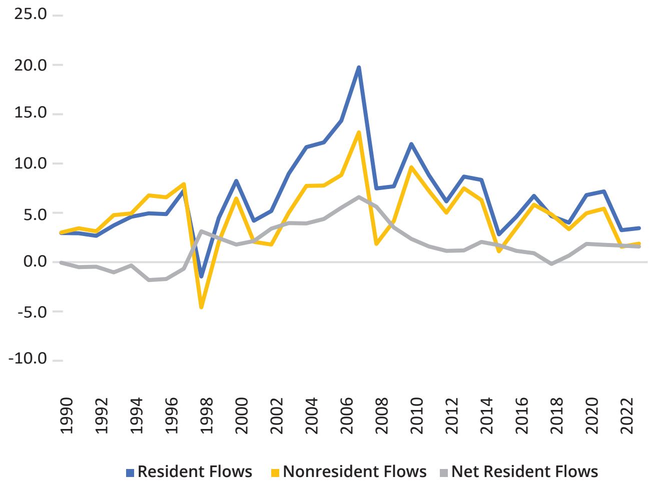
Source: SEACEN staff calculations using IMF's Balance of Payments Statistics.

Third, the shifting pattern of Asia's resident capital outflows from official reserve assets (1999-2010) to equal debt and equity investments (2011-18) to mostly equity investments (2019-2023) reflect the sectoral breakdown of resident flows from selected economies with available data **(Figure 3.4).** From 2000 to 2010, central banks were the main driver of resident flows in the region, explaining the dominance of official reserve assets during the period. In contrast, resident capital flows mostly came from the private sector (including banks, non-financial corporates, and non-bank financial institutions) in 2011 to 2018, coinciding with the balance between equity and debt-type investment flows. Finally, from 2021 to 2023, non-financial corporates were the largest driver of resident sectoral flows, mostly in the form of equity-type investments.

As Asia's resident capital outflows grew in value since the late 1990s, they have also become more volatile. Nonresident or foreign capital inflows to emerging and developing economies are known to be volatile and sensitive to external or global factors, such as global risk appetite, interest rates in advanced economies, global liquidity, and global commodity prices (ADB, 2022; Bluedorn et al., 2013; Forbes and Warnock, 2012 and 2021; and Levy Yeyati and Zuñiga, 2015). For this reason, policymakers have used various policy measures to mitigate their adverse effects including foreign exchange intervention, macroprudential policy measures, greater exchange rate flexibility, and capital flow management measures (CGFS, 2021; and IMF, 2016 and 2022). Resident capital outflows, however, including those from Asia, have also exhibited greater volatility over the review period **(Figure 3.5).** In fact, Asia's resident capital flows were more volatile than nonresident capital flows in 2000-09 and 2010-19 **(Figure 3.6).** The increase in volatility of Asia's resident flows coincided with the increasing trend towards greater capital account liberalisation **(Figure 3.7).** Between 2000 to 2016, emerging and developing economies, including those in Asia, have further eased capital account restrictions on resident outflows, mostly those targeting non-financial corporates and non-bank financial institutions (Lepers and Mercado, 2021). This has allowed domestic investors to invest more overseas. In contrast, net resident flows were comparatively more stable compared to resident and nonresident flows.

The region's nonresident capital inflows have been largely offset by its resident capital outflows, suggesting a strong positive co-movement between domestic and foreign capital flows. When foreign investors increase their purchases of EDME assets, EDME residents, in turn, could purchase more foreign assets (Jeanne and Sandri, 2023). For instance, when capital inflows lead to an accumulation of official reserves, this may be combined with official reserve outflows, thereby reinforcing a positive correlation, especially for emerging and developing economies (Davis and van Wincoop, 2018). Consequently, the correlation between foreign and domestic-driven capital flows tends to

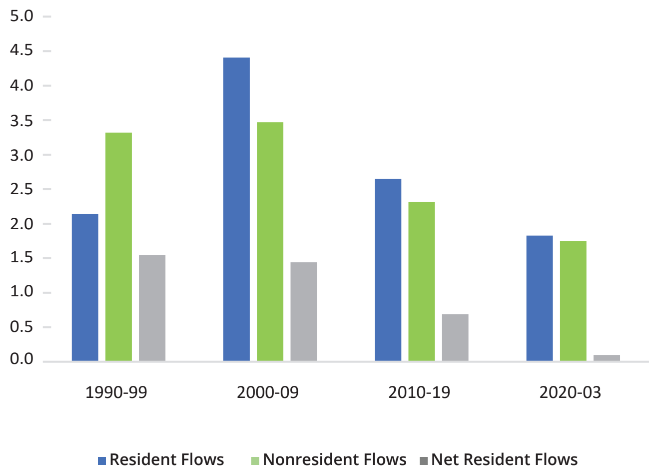
Figure 3.5: Asia's Resident, Nonresident, and Net Resident Flows, *(% of regional GDP)*



Notes: Net resident capital flows are computed as resident flows (financial assets) minus nonresident flows (financial liabilities). Asia includes China, India, ASEAN5, Asia Advanced Economies and Asian EDMEs.

Source: SEACEN staff calculations using IMF's Balance of Payments Statistics.

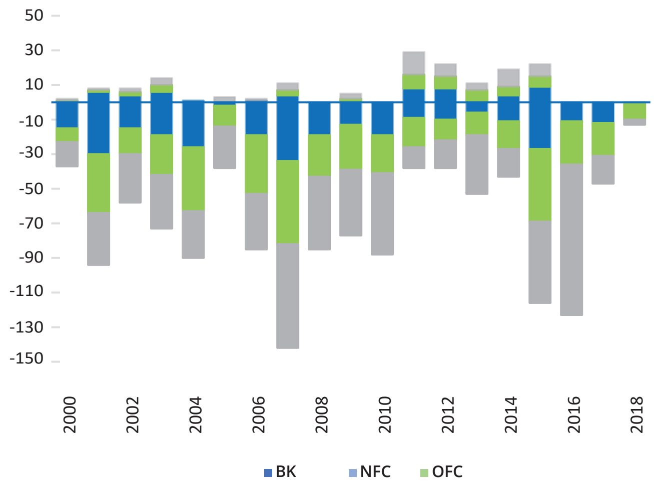
Figure 3.6: Volatility of Asia's Capital Flows, by Period



Notes: Values refer to period average of 5-year rolling standard deviation of Asia's resident, nonresident, and net resident flows. Net resident capital flows are computed as resident flows (financial assets) minus nonresident flows (financial liabilities). Asia includes China, India, ASEAN5, Asia Advanced Economies and Asian EDMEs.

Source: SEACEN staff calculations using IMF's Balance of Payments Statistics.

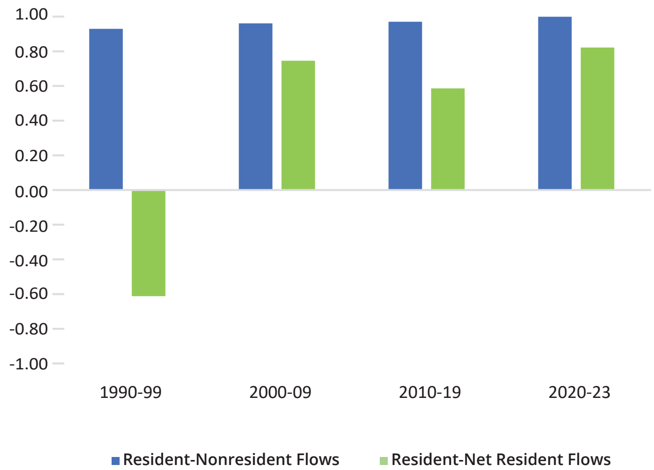
Figure 3.7: Yearly Adjustments in Sectoral Controls on Resident Flows of Emerging Economies



Notes: BK = banks, NFC = non-financial corporates, OFC = other financial corporates. Values refer to the count of annual changes on sectoral controls for resident sectoral flows. Positive values refer to tightening measures while negative values are easing measures. Sample includes emerging economies in Asia and elsewhere.

Source: Lepers and Mercado (2021).

Figure 3.8: Pairwise Correlation of Asia's Resident and Nonresident Capital Flows



Notes: Net resident capital flows are computed as resident flows (financial assets) minus nonresident flows (financial liabilities). Asia includes China, India, ASEAN5, Asia Advanced Economies and Asian EMDEs.

Source: SEACEN staff calculations using IMF's Balance of Payments Statistics.

be positive **(Figure 3.8).** In Asia, the positive pairwise correlation appears to have increased over time, from 0.93 in the 1990s to 0.99 in 2020-23. The strong positive correlation between domestic and foreign capital flows is, likewise, a by-product of greater capital account liberalisation on residents' outward investments. In this context, the liberalisation of residents' outward investments has become another policy measure used to stabilise net capital flows in emerging and developing economies.

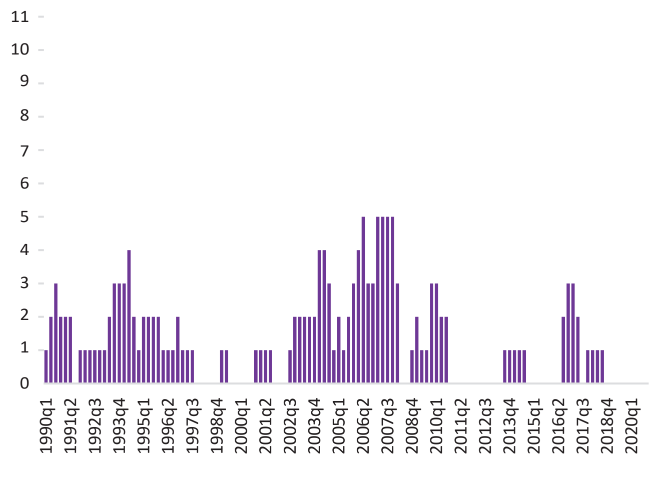
Asia has also experienced episodes of very large resident capital outflows and inflows. Episodes of very large resident capital outflows are commonly known as *"flight"*.[11] Resident capital flights are often associated with periods of high global liquidity and interest rates, strong global and domestic growth, and lower global risk aversion (Forbes and Warnock, 2021). In Asia, several economies experienced episodes of flight in 2006 to 2007, when risk appetite was stronger and cross-border bank-driven global liquidity was abundant **(Figure 3.9).** Flights, however, can also be driven by exchange rate depreciations or devaluations. For instance, in 2016, China experienced an episode of capital flight sparked by the devaluation of the Chinese renminbi in August 2015, causing households to move their savings abroad as protection against devaluation (Brooks, 2024). In contrast, episodes of very large resident capital inflows are known as *"retrenchment".* These are episodes when domestic investors repatriate their investments overseas to their home economy. They are often associated with periods of high risk-aversion and weaker global and/or domestic growth. Asia has, likewise, experienced these episodes in 2008-09 and 2015-16 **(Figure 3.10).** These extreme episodes of resident capital flows might be stabilising or disruptive. On capital flights, when there is a growing pressure on the exchange rate to depreciate, a capital flight will lead to even greater depreciation of the currency, thereby rendering the episode disruptive. By contrast, when there is a growing pressure for the exchange rate to appreciate, capital flight can help stabilise the exchange rate by preventing further appreciation. On retrenchments, faced with large nonresident capital reversals or "sudden stops", repatriation of resident overseas investments could help stabilise net resident flows as done by advanced economies during the global financial crisis of 2008-09.

B. Policy Considerations

This section highlights that Asia's resident capital flows have grown over the past three decades. It finds that the region's resident outward investments witnessed compositional shifts in terms of types of investments and sectoral breakdown; increased volatility relative to nonresident capital flows; greater co-movement with nonresident flows; and experienced several episodes of very large resident outflows and inflows. Based on these findings, several considerations are noteworthy:

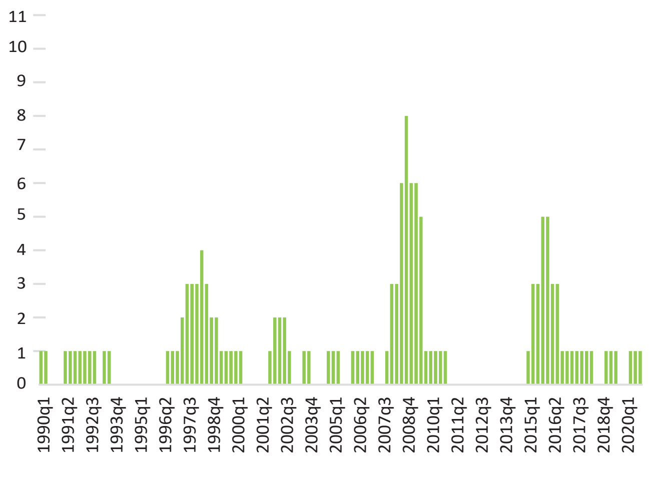
First, the stylised facts presented in this section suggest that the liberalisation of resident outward investments has led to larger resident outflows, stable net flows, but increased volatility of resident flows, particularly in 2000-19. The use of

Figure 3.9: Episodes of Resident Capital Flight in Asia



Notes: Values refer to the number of Asian economies experiencing resident capital flight per quarter. The sample includes China; Hong Kong, China; India; Indonesia; Korea; Malaysia; Philippines; Singapore; Sri Lanka; Chinese Taipei; and Thailand. The definition of "flight" follows Forbes and Warnock (2012 and 2021).

Figure 3.10: Episodes of Resident Capital Retrenchment in Asia



Notes: Values refer to the number of Asian economies experiencing resident capital retrenchment per quarter. The sample includes China; Hong Kong, China; India; Indonesia; Korea; Malaysia; Philippines; Singapore; Sri Lanka; Chinese Taipei; and Thailand. The definition of "retrenchment" follows Forbes and Warnock (2012 and 2021).

Source: SEACEN staff calculations using data from Forbes and Warnock (2021).

11. In this section, resident capital "flight" follows the definition in Forbes and Warnock (2012). It refers to periods when the change in resident capital flows increases above one standard deviation from the five-year rolling historic mean, provided that it increases above two standard deviations within the episode. The Forbes and Warnock (2012) definition differs from others in the literature wherein "capital flight" is defined as the outflow of resident capital in response to economic and political risks in the domestic economy (Schneider, 2003). Hence, Forbes and Warnock's (2012) definition is more empirical, whereas others follow a more conceptual definition of "capital flight".

tightening or easing resident cross-border investment restrictions in response to large nonresident inflows or even large resident outflows may be a policy option. But they would warrant careful consideration given domestic conditions as well as the potential costs and effectiveness of such measures. In this context, there is a need to further understand the use and consequences of “resident” capital flow management measures.

Second, Asia has experienced several episodes of capital flight and retrenchment. But not much is known about these resident-driven extreme episodes. Earlier studies focus on crisis-driven resident capital flight, while more recent studies imply a broader or more neutral view of resident capital flight. Differentiating between these two types of capital flights is important because they could lead to different policy considerations. For instance, crisis-driven capital flight may benefit from tighter restrictions on resident outflows. For this reason, there is a need to further understand the causes, impacts, and policy options of “crisis-driven” and “non-crisis driven” resident capital flights. This is an area where future research on capital flows can focus on, especially for emerging and developing economies.

Lastly, monitoring capital flows should also include resident-driven flows, aside from foreign capital flows. Although policy discussions and the economic literature focus on nonresident flows due to their potential risks, there is also merit in understanding the drivers, impacts, and policy options related to resident flows. In Asia, official reserve assets comprise a significant share of resident flows, however, in the past decade or so, the region’s resident flows have also been driven by non-financial corporates and non-bank financial institutions. These sectoral drivers of resident flows would have a different motivation in undertaking cross-border investments. Consequently, they are driven by different factors and, therefore, require different policy measures should they become too risky or disruptive.

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SEACEN Capital Flows Monitor 2025

The SEACEN Capital Flows Monitor is a bi-annual report on cross-border capital flows and net foreign asset positions of SEACEN member economies, which are members of the SEACEN Expert Group (SEG) on Capital Flows. The report discusses financial market developments in the region, recent trends, and the outlook on capital flows and international investment positions. A separate section provides a thematic analysis of topical issues, such as Asia's resident capital flows.

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