

# **The Coming Wave**

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## **Summary**

As emerging market economies become increasingly important players in the global economy, their share of the global cross-border flows of financial assets is also rising. Because of their strong growth prospects, emerging market economies have attracted foreign investors in search of higher returns, especially at a time of very low interest rates in advanced economies. And flows have also gone the other way, as the governments of emerging market economies have built up their foreign exchange reserves by investing heavily in advanced economies.

Recently, another phenomenon has been gradually gathering momentum—the outflows of private capital from these economies, as their investors seek overseas opportunities. Understanding the volumes and patterns of the various outflows—sovereign and private—and analyzing what influences them will help shed light on how the landscape of international capital flows is likely to change as emerging market economies become more integrated into global financial markets. We look at the types of capital outflows from emerging markets and describe some preliminary results from our ongoing research, which shows that the direction of portfolio outflows—relatively small now, but with a large potential to expand—are heavily influenced by proximity and familiarity. This could impel greater regional integration of financial markets and generate increasing portfolio equity flows amongst emerging markets themselves.