

International Capital Flows and Economic Development – The Role of Financial Openness

Nguyen Thi Ngoc Trang⁽¹⁾ • Phan Gia Quyen⁽²⁾

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Abstract: The research studies on whether foreign capital movements adheres to the neoclassical theory or Lucas paradox by using data of 89 developed and developing countries during the period 1995–2014. By approaching the two-step system GMM estimator, the study pertains following results: (i) capital flows shift from poor nations to rich nations with the presence of financial integration, which is consistent to the Lucas paradox; (ii) thanks to fast economic development, Vietnam and other ASEAN countries attract more international capital than the others in the research sample; (iii) demographic and macro-economic factors influence significantly on attracting international investment.

Keywords: Economic development, Financial openness, International capital flows, Two-step system GMM.

JEL classification: F21, F36, O4.

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✉ **Nguyen Thi Ngoc Trang / Email:** trangtcdn@ueh.edu.vn.
Phan Gia Quyen / Email: giaquyen210@gmail.com.

⁽¹⁾ University of Economics Ho Chi Minh City
279 Nguyen Tri Phuong, Ward 5, District 10, Ho Chi Minh City.

⁽²⁾ Saigon Thuong Tin Commercial Joint Stock Bank
266 - 268 Nam Ky Khoi Nghia, Ward 8, District 3, Ho Chi Minh City.