

# Characteristics Comparison and Trend Analysis of China's International Investment Position Table

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**Keywords:** International Investment Position; Foreign Investment; Capital Market

**Abstract:** A complete international account system includes balance of payment (BOP) and international investment position (IIP). Among them, the balance of payments records the flow of a country's current account and capital account in a certain period of time, while the international investment position records the balance of assets and liabilities stock of a country at that time. This paper first focuses on the development trend of China's international investment position in the past ten years, then compares the international investment position of China with BRICs, Germany and Japan, and obtains several development trends of China's international investment position: first, China's foreign investment and debt stock will continue to rise sharply, but there is little room for net surplus to rise; Second, the proportion of foreign exchange reserves held by China will continue to decrease; Third, the proportion of foreign direct investment will continue to rise.

## 1. Literature Review

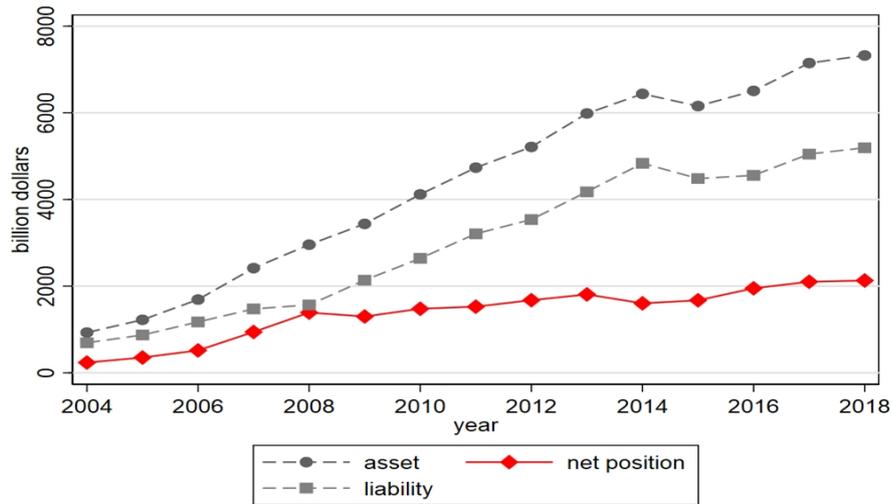
Xiao Lisheng (2013) uses the present value model of Gourinchas & Rey (2007a) to analyze that the financial adjustment channel can significantly explain about 12% of the dynamic changes of external imbalances, and has a significant positive correlation with the trade adjustment channel; Zhang Jun (2011) pointed out that the impact of exchange rate and stock index will cause the change of net international investment position in the same direction in the short term, and in the long term, they will have a reverse effect on the net international investment position; Nie Jing (2010) believes that the book value of China's international investment position in US dollar covers up a large part of the losses caused by exchange rate fluctuations; Chen Jiu (2016) believes that China's choice of investment industries is more inclined to traditional industries, and China should optimize the industrial structure and promote marketization and institutional innovation; Combined with the above research results, the study of China's international investment position statement can strengthen the understanding of China's external assets and liabilities, grasp China's position in the international capital market, and then have a glimpse of China's economic development, which is helpful for China to integrate into the uncertain international situation and have a certain say in the international capital market.

## 2. The Development of China's International Investment Position

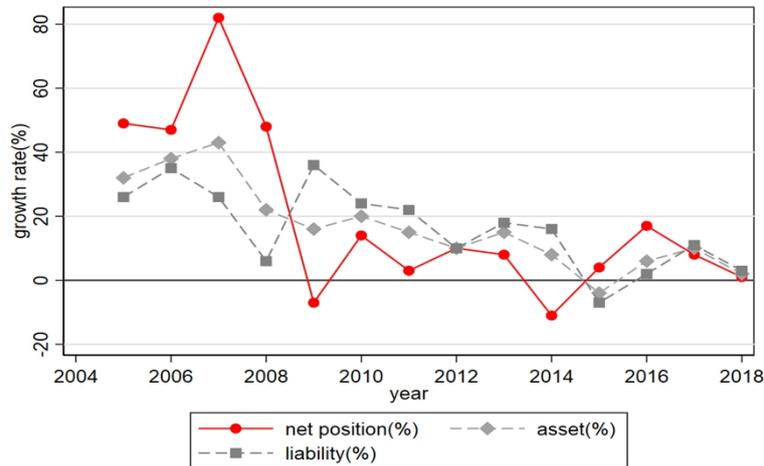
### 2.1 General Description

China's international investment has a bright future, and both foreign investment and debt have contributed. As shown in Figure 1, China's net international investment remained surplus from 2004 to 2018, and the surplus gradually increased. Correspondingly, China's external assets and liabilities have been on the rise over time in the past 15 years, and the assets are greater than the liabilities. The change trend of the two is the same, which has always been on the rise from 2004 to 2014, decreased in 2015, and then continued to rise. This shows that under the background of world economic integration, a small number of anti-globalization thoughts have not disturbed the process of world economic integration. Chinese enterprises are willing to go abroad and actively go to the world. While participating in international market competition, they also actively learn from foreign

experience and make progress. At present, China is the third largest creditor country in the world after Japan and Germany.



**Figure 1.** Trend chart of major IIP projects in China



**Figure 2.** Trend of growth rate of major IIP projects in China

The growth rate of major IIP projects in China shows a downward trend year by year, and the overall growth momentum tends to slow down. Among the three major projects, the growth rates of investment and debt were all positive in the remaining 14 years from 2004 to 2018, except for negative in 2015; Compared with the other two items, the growth rate of net investment is less stable and has a large range of changes, of which the growth rate of four years is negative or close to zero. In 2007, the growth rate of net position reached an astonishing 82%, which was about twice the growth rate of adjacent years. In 2008 and 2009, the growth rate of net position dropped to negative growth for two consecutive years. Then, the growth rate of net position fluctuated above and below the zero growth rate and tended to be stable. However, the growth rate of net investment and net debt decreased steadily in the fluctuation, and it was close to the zero growth rate line in 2018.

The above general description initially describes the development status of China's international investment position. The following analysis of the proportion of each major item can help us understand the differences and changes in the components of China's international investment position.

## 2.2 Specific Gravity Analysis

Based on the general situation described in the previous section, this section selects the recent

twelve quarters as the unit, and analyzes the current situation of IIP in China by calculating the internal item composition and change trend of assets and liabilities.

**Table 1.** The proportion of each component of China's IIP external assets in total external assets

Quarter	Direct Investment	Portfolio Investment	Financial Derivatives	Other Investment	Reserve Assets
2016 Q4	20.86	5.64	0.08	25.81	47.61
2017 Q1	21.21	5.93	0.07	25.52	47.27
2017 Q2	21.07	6.24	0.09	25.74	46.87
2017 Q3	21.03	6.65	0.10	25.47	46.75
2017 Q4	25.31	6.89	0.08	22.46	45.26
2018 Q1	25.23	7.09	0.11	22.92	44.65
2018 Q2	25.54	7.13	0.09	23.10	44.13
2018 Q3	25.77	7.26	0.08	23.24	43.65
2018 Q4	25.93	6.80	0.08	23.93	43.25
2019 Q1	26.11	7.39	0.12	23.08	43.30
2019 Q2	26.23	7.53	0.11	22.80	43.33
2019 Q3	26.37	7.83	0.10	22.79	42.91

In the composition of China's IIP external assets, the proportion of each component item is quite different. Reserve assets have an absolute advantage, accounting for about half of the total assets, about twice as much as direct investment or other investment. The sum of securities investment and financial derivatives only accounts for a small proportion of the total external assets, about 6% - 8%. From the perspective of change trend, the proportion of China's foreign direct investment and securities investment in total foreign assets increased steadily quarter by quarter, with an average quarterly growth rate of 1.97% and 2.77% respectively. Corresponding to the steady increase, the proportion of other investment and reserve assets decreased steadily quarter by quarter, and the sum of the two decreased by about 8% after 12 quarters. It is worth mentioning that from 2004 to 2009, China's reserve assets accounted for 65% - 70% of the total assets, while the proportion of foreign direct investment was only 5% - 6%. Compared with the data of retrogressive ten years, it also confirms the general trend of steady decline of China's reserve assets and rising of direct investment from a longer time line.

**Table 2.** The proportion of each component of China's IIP reserve assets in reserve assets

Quarter	Monetary Gold	Special Drawing Rights	Reserve Position in IMF	Foreign Exchange Reserve
2016 Q4	2.19	0.31	0.31	97.18
2017 Q1	2.38	0.31	0.31	96.98
2017 Q2	2.34	0.32	0.30	97.03
2017 Q3	2.37	0.32	0.28	97.01
2017 Q4	2.36	0.34	0.25	97.03
2018 Q1	2.42	0.35	0.24	96.99
2018 Q2	2.31	0.34	0.27	97.07
2018 Q3	2.21	0.34	0.27	97.17
2018 Q4	2.41	0.34	0.27	96.99
2019 Q1	2.46	0.34	0.26	96.95
2019 Q2	2.71	0.34	0.26	96.71
2019 Q3	2.90	0.34	0.26	96.50

The proportion of foreign exchange reserves in reserve assets is very large, with an average ratio of 96.97%. The sum of the other three assets only accounts for about 3%. Therefore, it can be approximately considered that China's foreign exchange reserves are China's reserve assets; Further extension, it can be approximately considered that foreign exchange reserves account for about half of China's foreign assets. This can be attributed to the double surplus of current account and capital account, and the regulated exchange rate system. A regulated exchange rate system artificially controls China's foreign exchange reserves to make up for the trade deficit caused by force majeure at home and abroad at any time, stabilize the domestic macro-economy, and ensure China's economic security and international status. However, excessive foreign exchange reserves are prone

to foreign exchange risk when the exchange rate fluctuates, so we need to strengthen its operation and management to ensure its safety.

**Table 3.** The proportion of each component of China's IIP's external liabilities in the total external liabilities

Quarter	Direct Investment	Portfolio Investment	Financial Derivatives	Other Investment
2016 Q4	60.46	17.80	0.13	21.60
2017 Q1	59.62	18.26	0.10	22.02
2017 Q2	58.06	18.59	0.10	23.26
2017 Q3	56.70	20.05	0.10	23.15
2017 Q4	53.99	21.78	0.07	24.16
2018 Q1	54.15	21.58	0.08	24.19
2018 Q2	53.61	21.71	0.13	24.55
2018 Q3	52.33	21.99	0.15	25.52
2018 Q4	53.18	21.11	0.11	25.59
2019 Q1	52.73	23.12	0.09	24.06
2019 Q2	52.33	23.32	0.14	24.21
2019 Q3	52.28	22.98	0.21	24.52

Among the four major items of China's IIP's external liabilities, the proportion of each item is quite different. Among them, direct investment accounts for more than half of the total external liabilities, and the proportion decreases year by year; The securities investment and other investment accounted for about 20-25%, and the proportion rose steadily, with the quarterly growth rates of 2.15% and 1.06% respectively in the past 12 months. Ten years ago, the proportion of securities investment in total external liabilities was about 10%. After more than ten years of development, it has steadily increased to more than 20% of today's total liabilities, and it continues to climb, highlighting the confidence of foreign capital in China's securities market in the past decade. On the contrary, other investments. Although the data of the past 12 quarters show that other investments are climbing slowly, the average proportion of other investments at the end of 2004-2009 is 30%, higher than today's level. The process of first falling and then climbing indicates that other investment items are volatile and unstable.

Comparing the proportion of securities investment in foreign assets and liabilities, we can find that the investment strategies of China and foreign enterprises are similar: the proportion of foreign direct investment is higher than that of securities investment, but the absolute value of the proportion is quite different. In foreign investment in China, the sum of direct investment and securities investment is about 80%, while the sum of China's foreign investment is only 30% - 40%, and the rest is accounted for by foreign exchange reserves. Before 2010, the proportion of China's foreign direct investment is lower than that of securities investment, which highlights the great changes in China's foreign investment policy. We realize that we cannot take the capital market as the main battlefield, and the stable benefits brought by long-term foreign investment are the important factors that determine the long-term development of enterprises and the national monetary strategy.

### 3. Comparison of BRICs International Investment Position Structure

Over the past decade, BRICs countries have promoted a wide range of foreign investment worldwide, and have become a constructive force in promoting world economic growth, improving global governance, and promoting the democratization of international relations. This chapter makes a comparative analysis of the international investment position structure of BRICs countries, discusses and analyzes China's international investment position, with a view to putting forward relevant opinions and suggestions.

#### 3.1 Changes in the Total International Investment Position of BRICs

**Table 4.** Comparison of BRICs' total external assets, total liabilities and net positions

		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
China	Total assets	16905	24162	29567	34369	41189	47345	52132	59861	64383	61558	65070	71488	73242
	Total liability	11741	14741	15666	21381	26406	32089	35382	41770	48355	44830	45567	50481	51941
	Net position	5163	9421	13901	12988	14783	15256	16750	18091	16028	16728	19504	21007	21301
India	Total assets	2316	3358	3375	3859	4262	4345	4457	4605	4930	5313	5431	6143	6060
	Total liability	2923	4116	4261	5178	6377	6611	7469	7837	8545	8998	9105	10410	10398
	Net position	-607	-758	-886	-1319	-2115	-2266	-3012	-3232	-3615	-3684	-3673	-4267	-4338
Russia	Total assets	7550	10934	10061	10877	11711	12449	13807	14746	12782	11779	12411	13467	13415
	Total liability	7698	12421	7559	9848	11527	10954	12384	12891	9650	8388	10214	10662	9701
	Net position	-148	-1486	2502	1029	184	1494	1423	1855	3132	3392	2197	2805	3714
South Africa	Total assets	1801	2248	2152	2675	3257	3373	3759	3944	3999	3976	4234	5581	4909
	Total liability	2460	3188	2329	3249	4245	3808	4314	4090	4261	3567	4012	5236	4458
	Net position	-659	-940	-177	-574	-988	-435	-556	-146	-262	410	222	345	451
Brazil	Total assets	2535	3944	4217	4758	5792	6506	7390	7597	8227	8084	8297	8779	8755
	Total liability	6040	8904	6653	10349	14854	14709	15339	14837	15286	11830	13963	15231	14698
	Net position	-3504	-4960	-2437	-5591	-9062	-8204	-7948	-7239	-7059	-3747	-5666	-6453	-5943

Data Source:IMF International Financial Statistics<sup>1</sup>

From 2006 to 2018, China's external net assets and net liabilities maintained a relatively balanced synchronous growth, with an average annual growth rate of 14.7%. However, although they are both emerging economies in the world, the overall profile and growth trend of BRICs' external positions are not the same. India and Brazil have been net debtors from 2006 to 2008, and their total debt has been increasing; Russia and South Africa have achieved a reversal from net debtors to net creditors, but the situation is different between the two countries. After 2008, Russia's net position became positive, the amount of creditor's rights rose steadily in fluctuations, the amount of debt was not high, and the absolute value of creditor's rights was much higher than that of debt; South Africa's net position became positive for the first time in 2015, but its net value is not high. It has been hovering at the level of tens of billions of dollars until 2018, and the debt volume before it became positive also hovered at the level of tens of billions of dollars, which is relatively small.

### 3.2 Comparison of China's International Investment Position with Other Four Countries

**Table 5.** Proportion of BRICs reserve assets in foreign assets

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
China	63.94	64.04	66.50	71.38	70.75	68.77	64.99	64.82	60.56	55.33	47.61	45.26	43.25
India	76.50	81.98	75.81	73.46	69.86	68.58	66.82	64.32	65.43	65.88	66.20	66.70	65.36
Russia	40.23	43.79	42.37	40.40	40.93	40.06	38.94	34.56	30.16	31.27	30.44	32.13	34.92
South Africa	14.21	14.66	15.83	14.83	13.46	14.49	13.49	12.60	12.28	11.55	11.15	9.09	10.52
Brazil	33.86	45.73	45.96	50.13	49.82	54.11	50.49	47.23	44.19	44.10	44.00	42.60	42.80

Data source:IMF International Financial Statistics

**Table 6.** Proportion of BRICs' foreign direct investment in foreign assets

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
China	5.36	4.80	6.28	7.15	7.70	8.97	10.20	11.03	13.71	17.80	20.86	25.31	25.93
India	11.67	13.13	18.77	20.95	22.74	25.20	26.49	26.02	26.68	26.17	26.53	25.26	27.49
Russia	31.08	33.45	19.72	27.43	30.83	29.06	29.66	32.52	32.42	31.84	34.37	35.43	32.49
South Africa	22.82	24.56	22.97	26.28	25.56	28.77	29.74	32.63	36.51	38.90	41.48	48.91	50.20
Brazil	44.94	35.98	37.42	35.13	33.04	31.69	36.65	39.59	40.64	39.99	41.34	43.78	43.13

Data source:IMF International Financial Statistics

<sup>1</sup> <https://data.imf.org/?sk=7A51304B-6426-40C0-83DD-CA473CA1FD52&sl=1542633711584>

The structure of foreign assets varies greatly among countries. Unlike external liabilities, the BRICs' external asset structure is quite different. The proportion of reserve assets in foreign assets of China and India is much higher than that of the other three countries, which are more than half of their total foreign assets; However, the trend of decline was obvious, and the proportion of the total investment decreased from 67.5% and 82.3% in 2005 to 43.25% and 65.36% respectively. Although the decline is significant, it still belongs to the BRICs countries that focus more on reserve assets. Nearly half of South Africa's foreign assets are obtained through the securities market, and nearly half of Brazil's foreign assets come from foreign direct investment. From 2005 to 2018, the reserves show a U-shaped trend. The structure of external debt of each country is similar and depends on foreign direct investment. At present, many well-known brands, such as Coca Cola, apple and so on, have a very high degree of recognition in the Chinese market, which will suppress China's private brands.

The proportion of securities investment in foreign assets varies greatly among countries, far from the world level. As for the external asset structure of BRICs, South Africa accounted for the highest proportion of securities investment in 2018, accounting for 30%. In sharp contrast, the securities investment of the other four countries accounts for less than 7% of their total foreign assets, and India even accounts for less than 1%. BRICs are emerging economies. Compared with developed countries, the financial market is still underdeveloped, and the amount of money flowing in and out through the securities market is relatively low. Not only the BRICs' capital market opening level in the world needs to be improved, but also China's securities market opening level in the BRICs is not outstanding. However, in terms of external liabilities, the proportion of securities investment in various countries is relatively balanced.

#### **4. The Changing Trend and Policy Direction of China's International Investment Position**

Combined with the characteristics of China's international investment position statement, the future structure of China's external assets and liabilities may have the following trends:

##### **4.1 China's Foreign Exchange Reserves will be Reduced**

Affected by the global novel coronavirus pneumonia, the US stock market has experienced three historic fuses, and the US recession has come to light. In order to save the economic situation, the Federal Reserve cut interest rates to 0-0.25% twice in a row on March 3 and March 15, and launched a fiscal stimulus plan of more than US \$1 trillion, or even direct cash to the American people. There is no doubt that this move by the United States will lead to a certain degree of inflation and the depreciation of the US dollar, and the United States is the country with the largest scale of debt in the world, which will shrink the scale of US debt and reduce the debt market value of countries holding US dollar reserves in disguise.

China has the largest foreign exchange reserves in the world. Combined with the U.S. fiscal policy and the current domestic economic situation, it can be predicted that China's U.S. debt holdings will shrink significantly. China should strengthen the monitoring of the capital market and increase regulation if necessary.

##### **4.2 The Proportion of China's Foreign Direct Investment in Assets will Continue to Rise**

According to the statistical bulletin of China's foreign direct investment in 2018, the flow and stock of foreign direct investment are among the top three in the world, with a new high proportion, and the stock of investment is relatively concentrated; The investment industry is widely distributed with complete categories, and the stock scale of six major industries exceeds 100 billion US dollars. In 2016, China's foreign direct investment surpassed that of foreign investment in China for the first time, and has been maintained until 2018. The long-term stable trend of China's foreign investment determines that the increase of the proportion of foreign direct investment in assets is an inevitable situation in the past, now and even in the future.

##### **4.3 Links with the Sixth Edition of the International Investment Position Manual**

Here are following differences between the sixth edition and the fifth edition of the latest revised edition: it highlights the stock statistics of external financial assets or liabilities - the sixth edition of the manual has more names of "international investment position" than the fifth edition, and it is defined and explained in detail in each chapter of the whole volume as an equally important part of the balance of payments. For example, financial derivatives, equity, securities and debt instruments are defined and explained in detail; The international investment position and balance of payments will be more closely linked. All these reflect that the world rules are constantly adapting to the development of the international foreign exchange market. China should keep up with the pace and deepen the understanding and practice of the world rules.

In order to make China's capital market better integrate with the international capital market, the above two points should be appropriately adjusted according to the situation, and follow up the international interpretation of data arrangement rules, which is conducive to the good development of China's capital market in the long run.

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