

PERFORMANCE OF CHINA'S OFDI (2005-2014), ACCORDING TO TWO METHODOLOGICAL APPROACHES: ASSET/LIABILITY AND DIRECTIONAL

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1. A metodological note¹.

The asset/liability approach does not show the direction of influence of foreign direct investment (FDI) and overseas foreign direct investment (OFDI). Under the directional approach flows and direct investment positions are organized according to the direction of investment in the reporting economy (both inflows and outflows).

Table 1

Calculating positions of FDI, according to the approaches: asset/liability and directional

Country's direct investment assets are equal to:	Country's direct investment liabilities are equal to:
Resident parents' equity in and lending to foreign affiliates	Foreign parents' equity in and lending to resident affiliates
<i>Plus:</i>	<i>Plus:</i>
Resident affiliates' equity in and lending to foreign parents	Foreign affiliates' equity in and lending to resident parents
Country's outward investment is equal to	Country's inward investment is equal to
Resident parents' equity in and lending to foreign affiliates	Foreign parents' equity in and lending to resident affiliates
<i>Less:</i>	<i>Less:</i>
Foreign affiliates' equity in and lending to resident parents	Resident affiliates' equity in and lending to foreign parents

Source: OECD (2014)

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¹ This note is based on the following document: OECD. 2014. Asset / liability versus directional presentation. OECD December.

Table 1 shows that both approaches are based on the same components, the difference lies in the way how these components are combined. Specifically, OECD (2014) refers to the following differences:

- Under the asset/liability approach, assets include both assets of the resident parent as assets of resident subsidiaries; meanwhile, liabilities include both liabilities of resident parent as liabilities of resident subsidiaries. In contrast, under the directional approach, the positions of investments abroad only consider the positions of resident parent, while FDI inflows only consider the position of resident subsidiaries.
- The second difference is found in the treatment given to mutual or cross investment (reverse investment). Mutual investments occur when a subsidiary invests in its parent company. Under the directional approach the mutual investment is subtracted in order to obtain the amount of total investment (both inflows and outflows) in the reporting country. Let's set two examples:
 - a. If a resident parent borrows money from one of its subsidiaries abroad, this amount is subtracted in calculating investments outside the reporting country, since this borrowing reduces the amount of money that the resident parent has invested in its foreign subsidiaries.
 - b. If a resident subsidiary lends money to its foreign parent, this amount is subtracted in calculating inflows of foreign investment since it reduces the amount of money that the foreign parent has invested in that country.
- The presentation of statistics on FDI following the asset/liability approach is appropriate for macroeconomic analysis (as it is consistent with other macroeconomic statistics and other functional categories of investment in the statistics of balance of payments and international investment position). But it is not very helpful to study the nature and motivations of FDI.
- Differences between the two measures of FDI can be very large in specific countries or specific periods of time. The magnitude of the discrepancy depends on the size and direction of the cross-investments.

2. Chinese FDI statistics: 2005-2014

OECD recently published statistics on FDI (inflows/outflows/stocks) for a set of countries based on both approaches during the period 2005-2014. For China, OECD reports FDI data only under the directional approach. In what follows we compare Chinese FDI and OFDI as calculated by UNCTAD and OECD.

FDI inflows to China reported by OECD have been increasingly superior to those reported by UNCTAD; in fact, since 2010 these flows are doubled in value (see table 2). Meanwhile, as reported by OECD, China's OFDI was almost 30% lower than that as reported by UNCTAD in 2013. This is relevant because it shows that taking into account the direction of the influence of foreign direct investment, China remains a net recipient of FDI, this against the results of the conventional approach, according to which China is increasingly an exporter of Capital: in fact in 2013 the ratio OFDI/IED according to UNCTAD was equal to 81.5%, while this falls down to 25.1% based on the OECD directional approach.

Table 2

China. FDI flows and OFDI according to two calculating methodologies (2005-2014) (millions of dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Accumulated
UNCTAD											
FDI	72,406	72,715	83,521	108,312	95,000	114,734	123,985	121,080	123,911	...	915,664
OFDI	12,261	21,160	26,510	55,910	56,530	68,811	74,654	87,804	101,000	...	504,640
OFDI/FDI	16.9	29.1	31.7	51.6	59.5	60	60.2	72.5	81.5	...	55.1
OCDE (directional approach)											
FDI	104,109	124,082	156,249	171,535	131,057	243,703	280,072	241,214	290,928	289,097	2,032,047
OFDI	13,730	23,932	17,155	56,742	43,890	57,954	48,421	64,963	72,971	80,418	480,176
OFDI/FDI	13.2	19.3	11	33.1	33.5	23.8	17.3	26.9	25.1	27.8	23.6
OCDE/UNCTAD											
FDI	143.8	170.6	187.1	158.4	138	212.4	225.9	199.2	234.8	...	221.9
OFDI	112	113.1	64.7	101.5	77.6	84.2	649	74	72.2	...	95.2
OFDI/FDI	77.9	66.3	34.6	64.1	56.3	39.7	28.7	37.1	30.8	...	42.9

Source: Author's calculation based on:

UNCTAD: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>. (Consulted June 25, 2015, 9:45 pm).

OCDE: <http://www.oecd.org/daf/inv/investment-policy/FDI-in-Figures-April-2015.pdf>. (Consulted June 25, 2015, 9:45 pm).

Interesting to point that in 2013 global OFDI flows show that the top four exporters of capital (US, Japan, China and Russia) keep their positions, regardless of the approach used (see

Table 3). In addition, when working with the directional approach, some tax havens like the British Virgin Islands and Hong Kong are out of the list.

Table 3

The top ten countries with the greatest flows of OFDI in 2013, according to two methodological approaches

	UNCTAD		OECD (Directional approach)		
	Millions of dollars	% Share in the world total	Millions of dollars	% Share in the world total	
World	1,410,810	100	World	1,207,411	100
United States	338,302	24	United States	349,530	28.9
Japan	135,749	9.6	Japan	135,745	11.2
China	101,000	7.2	China	72,971	6
Russia	94,907	6.7	Russia	70,685	5.9
Hong Kong SAR	91,530	6.5	Netherlands	56,916	4.7
British Virgin Islands	68,628	4.9	Canada	50,521	4.2
Switzerland	59,961	4.3	Germany	32,208	2.7
Germany	57,550	4.1	Korea	31,488	2.6
Canada	42,636	3	Italy	29,076	2.4
Netherlands	37,432	2.7	Sweden	28,881	2.4
Subtotal (Top 10)	1,027,694	72.8		858,021	71.1
The rest	383,116	27.2		349,390	28.9

Source: ibid Table 2.