CHINA: AN UPSIDE DOWN INVESTMENT BANK

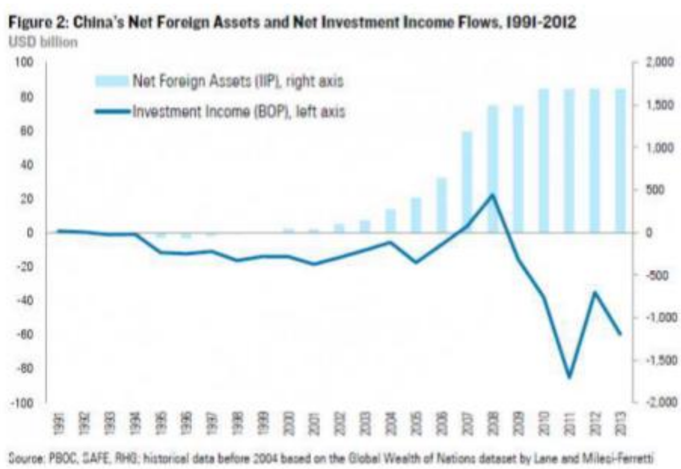
Chart of the week

The capital account of China is amazing. Simply put, China has extremely surplus capital account, linked to its export success. It holds assets abroad for an amount of almost $6 Trillion in 2013 (trillion, not billion! is three times the French GDP) while its liabilities, i.e. assets held by a foreigner on China are $4 Trillion.

Yet that is what the graph taken from a remarkable chronicle of China, by Thilo Hanemann, the income of that capital account is negative (see blue line) and the situation gets worse! In fact:

- assets abroad bring in much, certainly less than 3%, in conjunction with the rate of return on US T-bills,
- while direct investment in China are in the order of 6%.

China made the transformation in reverse. Its main partner, the United States, made the transformation to the place and benefits strongly from its direct investment in the country. We understand from there the fierce desire of China to raise the level of profitability (and thus risk) of its investments by investing in raw materials and infrastructure abroad. Japan did this at the time, but the choices (real estate, media, etc.) were not the wisest. Will China be better?



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