

DISCUSSION OF
ISHA AGARWAL, GRACE WEISHI GU,
AND ESWAR PRASAD
CHINA'S IMPACT ON GLOBAL FINANCIAL MARKETS

Gian Maria Milesi Ferretti (IMF, Research Department)

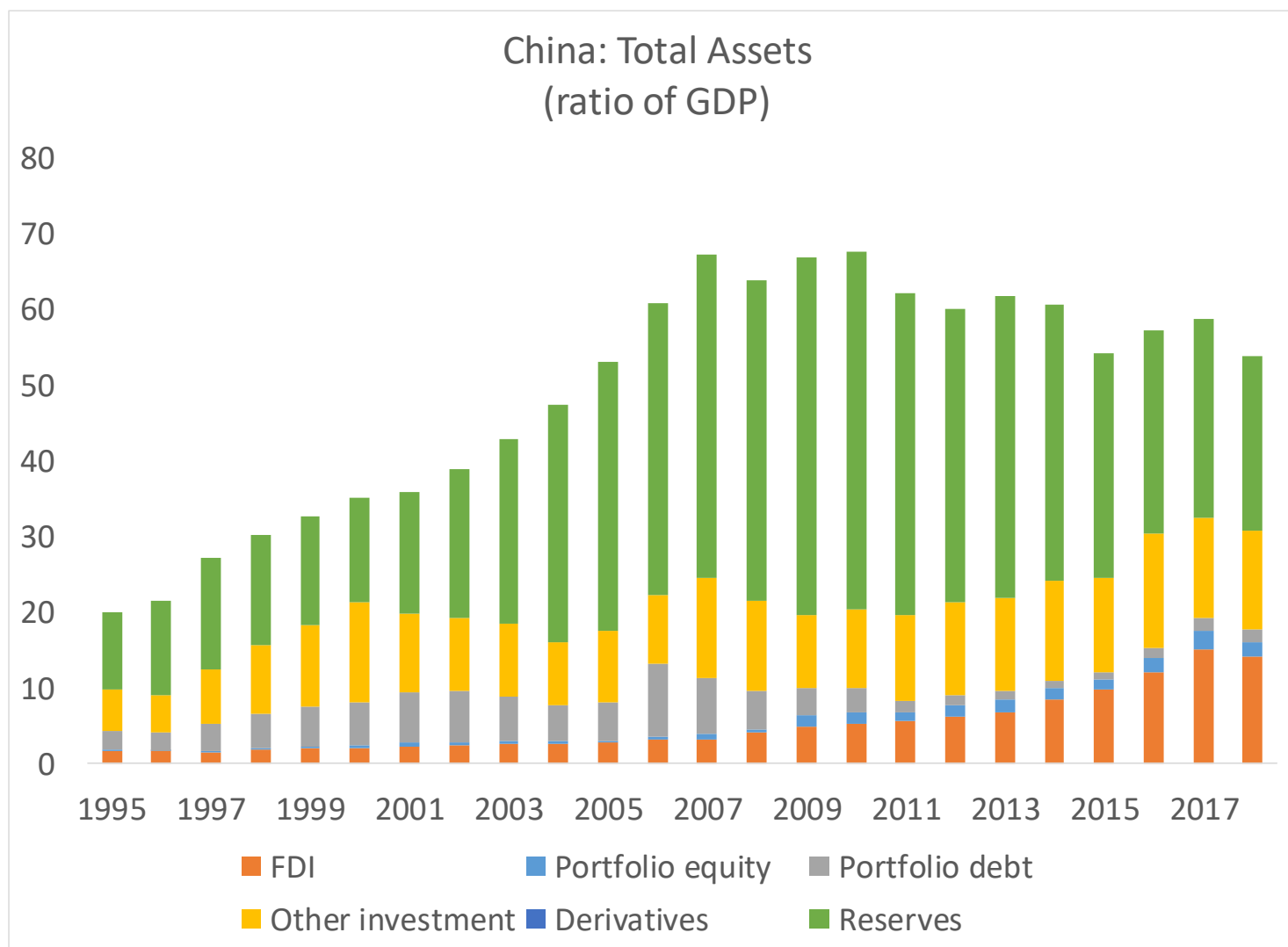
Summary of the paper

- Nice and timely paper
- Interesting stylized facts on the evolution of China's investment patterns
- Chronology of capital account liberalization
- Fascinating dataset on portfolio investment patterns by institutional investors
- Careful empirical analysis of the geographical and sectoral patterns of portfolio equity investment overseas by Chinese residents

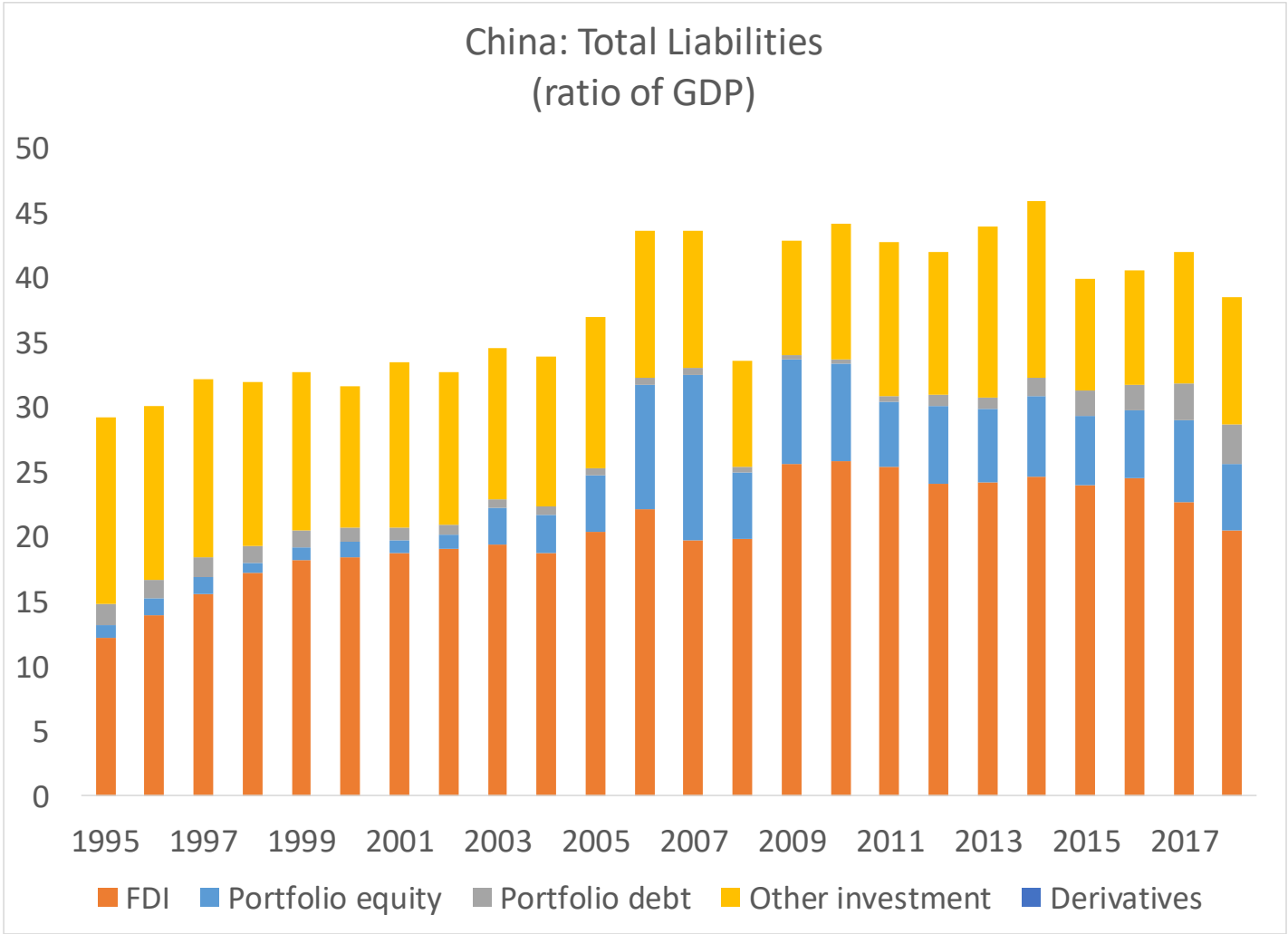
Structure of discussion

- Some additional stylized facts on China's portfolio structure
- Portfolio equity investment around the world:
 - ▣ Overall size and composition
 - ▣ China vs other emerging markets
- Other channels of influence of China's overseas investment
- Queries on empirical analysis

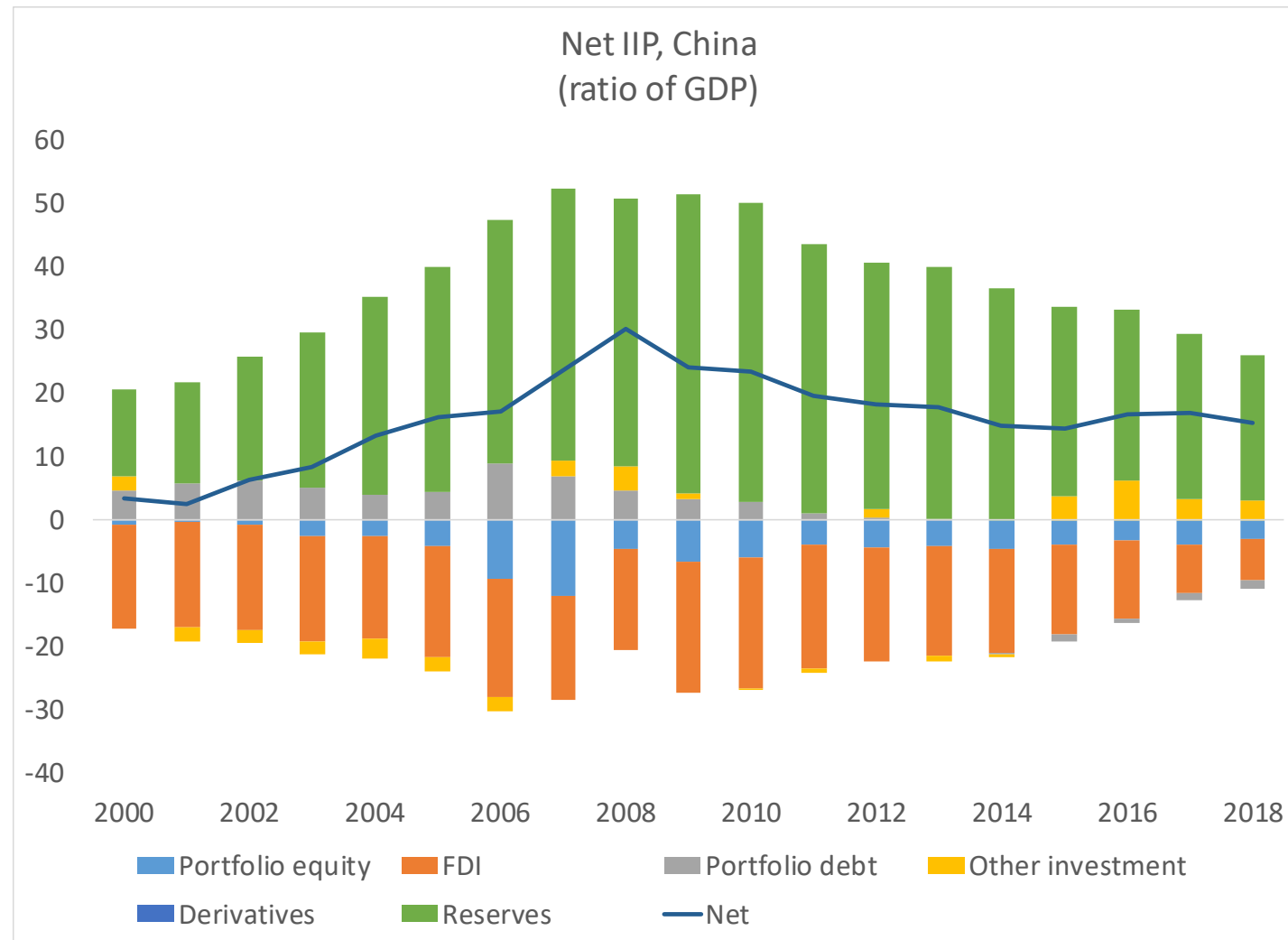
China's external assets have not increased as a share of GDP since the GFC...
...but have doubled as a share of *world* GDP



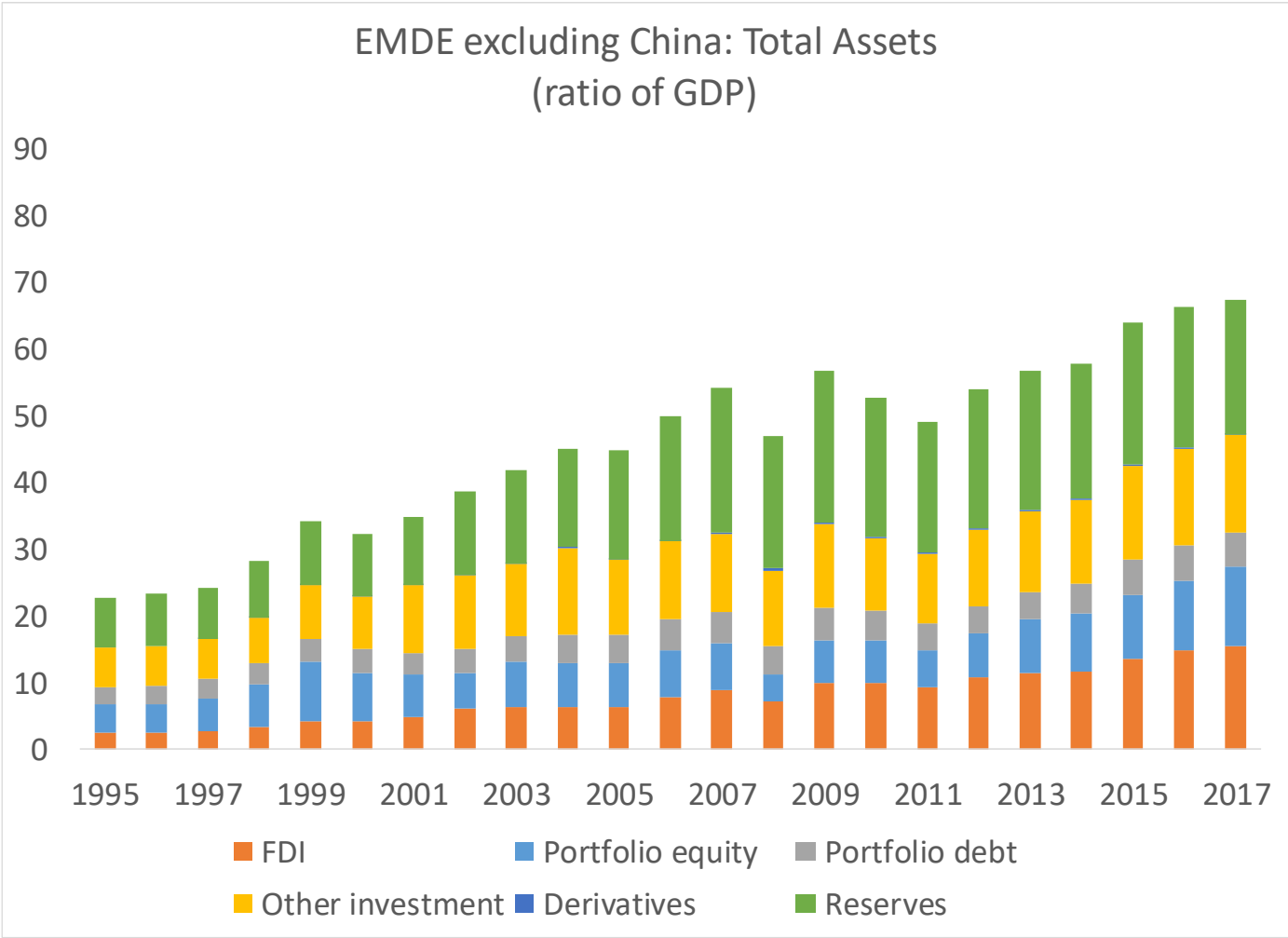
On the liabilities front the share of FDI remains large



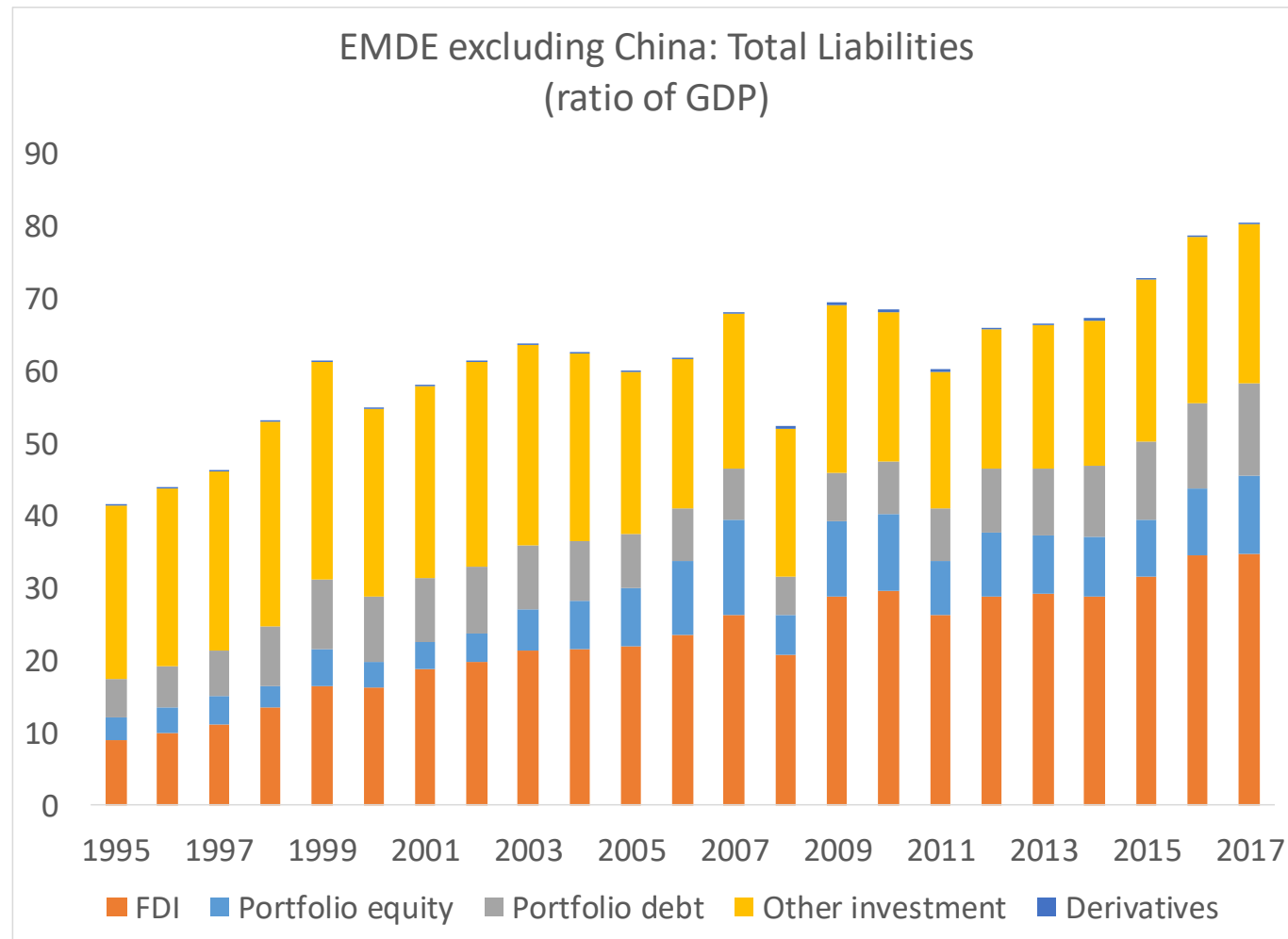
The net position has remained broadly stable (declining reserves, but improving net FDI)



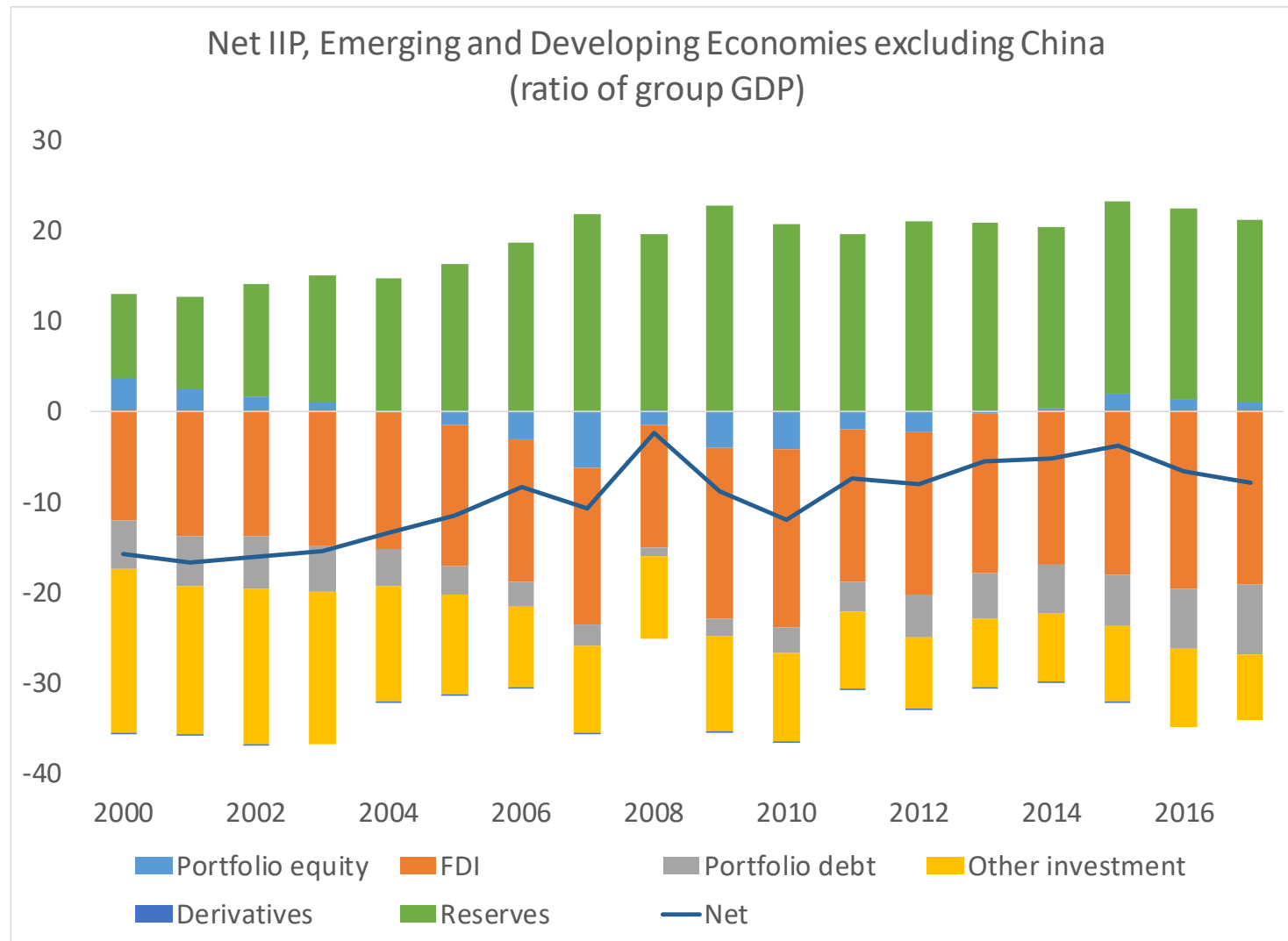
Other EMs have seen a rise in their external assets as a share of GDP



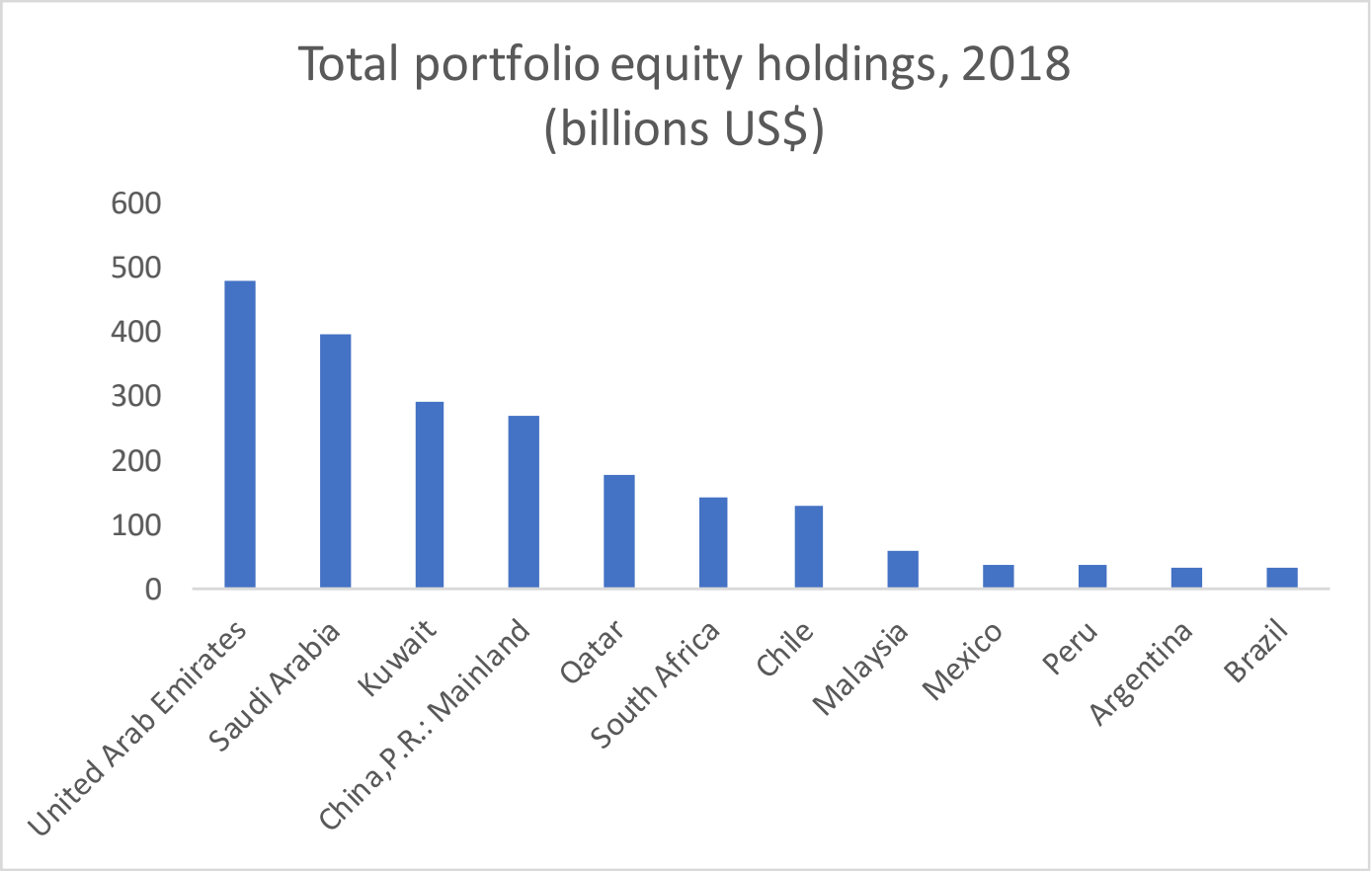
...while on the liabilities side equity instruments account for the majority of liabilities



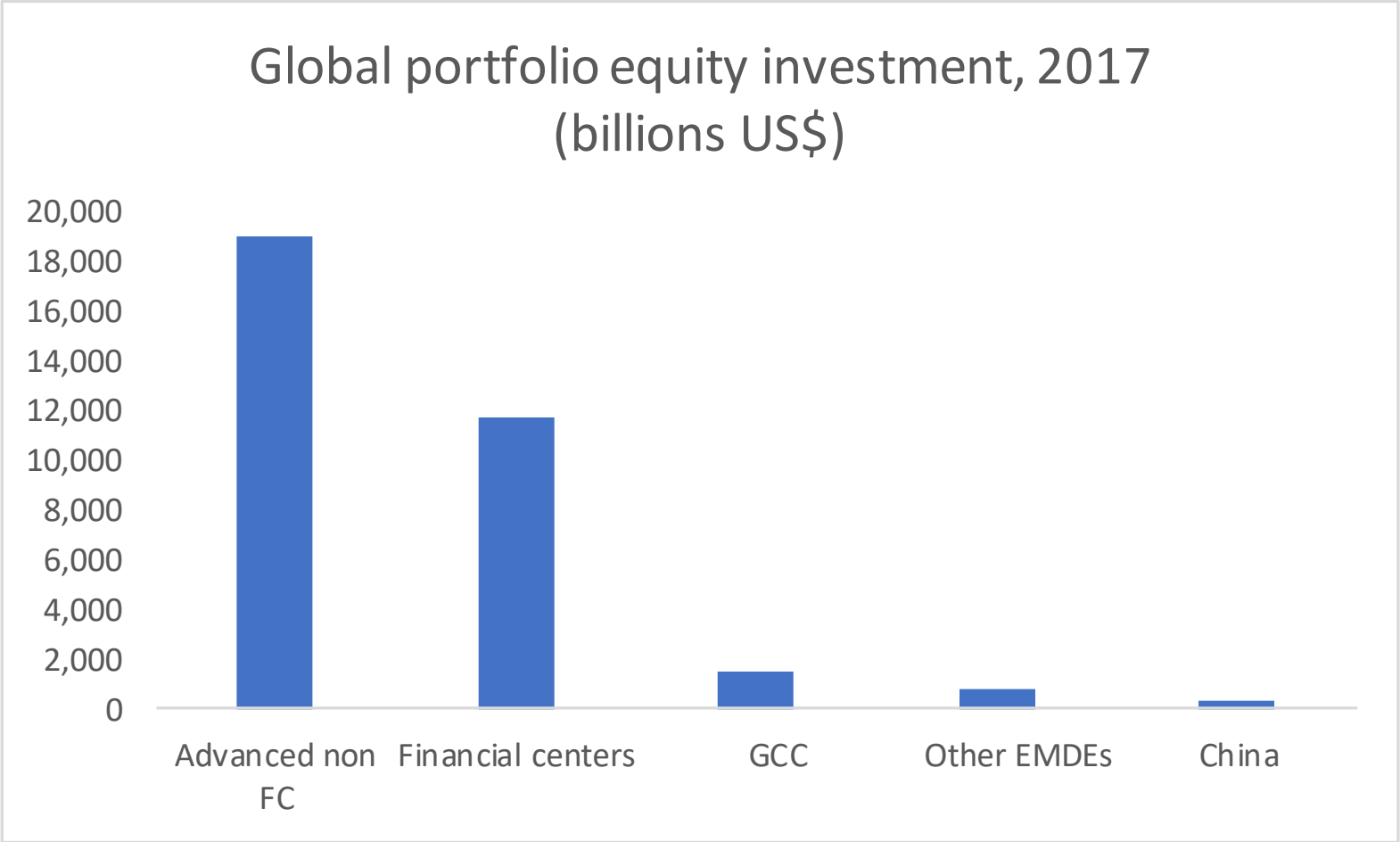
Net position broadly stable since 2007



How big is portfolio equity investment by EMs?



Still modest by global standards, with SWF dominating



Other channels of influence of Chinese investment overseas

- Decisions by reserve managers and SWF (CIC)
- Unrecorded net capital outflows—in what form are they held?
- Real estate investment

Some observations on empirical analysis

- Present a more formal comparison of aggregate holdings by institutional investors with CPIS holdings
- Empirical specification: why use fund-level holdings rather than aggregate fund holdings as LHS variable? There seems to be no fund-level control on the RHS, including in the form of fixed effects
- Distinguish time series and cross-sectional dimensions:
 - ▣ Are there meaningful changes over time in the geographical and sectoral composition of investment? Or are results virtually entirely driven by the cross-section?