第一部分

How A Firm's Operating Performance Affects Its Stock Returns

——Evidence from the US Manufacturing Firms

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Abstract: This paper investigates the usefulness of the past operating performance of a firm in predicting its future financial performance and stock returns. The paper introduces a simple variable to measure the operating performance of a firm. The paper proposes a hypothesis that poor operating performance tends to be persistent. We analyze and test the hypothesis by using the data on 2000 Compustat and found that there is a strong persistence in poor operating performance. Simple regression analyses show that past poor operating performance explains up to 90% of the variations of the likelihood of current occurrence of poor performance. The paper then links the stock return of a firm to its past operating performance. The test results from both annual and quarterly data in COMPUSTAT indicate that the history of operating performance can explain up to 70% of the variations of stock returns. Good firms (defined as the firms having good past operating performance) produce higher stock returns than bad ones (defined as the firms having poor past operating performance). Past operating performance is a good indicator for stock performance for a period up to 3 quarters in the future.

(JEL G30, G14, G33)

Key words: stock returns operating performance market efficiency return predictability

1 INTRODUCTION

Financial Researchers and investors are continually confronted with the need to develop methodologies to understand stock return predictability. Numerous researches

on stock return predictability have been focused on the past return sequence. Fama (1965), Lo and Mackinlay (1988), Conrad and Kaul (1988), French & Roll (1986), find that short term horizon autocorrelations of stock returns are either too small or near zero. On the other hand, researchers find that statistical evidence of long horizon autocorrelations of return sequence are either too weak (Poterba and Summers(1988)), or unclear (Fama & French (1988a)).

A growing body of literature in return predictability has shifted towards investigating whether the expected return can be forecasted from variables other than the past return sequence.

Fama and French (1988b, 1989, 1992, 1993, 1995, 2000), Stambaugh (1986), Campbell and Shiller(1988), Balvers, Cosimano and McDonald(1990), and Chen (1991) have tested their return predictability models by using such variables as interest rate, dividend yield, the growth rate, T-bill rate, money supply, sales and their results are able to statistically link these variables with stock returns. In this paper, we investigate the usefulness of the past operating performance of a firm in predicting its future financial performance and stock returns. The paper will first introduce a simple variable to measure the operating performance of a firm. The paper proposes a hypothesis that poor operating performance tends to be persistent. We then analyze and test the hypothesis by using the data on 2000 Compustat and find that there is a strong persistence in poor operating performance. Simple regression analyses show that past poor operating performance almost completely explains the variations of the likelihood of current occurrence of poor performance. The paper then links the stock return of a firm to its past operating performance. The test results from both annual and quarterly data in COMPUSTAT indicate that the history of operating performance can explain up to 70% of the variations of stock returns. Good firms (defined as the firms having good past operating performance) produce higher stock returns than bad ones (defined as the firms having bad past operating performance). Past operating performance is a good indicator for the stock performance for a period up to 3 quarters in the future.

In section II of the paper we establish our hypothesis that the poor operating performance is more likely to be followed by another poor performance and describe the stock return model based on the hypothesis of the persistence of poor performance. In section III we give a brief description of the working data sample drawn from 2000 Compustat Industrial Quarterly tapes and test the hypothesis and proposition presented in the section II. In section IV we conclude and summarize our findings and suggest avenues for further research.

2 Hypothesis and Proposition

For the simplicity, we assume the firm's operating performance is either good

(having an operating profit), denoted as H, or poor (having an operating loss), denoted as L .[①] Let S be the number of times a firm experienced poor operating performance during the last K periods. Thus, S is the indicator variable of operating performance with higher value of S showing the severeness of poor operating performance of the firm. Defining the probability of θ_t as the chance of having a poor performance in time period t, our hypothesis is as follows:

Hypothesis I. $\theta_t = \Pr\{\text{having a poor performance in period } t\}$

$$= \mu + \lambda St + \varepsilon$$

$$\text{for } k = 1, 2, \ldots t \tag{1}$$

Hypothesis I states that the profit sequence of a firm is serially positively correlated. Namely, the more frequently a firm has suffered net operating losses, the more likely it will suffer again. According to Hypothesis I, the market may estimate θ_t by regressing θ_t on S —— the number of losses in the past K period. Hypothesis I will be empirically tested in this paper. Next, we assume that the actual performance of a firm in period t is unknown to the market at the time point t at which the market sets its stock price. (Note that we distinguish time point t from time period t.) In setting stock prices in time point t, the market is supposed to estimate firms' future (from period t on) performance conditional on their historical records of profitability. This leads to lemma I as follows:

Lemma I. Suppose that (i) the stock market is informationally efficient so that $p_t = E_t\{S, K, p_{t-1}\}$, where p_t is the random value of the underlying stock; (ii) the risk-adjusted required returns used to calculate the present value at time point t are the same for all future periods involved in discounting, i.e., $r_{t,t+n} = r_t$ for all $n <= T$; (iii) the expected net income of period $t + n$ conditional upon the information available at time point t is postulated as $Et[\text{operating performance at period } t + n] = (1 - \theta_{t,t+n})H + \theta_{t,t+n}L$,[②] where for $k \in [0, 1]$, $\theta_{t,t+n} = (1 - k^n)\mu + k^n \theta_t$, then the expected stock value function conditional on $\{S, K, P_{t-1}\}$ is

$$p_t = E_t[S, K, p_{t-1}] = [\mu L + (1 - \mu)H]/r_t + (L - H)(\theta_t - \mu)/(1 + r_t - k) \tag{2}$$

Equation (2) is derived in the Appendix using the conventional stock valuation formula $p_t = \sum D_k/(1 + r)^k$. In equation (2), $\mu L + (1 - \mu)H$ is the long run mean of net profits or dividend payouts. The unconditional expected present value of future dividend stream at time point t, $[L + (1 - \mu)H]/r$, is the fundamental

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① Please refer to Liu and Cai (1992) for the discussion of the hypothesis. We have modified the hypothesis based on the comments and feedback from the discussants at the 40th Annual Southern Finance Association Meeting and 7th Multinational Finance Society Conference.

② The expected value of net income is the weighted average of its two dichotomized possible outcomes.

value of a preferred stock.[①] For convenience, let $p = [L + (1-\mu)H]/r_t$. The conditional revision to the unconditional present value p is the term $(L - H)(\theta_t-\mu)/(1 + r-k)$. By definition, $L - H$ is always negative. the sign of the term $(k_t-\mu)/(1 + r_t-k)$ depends solely upon $\theta_t-\mu$. If the expectation of the net income of a firm is lower in period t, then its stock price at time point t will be lower than its unconditional expected present value; if the expectation of the net income of a firm is higher, then its stock price at time point t will be greater than its unconditional expected present value, There is one special comment we want to make on Lemma I. By saying that markets are of rational expectations and of informational efficiency, we mean that all the up-to-date information available at time point t is rationally utilized by the stock market, but we do not mean that no revision of expectations and policies will be needed after receiving new information after time t. As has been stated in Lemma I, based on information at time point t, the market may set up one and only one discount rate at time point t for discounting a given firm's expected dividends in the future periods. This rate, however, is subject to change as time goes on since the information set extends as time elapses. In this regard, assuming $r_{t,t+n} = r_t$ may not be so restrictive, and it is virtually consistent with the notion of time-variation in expected returns (e.g., Conrad and Kaul(1988) among others). Likewise, both $\theta_{t,t+n}$ and $\theta_{t+n,t+n}$ are the probability that a firm's cash machine would generate low income at time point $t + n$. But, the former is a prediction based on the information available at time point t, while the latter is a prediction based on the information available at time point $t + n$. Since the contents as well as the interpretation of the information set may differ from t to $t + n$, we do not expect $\theta_{t,t+n}$ equal to $\theta_{t+n,t+n}$. This argument may be defended by the notion of using new earnings information to confirm old earnings information (e.g., Freeman and Tse (1989) among others), or by the conjecture of shocks to technology and tastes causing variation of expected returns (e.g., Fama (1991) among others). In what follows, we present our main analytical result in proposition I.

Proposition I. From Lemma I, for any s, s^*, and $k \in T$ such that Hypothesis I is acceptable, it has $R_t(S = s, K = k) > R_t(S = s^*, K = k)$ if $s < s^*$.

The underlying logic is as follows. According to equation (2), the stock return at time point t relates negatively to the conditional occurrence probability that the firm earns net low income in period t, which in turn is positively correlated with the number of times that the firm had net low income in the previous K periods. This can be seen by differentiating $R_t(S)$ with respect to S. In light of Lemma I, $\partial R_t/\partial S = (1/p_{t-1})(\partial p_t/\partial \theta_t)(\partial \theta_t/\partial S) = (1/p_{t-1})(L - H)/(1 + r_{t+1}-k) < 0$. Therefore,

① A comparison should be made between (2) and the conventional stock valuation formula with non-zero dividend growth such as $p_t = \vartheta_t(1 + g)/(r-g)$, where g is the dividend growth rate. Incorporation of a unconditional constant dividend growth rate into (2) should make its first term on RHS equivalent to $p_t = \vartheta_t(1 + g)/(r-g)$. The distinctive feature of (2) lies in adding a conditional revision component to the unconditional present value.

the longer and/or more frequently a firm has experienced operating losses up until the present period, the more likely its stock return will be smaller than that with less operating losses. This proposition offers a principle to predict future stock return from historical records of operating profitability.

3 Data Description and Empirical Results

The likelihood of net operating loss is defined as the expected value $E[F_t]$, where $F_t = 1$ if a firm suffers a net operating loss in a given quarter and $F = 0$ otherwise. The unconditional likelihood of stock return is defined as the expected value $E[R_t]$, where $R_t = (p_t - p_{t-1}) / p_{t-1}$, and p_t is the current quarter close price adjusted with dividend and p_{t-1} is the previous quarter close price.

The data used in this paper are from Standard & Poor's 2000 Research Insights. The sample used for analysis contains firms that are in industries other than finance, insurance and real estate; that did not experience a stock split, merge and/or acquisition; that are not government sponsored in research and development, and that have no accounting changes and/or data errors. The sample covers years from the first quarter of 1988 to the fourth quarter of 1992 and includes firms listed on the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and Over The Counter (OTC).

Following Liu and Cai (1992), a firm is said to be suffering an operating loss in a quarter if it is evidenced by either negative 'bottom line' income or negative pre-tax operating income in that year.[①] Let F_t be the indicator variable of whether a firm has an operating loss in quarter t, where $F_t = 1$ if there is an operating loss and $F_t = 0$ if there is no operating loss.

Table 2 shows some descriptive statistics for the sample. Panel A is the likelihood of the operating performance conditional on K and S and panel B is the mean value of the stock return conditional on K and S. According to the Hypothesis I, the sequence of earnings is serially positively correlated. Namely, the more recently and more frequently a firm has suffered operating performances, the more likely it will suffer again. In other words, if Hypothesis I holds, then the likelihood of suffering a operating performance in the current period is higher if the number of losses during the last K periods is higher. From the panel A of Table 1, we observe that the likelihood of net operating loss is an increasing function of S and a decreasing function of K. This is consistent with Hypothesis I.

In the table below, K stands for the number of lagged quarters involved, S refers to the occurrence times of operating performance in K lagged years, R is the mean

① In DeAngelo and DeAngelo(1990), firms that suffered a total of 3 years net operating losses are said to be confronted with protracted financial distress.

rate of return, L is the likelihood of operating performance, O. S. is the number of observations used to calculate the statistics.

Table 3 provides the mean of stock returns conditional on K and S. Proposition I states that the higher number of S during the last K periods will lead to a lower rate of the stock return. Panel B shows that Proposition I holds perfectly for most of K and S except for $K = 5$ *or* $S = K$ for $K >= 3$. This finding of high correlation between the past poor performance and current poor performance is very similar to the findings in the performance of money managers and mutual fund industry, that is, poor performance tends to persist. To explain why the results for larger K or $S = K$ for $K >= 3$ are not as significant as smaller K, we offer our following intuitive interpretations. Large S means the persistence of poor operating performance and especially when $S = K$, the firm has continuous operating losses. The persistent poor financial performance may lead to dismissals of the management or the change of business strategy of the firm. As Denis and Denis (1995) document, the poor performance may lead forced resignations of top managers and this kind of management change is followed by significant improvements in operating performance . @ Those improvements may explain the increases of returns for those $S = K$ for $K >= 3$.

In the table below, K stands for the number of lagged quarters involved, S refers to the occurrence times of operating performance in K lagged years, R is the mean the rate of return, L is the likelihood of operating performance, O.S. is the number of observations used to calculate the statistics.

To derive statistically reliable results, we run the regression tests for Hypothesis I and Proposition I. The OLS estimates are presented in Table 4. As we explained above about the exception for $K = 5$, we run the regression up to 4 lagged quarters.

OLS Estimates of Stock Returns Against Historical Occurrence Frequency of Net Operating Loss

Model: $R^3\{L, K\} = b_1 + b_2 S + b_3 K + \varepsilon$.

K is the number of lagged quarters involved, S is the number of quarters that an typical firm suffered an operating performance during past K years, and $R^3\{L, K\}$ is the stock return conditional upon K and S. The numbers in parentheses are Student t-values.

To test Hypothesis I, we run the regression equation $\Pr\{F = 1 \mid S, K\} = a_1 + a_2 S + a_3 K + \varepsilon$. If Hypothesis I holds true, we should observe that a_2 is significantly negative and a_3 significantly positive. Panel A shows the estimates for the regression equation. All Estimates of a_2 are significantly positive and all Estimates of a_3 are significantly negative. Positive a_2 shows that the higher number of operating losses in the past will lead to a higher likelihood of operating performance in the current quarter. Negative a_3 indicates that the more distant loss will have a less impact on the financial results than a more recent one.

We use the regression equation $R^3\{L, K\} = b_1 + b_2 S + b_3 K + \epsilon$ to test Proposition I.

We should observe negative b_2 if Proposition I holds. Negative b_2 shows that the higher number of operating losses in the past will lead to a lower rate of return in the current quarter. And positive b_3 indicates that the more distant losses will have a less impact on the return than a more recent one. The panel B of Table2 shows the consistent results with Proposition I.

4 Summary and Concluding Remarks

This paper has examined the characteristics of a typical US firm's operating performance and its stock returns. We find that there is a strong and statistically significant correlation between the current and the past net operating losses. We also find that there is a strong and statistically significant correlation between the past net operating losses and the current stock returns. We have applied a stock return model conditional upon the historical configuration of operating performance under the condition of market informational efficiency. We have tested our model using the data on 2001 Research Insights database. The empirical results obtained for U.S. firms during 1995—2000 strongly support our hypothesis that the poor operating performance tends to be correlated. The past occurrence configuration of operating performance accounts for 88%—90% of the variation of their current occurrence likelihood. The operating performance appears to be a significant argument in the information set that the market uses to evaluate stocks. The past occurrence frequency of operating performance is found to be able to explain 46%—74% of the variations of current stock returns.

Table 1

Qt.	Year	OBS	Loss (%)	Return	S&P500
March	1996	2906	0.3944	5.37	10.5533
June	1996	3015	0.3572	4.49	8.4098
September	1996	3122	0.3549	3.10	3.2053
December	1996	3206	0.3930	8.33	2.5451
March	1997	3297	0.3816	2.69	3.1027
June	1997	3358	0.3597	17.44	10.6195
September	1997	3413	0.3572	7.49	13.2712
December	1997	3478	0.4123	2.87	-0.9505
March	1998	3549	0.4201	13.94	8.7395
June	1998	3603	0.4102	3.30	-3.4319
September	1998	3685	0.4328	-9.93	-13.6934

Continued from the above page 1

Qt.	Year	OBS	Loss (%)	Return	S&P500
December	1998	3727	0.5052	21.28	4.9792
March	1999	3780	0.4966	4.98	5.3140
June	1999	3827	0.4628	7.05	15.8286
September	1999	3870	0.4587	-6.24	6.7955
December	1999	3927	0.5067	14.87	20.4124
March	2000	4009	0.4657	2.29	28.1821
June	2000	4068	0.4435	-2.66	4.2238
September	2000	4136	0.4434	-0.97	0.5200
December	2000	4233	0.4937	-7.82	-12.9631
March	2001	4293	0.4740	-11.85	-0.7483
June	2001	4302	0.4398	5.85	6.2254
September	2001	3951	0.3751	-14.67	-15.2745
Total			0.4278	3.09521	4.6029

Summary Statistics for Net Operating Loss and Stock Returns From COMPUSTAT, March 1996 to September 2001, By Calendar Quarter.

Table 2 **Operating Performance and Descriptive Statistics of Data**

	$K=1$		$K=2$		$K=3$		$K=4$		$K=5$	
	L	OBS	L	OBS	L	OBS	L	OBS	L	OBS
S=										
0	0.16260	17041	0.14240	14992	0.11959	12629	0.09876	10827	0.09653	9534
1	0.73442	8073	0.56749	4678	0.53612	4342	0.50820	4069	0.48440	3644
2	.	.	0.83854	5469	0.66224	2659	0.47276	2386	0.50267	2198
3	.	.	.	.	0.88160	4223	0.67530	1854	0.55340	1601
4	.	.	.	.	.	.	0.91308	3417	0.71611	1409
5	.	.	.	.	.	.	.	.	0.92607	2854

Table 3 **Operating Performance and Descriptive Statistics of Data**

	$K=1$		$K=2$		$K=3$		$K=4$		$K=5$	
	L	OBS	L	OBS	L	OBS	L	OBS	L	OBS
S=										
0	0.17644	17041	0.18282	14992	0.18586	12629	0.18672	10827	0.19895	9534
1	0.03435	8073	0.08888	4678	0.08244	4342	0.08142	4069	0.07689	3644
2	.	.	0.04045	5469	0.05770	2659	0.08050	2386	0.09615	2198
3	.	.	.	.	0.06013	4223	0.07428	1854	0.07176	1601
4	.	.	.	.	.	.	0.07896	3417	0.05068	1409
5	.	.	.	.	.	.	.	.	0.10040	2854

Table 4 **Regression Analysis**

K	b_1	b_2	b_3	Adj $R2$	O.S.
1	.098260	-.104400	.030490		
2	.102374(7.169)	-.052435(-4.031)	.012831(1.218)	.7444	5
3	.101780(7.693)	-.031699(-4.353)	.008132(1.218)	.6636	9
4	.099038(7.753)	-.019072(-3.866)	.006029(1.229)	.5642	14

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Foreign Direct Investment and Equilibrium of Balance of Payments[①]

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Abstract: This paper shows that FDI is an important component of open economic development and an important variable of open macroeconomic equilibrium. The paper finds that FDI is a balancing variable in the harmonious development of open macro-economy. FDI plays an important role in balance of payments and the macroeconomic system.

Key Words: foreign direct investment balance of payments

1 Introduction

Under open economic condition, foreign direct investment, with rapid changes of its scale, flow and structure, has exerted a great influence upon economic growth, balance of payments, adjustment of industrial structure, development of a country's economy, and has become one of the important components of harmonious internal and external development of macro-economy. Economists began to discuss theories of foreign direct investment in 1960s, which was over one century later than the practice of foreign direct investment. A number of researchers on FDI have focused their attention on microanalysis, on theoretic research of single investing item, and on single enterprises investing motive and decision. This approach has the theoretical significance of guiding enterprises in their development of foreign direct investment. However, it fails to recognize the FDI's influence and impact on the movement of the national economy. At present, the literature of macroeconomic equilibrium has paid little attention on FDI, FDI has still not been taken into account in the analysis of macroeconomic equilibrium. This paper, taking FDI as an important component of open macroeconomic development and an important variable of open macroeconomic equilibrium analysis, tries to make FDI into analysis of open macroeconomic equilibrium.

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This paper shows that FDI is an important component of open macroeconomic development and an important variable in the open economy. The paper finds that FDI is a balancing variable in open macro economic equilibrium. FDI plays an important role in balance of payments and the macroeconomic system.

2 Foreign Direct Investment and Equilibrium of Balance of Payments

The condition of keeping balance of payments equilibrium is that a balance on current account is offset by an equal and opposite balance on capital account. In order to make the analysis simple, the current account in this paper only consists of goods trade item, services item and income item, transfer item is omitted. Capital account consists of FDI's inflow and outflow, portfolio investment and other investment. The equation of balance of payments equilibrium is as following:

$$BP = X\text{-}M + S\text{-}S^* + IC - IC^* + FDI^* - FDI + PI^* - PI + OI^* - OI \quad (1)$$

Where, BP is balance of payments, S is services credit, S^* means services debt, IC is income credit, IC^* is income debt, PI is portfolio investment credit, PI^* is portfolio investment debt, OI is other investment credit, OI^* is other investment debt. CA denotes current account, FA means capital account financial account). If portfolio investment and other investment in capital account are not put into consideration in order to keep analysis simple, then the equation of balance of payments equilibrium is as following:

$$BP = X\text{-}M + S\text{-}S^* + IC\text{-}IC^* + FDI^* \text{-} FDI = R + FDI^* \text{-} FDI = 0 \quad (2)$$

Here, in the equation, IC-IC* only means FDI's profit since portfolio investment and other investment are not put into consideration in capital account.

At the FDI's initial period, the FDI's profit may be $IC\text{-}IC^* = 0$. The surplus of current account is the surplus of goods trade and services trade. Under such condition of the balance of payments, the surplus of current account is equivalent to the surplus of capital account, that is $X - M + S\text{-}S = FDI - FDI^*$. This time the surplus of goods trade and services trade have become the basic condition for FDI at the initial period. On the other hand, the trade deficits could be made up by foreign capital from FDI^*, and balance could be maintained. Along with the development of a country's FDI abroad and the gradual increase of FDI profits, the trade deficits of a country could be made up by the profits from FDI abroad and by the FDI's flow-in. FDI's role in keeping the balance of payments has become daily obvious with enlargement of international direct investment scale. Since 1980's, a certain part of trade deficits of the USA has been made up or balanced by profits of the USA's FDI abroad, and by other countries' FDI in the USA. The continuously great trade revenue of Japan since 1980's has promoted the rapid development of Japan's FDI abroad. In conclusion, under the condition of the full international movement of

industrial capital, the rapid development of FDI plays the important role in keeping the balance of payments.

The affect of FDI on balance of payments shows that it plays an important role in accommodating the current account and in balancing current account and capital account. The effect on current account can be seen as following:

(1) Investment income amounts to a considerable proportion in the current account. Taking developed countries such as United Kingdom, Japan and United States as examples, we can see that the ratio of income item to current account is as high as 30%, 25% and 20% respectively. And in United States and United Kingdom, foreign direct investment income is about 8% of the current account income (Table 1). All these show important influence of investment income on current account balance.

Table 1 **FDI's accommodation function on current account in U.S.A & U.K. (in billion dollars)**

Year	United States					United Kingdom				
	Current Account	goods	Income	Investment Income/ Current Account(%)	FDI Income/ Current Account(%)	Current Account	goods	Income	Investment Income/ Current Account(%)	FDI Income/ Current Account(%)
1988	-1277.10	-1269.6	126	23.02	9.30	-293	-361	81	34.51	8.45
1989	-1042.6	-1151	129.7	23.70	8.60	-366	-405	58	37.80	8.53
1990	-942.6	-1090	198	22.90	8.40	-325	-347	24	37.30	7.39
1991	-92.6	-740	148	19.10	7.30	-142	-182.70	1.4	36.40	6.00
1992	-613.6	-961	101	16.10	7.00	-183	-234	55.3	32.50	6.35
1993	-997.2	-1313	86.3	15.70	8.00	-162	-202	33	31.60	7.20
1994	-1477.7	-1646		16.80	8.20	-35	-164.90	133.6	30.60	8.23
1995	-1482.3	-1719		18.84	9.20	-46	-183.90	150.7	32.00	8.53

Statistic resource: IMF: International Financial Statistics 1997, 1980, Balance of Payment Statistics yearbook.

(2) The investment income surplus contributes an important sector in alleviating goods trade item's deficit. The United States and the United Kingdom have a sustained deficit in goods trade, while having a consecutive surplus in services and income item which to a certain extent writes off and alleviates the severe goods trade's deficit and conclusively decrease the deficit amount in current account. In United States in 1993, the deficit in goods trade amounted to US $ 131.3 billion. While surplus of its services item and income item amounted to US $ 69.1 billion, which partially writes off goods trade's deficit and brought the current account's deficit down .

Table 2 **FDI's accommodation effect on current account** *in billion dollars*

		1988	1989	1990	1991	1992	1993	1994	1995
Malaysia	Current Account	18.67	3.15	-8.7	-41.83	-21.67	-28.09	-41.47	
	Merchandise Account Deficiency	54.27	42.77	25.25	3.91	31.50	30.26	15.81	
	Service Account Deficiency	-18.26	-19.22	-16.26	-21.00	-23.47	-28.36	-23.37	
	Income Account Deficiency	-19.42	-21.79	-18.72	-24.73	-21.43	-32.14	-35.54	
	Investment Income ExpenditureCurrent Account Expenditure	12.75%	11.25%	9.97%	8.55%	9.36%	8.86%	8.28%	
	Foreigner's FDI Profit ExpenditureCurrent Account Expenditure	5.83%	6.69%	5.54%	6.02%	5.70%	5.48%		
Korea	Current Account	145.38	53.87	-17.45	-82.91	-39.39	-10.16	-38.55	-82.51
	Merchandise Account Deficiency	114.45	45.97	-20.24	-69.80	-21.46	-18.60	-31.46	-47.46
	Service Account Deficiency	-22.76		-0.60	-12.65	-8.77	-9.53	-9.95	-12.46
	Income Account Deficiency	-20.19	-12.65	-8.77	-9.53	-9.95	-12.46	-15.54	-22.76
	Investment Income Expenditure Current Account Expenditure	5.24%	4.25%	3.72%	4.25%	3.24%	2.92%	2.84%	2.67%
Mexico	Current Account	-23.74	-58.25	-74.51	-148.88	-244.42	-234	-294.18	-6.54
	Merchandise Account Deficiency	26.11	4.05	-8.81	-72.79	-159.34	-134	-184.67	-70.89
	Service Account Deficiency	-1.94	-6.72	-22.29	-20.9	-26.84	-25.29	-26.02	-8.74
	Income Account Deficiency	-70.43	-61.01	83.16	-82.65	-92.09	-110.3	-123.61	-125.79
	Investment Income ExpenditureCurrent Account Expenditure	22.7%	20.8%	18.24%	16.2%	13.9%	15%	14.5%	16.59%
Thailand	Current Account	-16.54	-24.98	-72.81	-75.71	-63.03	-63.64	-80.85	-135.54
	Merchandise Account Deficiency	-20.74	-29.16	-67.51	50.89	-41.64	-42.97	-37.26	-79.66
	Service Account Deficiency	10.79	9.52	101	-7.68	-10.8	14.1	-37.56	-39.59
	Income Account Deficiency	-8.94	-7.6	-8.54	-10.75	-17.08	-14.06	-17.31	-21.14

Statistic resource: IMF Balance of Payment Statistics Yearbook 1996.

(3) Serious unbalance of international investment development will aggravate the current account's deficit, worsen the balance of payment and trigger the financial crisis. The financial crisis, which occurred in Mexico, Thailand, Malaysia and Korea in 1990s, shows a cohesive relation to the consecutive years' deficit in current account. And the main reason behind this consecutive deficit is the deficit incurred

in its service and income item. Malaysia earns a surplus in its commodity trade account, but its comparative serious deficit in service and income account writes off this surplus, resulting in a current account's deficit (Table 2). And the deficit incurred in income account is caused mainly by the investment asymmetry, which includes severe asymmetry in direct investment's and securities' inflows and outflows, and the severe asymmetry in long and short loans. The investment asymmetry will cause the disbursement of profit to exceed investment income, and to bring out consecutive income account's deficit.

The analysis of the above data shows that the 1990s financial crisis that occurred in Mexico and South-East Asia has a cohesive relevant to the asymmetry in international investment and the disproportionate internal and external economic development in their way of opening their economy. In their fast growing process, the emerging industrial countries such as Thailand and Korea introduce foreign Capital to make up its insufficiency in production capital and foreign exchange. But relying on short foreign capital in maintaining its economic growth and making up currency account's deficit can only have an evident effect in the short run. Practice has already proved that without a perfect macro-economic accommodation system, especially a perfect financial adjustment system, a complete supervising measure and organization, a strong competitive capability of its banks and enterprise, blindly opening its capital market and service trade, unidirectional introducing foreign mainly into securities, real estate instead of physical economic department (——which can add export) will only aggregate the economic structure unbalance and accelerate the process of foaming economy. Meanwhile, to the outside world the international competitive capability will descend accordingly and furthermore cause an unbalanced balance of payment. The day the foaming economy collapses, the unhealthy financial claims increases, serious current account's deficit appears, the day the foreign investors add fuels to the flame, the day the currency crisis and financial crisis happen. Enough attention shall be aroused to the lessons learned from the new emerging industrial countries. From these lessons we can learn the following:

A nation's economic growth cannot excessively depend on large amount inflows of short foreign capital. Relying on short foreign capital especially securities or bank loan to stimulate a nation's economic development will only result in financial crisis when the reverse flows of large amount of short foreign capital appears.

In their way of integrating into the economic globalization, these nations shall gradually carry a step forward to financial and trade freedom, and shall establish a strong accommodation system, and set up a strict and applicable procedure and detailed regulations. Finally as shown by practice, the proper symmetry and coordinated development in international investment is very important to both the internal and external open economic equilibrium and the accommodation of balance of payment. With China's joining WTO and putting the free financial services of WTO