China's Balance of Payments:

Recent Shifts, Driving Factors, and Outlook

Fei SUN
Research Institute of Finance, DRC
sun030407@163.com

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- II. New Characteristics of China's Balance of Payments
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I. Introduction

1982-1993

The initial stage of fluctuations. China's balance of payments exhibited both surpluses and deficits in its current and non-reserve financial accounts.

1994-2011

The stage of "double surplus" growth. Especially after joining the WTO in 2001, foreign trade entered a period of rapid development.

2021-Present

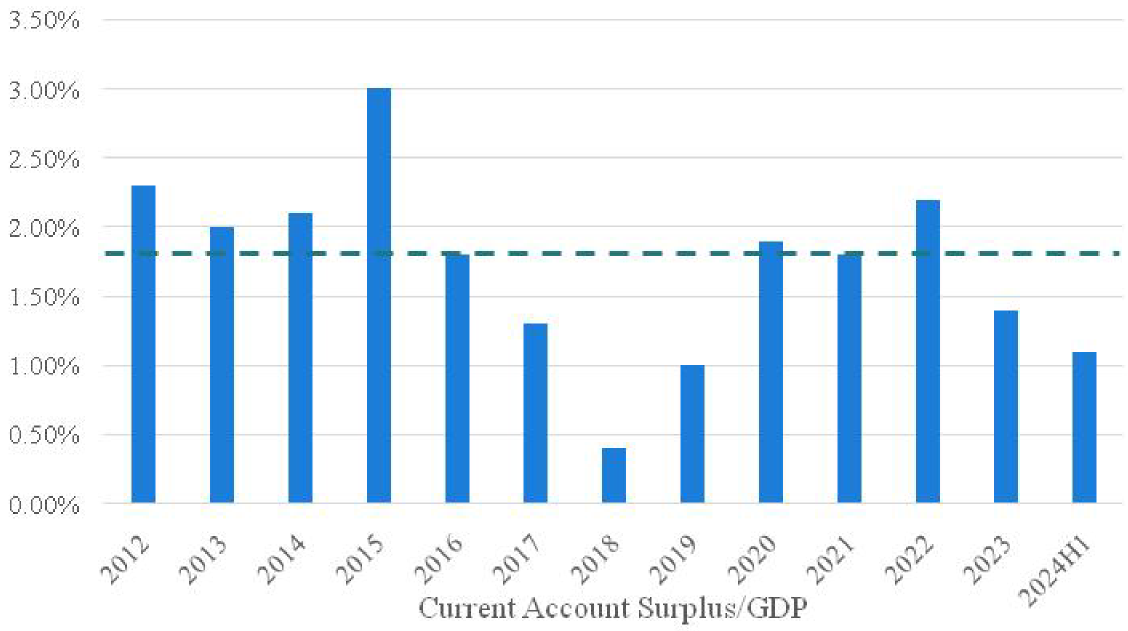
The stage of exploring a new balance. Influenced by multiple factors such as changes in the international political and economic environment, the transformation of China's economic development model, fluctuations in the renminbi exchange rate, and the COVID-19 pandemic.

II. New Characteristics of China's Balance of Payments

(I) Current Account

1. The surplus-to-GDP ratio has declined

In 2023, China's current account surplus was $253 billion, accounting for 1.4% of GDP. This is lower than the average level of 1.8% from 2012 to 2022. In the first half of 2024, this ratio was 1.1%. Nevertheless, it is still within the internationally recognized reasonable range of ±4%.



Source: State Administration of Foreign Exchange, *China's Balance of Payments Report* 2012-2023

(I) Current Account

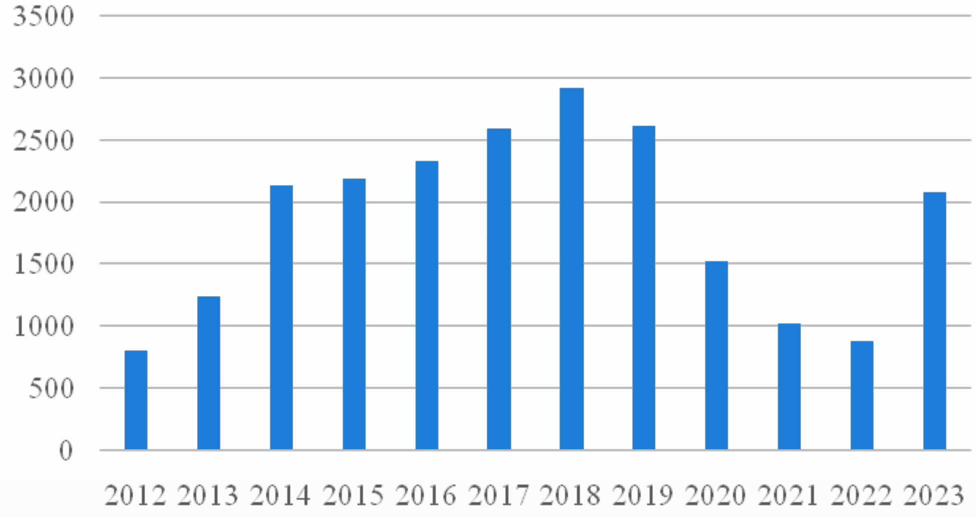
2. The trade surplus in goods remains both high and stable

- China's goods trade surplus in 2023 was $593.9 billion, the second highest on record; in the first half of 2024, it was $288.4 billion, still maintaining a relatively high level.
- The growth of intermediate goods trade is significantly faster than the growth of general commodity trade. The share of intermediate goods in the global intermediate goods market increased from 8.8% in 2013 to 12% in 2023.
- This reflects the continuous deepening of China's economic integration into the global supply chain.

(I) Current Account

3. The service trade deficit is gradually rebounding, with a significant recovery in the travel sector

- In 2023, China's service trade deficit reached $207.8 billion, a 1.4-fold increase compared to 2022. In the first half of 2024, the service trade deficit stood at $123 billion, up 36% year-on-year.
- There was a significant rebound in cross-border travel activities such as tourism and personal study abroad by Chinese residents, leading to an increase in the service trade deficit.
- Emerging producer services are the main surplus items—telecommunications, computer, and information services.
- In the first half of 2024, international travel revenues inside China reached $17.2 billion, a year-on-year increase of about 42%.



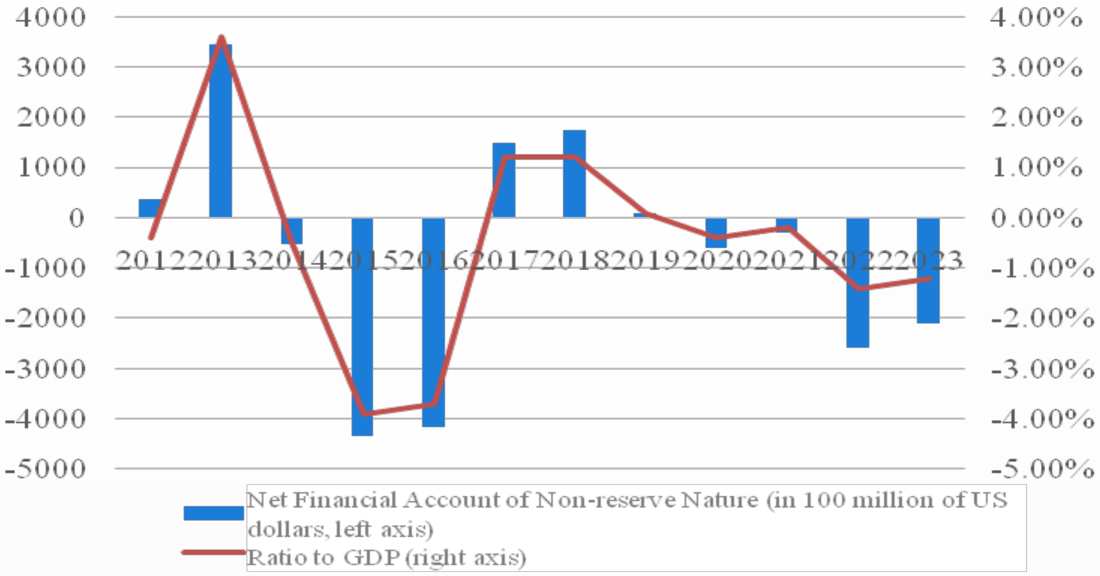
Service Trade Deficit (in 100 million of US dollars)

Source: State Administration of Foreign Exchange, *China's Balance of Payments Report* 2012-2023

(II) Capital and Financial Account

1.The deficit in the non-reserve financial account continued

- In 2023, China's non-reserve financial account deficit was approximately $209.9 billion, and in the first half of 2024, the deficit was $127.2 billion, accounting for approximately 1.5% of GDP.
- Foreign investment in China reached $91.7 billion, nearly six times that of the same period in 2023, while the country's outward investment amounted to $218.9 billion, approximately 2.4 times that of 2023.



The balance of financial accounts excluding reserves

Source: State Administration of Foreign Exchange, *China's Balance of Payments Report* 2012-2023

(II) Capital and Financial Account

2. Direct investment shows a significant deficit

In 2023, China's net direct investment outflow was $142.6 billion, higher than the $19.8 billion net outflow in 2022. In the first half of 2024, the net outflow of direct investment was $113.5 billion.

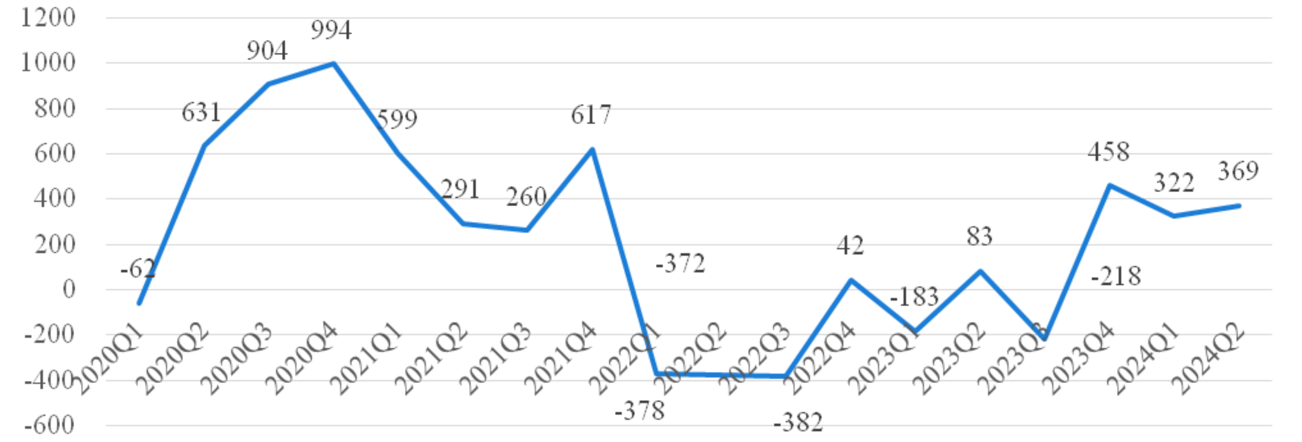
Looking further into equity investments, China's direct outward investment in equity-based assets saw a net outflow of $65.3 billion in the first half of 2024, a 17.4% increase year-on-year. At the same time, inward foreign equity-based direct investment registered a net inflow of $25.9 billion.

Capital injections continued to rise, $120 billion in 2023, an additional $40.7 billion during the first half of 2024.

(II) Capital and Financial Account

3. The portfolio investments deficit has narrowed significantly

In 2023, the deficit in securities investment was $63.2 billion, a decrease of 78.1% compared to 2022. Foreign portfolio investments shifted from a net outflow of $109 billion in 2022 to a net inflow of $14.1 billion. This trend continued into the first half of 2024, foreign portfolio investments into China registered a net inflow of $69.1 billion.



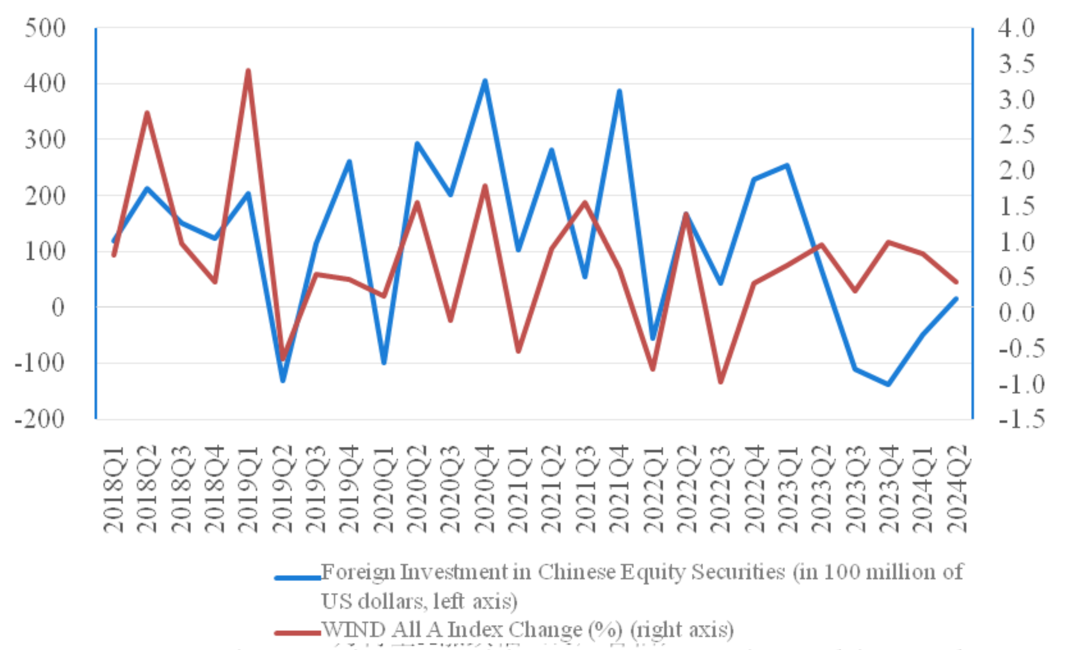
Inflows and Outflows of Foreign Portfolio Investments into China since 2020 (in 100 million of US dollars)

Source: State Administration of Foreign Exchange, *Balance of Payments Statement*

(II) Capital and Financial Account

3. The portfolio investments deficit has narrowed significantly

- By category of portfolio investments in China, foreign portfolio investments into the country in the first half of 2024 reflected divergent trends.
- Debt securities recorded a net inflow of USD 72.1 billion, compared to a net outflow of USD 42 billion in the same period for 2023, while equity securities saw a net outflow of USD 2.9 billion, a reversal from the USD 3.2 billion net inflow recorded in 2023, a trend that partially correlates with fluctuations in China's A-share market.



Foreign Equity Securities Investments into China and A-share Index Trends Since 2018

III. Major Factors Influencing Changes in China's Balance of Payments

(I) Changes in China's Economic Development Model

1.Domestic demand has been playing an increasingly significant role in driving growth

- In 2023, domestic demand contributed 111.4% to economic growth, an increase of 25.3 percentage points from 2022.

2. China actively promotes the upgrading and transformation of the industrial structure to enhance the overall quality and efficiency of economic development

- The technological content and added value of China's export products have significantly increased, enhancing the competitiveness of export products in the global market; the stabilization and quality improvement of exports have further driven the development of related industries in China, providing support for the overall economic improvement.
- In recent years, new forms and models of trade in China, such as cross-border e-commerce and market procurement trade, have brought new growth points to China's balance of payments. The development of new trade forms has not only promoted the growth of China's exports of goods and services but also attracted more foreign investors to focus on the Chinese market.

(II) China's Continuous Improvement of High-Level Institutional Mechanisms for Opening-up

1. Continuously deepening reform measures in the foreign trade field

Continue to Reduce Tariffs

- In 2023, China implemented import provisional tariffs lower than the most-favored-nation rates for 1,020 items, an increase of 66 items compared to 2022, bringing the overall tariff level down to 7.3%.

Comprehensively deepen the pilot of innovative development in service trade, and introduce a negative list for cross-border service trade

- The 28 pilot regions for the comprehensive deepening of innovative development in service trade have introduced a total of 2,883 tasks and measures over three years, forming a series of pilot outcomes and innovative experiences.

Promoting the construction of free trade zones has achieved significant results

- In 2023, the total import and export volume of the 22 free trade zones reached 7.67 trillion yuan, a year-on-year increase of 2.7%, accounting for 18.4% of the national total. Free trade zones have not only promoted trade liberalization and facilitation but also provided important support for optimizing the balance of payments.

(II) China's Continuous Improvement of High-Level Institutional Mechanisms for Opening-up

2. Continuously optimizing policies supporting cross-border investment and financing

Increase efforts to attract foreign investment

- "Attracting and utilizing foreign investment with greater intensity" has been listed by the Chinese government as a key annual work task on multiple occasions.

Introduce measures to facilitate foreign exchange

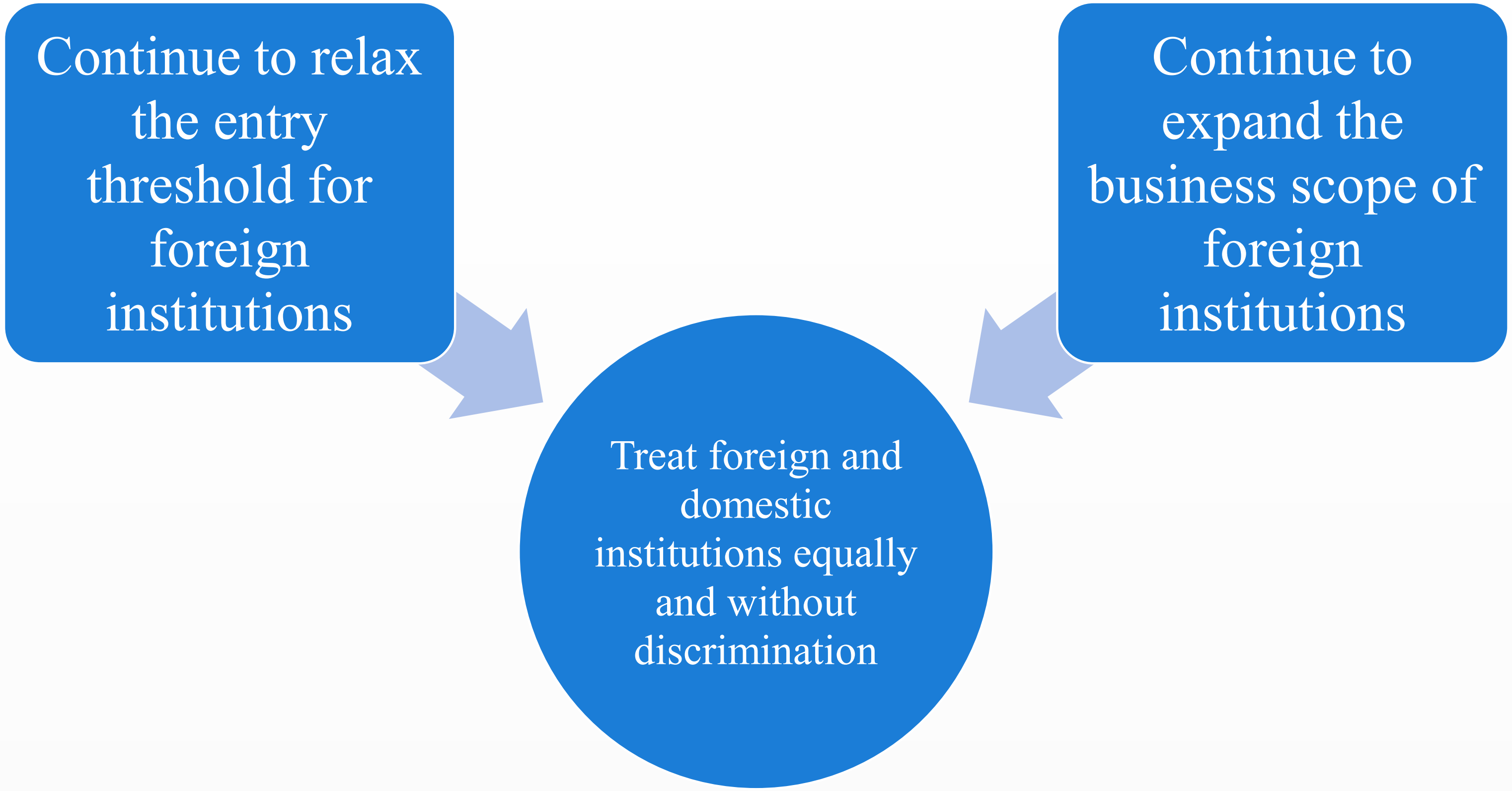
- Facilitate foreign exchange income and expenditure in trade
- Expand the facilitation of capital projects
- Optimize foreign exchange management of capital projects

Strongly support domestic enterprises in cross-border financing

- Support enterprises in going overseas for listing in accordance with laws and regulations
- Pilot programs for cross-border financing facilitation for small, medium, and micro high-tech enterprises and "specialized, refined, and innovative" enterprises

(II) China's Continuous Improvement of High-Level Institutional Mechanisms for Opening-up

3. Continuously expanding institutional opening-up in the financial sector



(II) China's Continuous Improvement of High-Level Institutional Mechanisms for Opening-up

4. Continuing to deepen the interconnectivity of financial markets

- China has actively promoted the two-way opening of financial markets and has initially formed an open pattern covering stock markets, bond markets, foreign exchange markets, and derivative markets. "Shanghai-Hong Kong Stock Connect," "Shenzhen-Hong Kong Stock Connect," "Bond Connect," and "Swap Connect" have become interconnected financial market methods actively participated in by domestic and international investors.

5. Actively promoting payment facilitation measures

- China continuously optimizes mobile payment and foreign currency exchange services, enhancing the payment convenience for foreigners in China and effectively promoting the growth of international travel income.

(III)The Challenge of Rising Uncertainties in the Global Trade Environment

- Mainly affected by the sluggish global economic growth, adjustments in industrial policies, reshaping of supply chains, intensification of trade and investment protectionist measures, ongoing regional conflicts, and tense geopolitical relations, global trade is still in the process of recovery, and global foreign direct investment faces more tests.
- According to public data, global trade volumes fell by 1.2% in 2023, with trade value dropping by 4.6%. According to UNCTAD, global FDI fell by 2% in 2023, but if volatile "conduit economies" are excluded, the actual decline exceeded 10%.

IV. Preliminary Prospect

1. Current account surplus within a reasonable range

2. More orderly and convenient cross-border capital flows, with increased foreign direct investment (FDI) and outward investment

Foreign Investment in China

- As the domestic economy stabilizes and rebounds, the modern industrial system accelerates its construction, the business environment continues to be optimized, and the external environment improves, the scale of foreign investment in China is expected to stabilize and recover.

Overseas Investment by Chinese Enterprises

- Supported by the enhanced competitiveness of domestic enterprises and the acceleration of global production layout, the demand for outward direct investment will continue to be steadily released.

Securities Investment

- It is anticipated that inbound equity securities investment will improve steadily with the recovery of China's capital market, and foreign capital will gradually allocate renminbi assets.

3. The foreign exchange market may experience two-way fluctuations on the basis of overall stable operation.

The sustained and robust growth of China's economy, along with the recovery of international trade and investment activities, will provide support for the renminbi exchange rate to maintain stable operations.

However, the stability of the renminbi in the future will not only depend on the performance of the Chinese economy but also on the international political and economic environment, as well as the monetary policy actions of the Federal Reserve.

External factors such as expectations for the Federal Reserve's monetary policy have a significant impact on the renminbi exchange rate, which may exhibit characteristics of two-way fluctuations in the future.

Thank You for Listening!