China's Balance of Payments:
Recent Shifts, Driving Factors, and Outlook

Fei SUN[1] [2]

Abstract

As China's economy gradually recovers from the pandemic-related shocks and import-export activities steadily grow, contemporary trends are emerging in the country's balance of payments. This report focuses on analyzing the latest changes in China's balance of payments since 2023, exploring the underlying drivers, and providing an outlook on future trends. The research reveals that the new developments in China's balance of payments are mainly reflected in the current account, with a stable trade surplus in goods, a gradual recovery in the services trade deficit, and a slight decrease in the surplus-to-GDP ratio. In the capital and financial account, the primary features include a continued deficit in non-reserve financial accounts, an expanded deficit in direct investment, and a significant narrowing of the deficit in portfolio investment, especially with foreign portfolio investment turning into a net inflow. The driving factors can be analyzed from three perspectives: changes in China's economic development model, initiative-taking opening-up policies, and the impact of rising uncertainties in the global trade environment. Looking ahead, as China's economy steadily recovers, its balance of payments will continue to maintain an autonomous equilibrium. However, this will require the coordinated improvement of both internal and external conditions, including the thorough implementation of various reform and opening-up measures in China, and the ability of major economies such as the United States to maintain stability and coordination in their monetary policies.

Keywords: China balance of payments; capital flows; new reform and opening-up measures.

[1] This research represents the views of the author alone and does not reflect the views of the institution with which the author is affiliated.

[2] Fei SUN, Director and Research Fellow, International Finance Research Office, Research Institute of Finance, Development Research Center of the State Council.

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I. Introduction

The balance of payments serves as a critical measure of a nation's external economic activity, overall economic health, and global competitiveness. Since China began recording its balance of payments in 1982, the accompanying structure has evolved in step with the transformation of the country's economic development model and shifts in the global political and economic landscape. These changes have reflected China's expanding openness and its deeper integration into the global economy. Overall, China's balance of payments structure has undergone three distinct phases of development:

1982–1993, fluctuation phase during the initial opening-up period. During this phase, China's balance of payments exhibited both surpluses and deficits in its current and non-reserve financial accounts. This reflects the country's preliminary stages of reform and opening-up, where the overall economic system and foreign trade framework were undergoing significant transformations. Despite considerable fluctuations in the balance of payments during this period, it provided valuable experience for improving China's subsequent foreign trade and investment policies, and for fostering economic growth.

1994–2011, the "Double Surplus" growth phase. Following the unification of the CNY exchange rate in 1994, and the implementation of a series of reform measures, China's foreign trade activity surged. Particularly after the country's accession to the WTO in 2001, foreign trade entered a period of rapid growth. From 2001 to 2011, the average annual growth rate of China's total imports and exports for goods and services reached 22%, and by 2011, the total had expanded to nearly 95 times the level of 1982. This period saw the establishment of an export-driven economic growth model, with investment fueled primarily by foreign demand. The trade surplus in goods grew steadily, becoming the main source of the current account surplus. With the exception of a USD 6.3 billion outflow during the 1997–1998 Asian financial crisis, the non-reserve financial account generally recorded net inflows. China entered an 18-year period of "double surplus" in its balance of payments.

2012–Present, exploration of a new balance. During this phase, China's balance of payments structure has undergone significant changes. While the current account continues to record surpluses, a number of years during this period encountered a declining surplus compared to the previous year. The non-reserve financial account has fluctuated between surplus and deficit, with eight years of deficits recorded between 2012 and 2023. These changes have been driven by a number of factors, including shifts in the global political and economic climate, changes in China's economic development model, fluctuations in the CNY exchange rate, and the impact of the COVID-19 pandemic.

This report will focus on summarizing the new characteristics of China's balance of payments after 2023. This includes the **current account**, where the surplus-to-GDP ratio has decreased, falling from approximately 2.2% in 2022 to 1.4% in 2023. In the first half of 2024, this ratio further declined to 1.1%, though it still remains within the internationally recognized acceptable range of ±4%. **In terms of the capital and financial account**, China's net inflow of foreign capital (i.e., the net balance on the liabilities side of the financial account) increased from USD 15.6 billion during the same period last year to USD 91.7 billion. Specifically, the improvement in foreign capital inflows was primarily driven by investments in securities and other types of investments in the country itself. For equity investments, direct investments continued to show a net inflow, although the scale decreased from USD 43.3 billion during the same period last year to USD 25.9 billion in 2024. However, long-term investment intentions, as reflected by the increase in capital, continued to grow, with an additional USD 40.7 billion of capital added in the first half of the year. Furthermore, in terms of the CNY exchange rate, the currency remained relatively stable against the U.S. dollar in the first half of 2024, with an appreciating trend emerging in the third quarter of the year.

The remainder of this report is structured as follows. First, it analyzes the driving factors behind the changes described above in three key areas: the shift in China's economic development model, its initiative-taking opening-up policies, and the impact of international economic and financial conditions, including changes in the monetary

policies of the world's major economies. Based on an analysis of the future performance of these factors, the report forecasts possible scenarios for China's balance of payments. It is expected that with ongoing improvements in both internal and external environments, China's balance of payments will continue to maintain a basic balance.

II. New Characteristics of China's Balance of Payments

2.1 Current Account

The surplus-to-GDP ratio has declined. According to data published by the State Administration of Foreign Exchange (SAFE), China's current account surplus in 2023 amounted to USD 253 billion, which represented 1.4% of GDP. This was a 0.8 percentage point decrease from 2.2% in 2022 and was also below the average level of 1.8% recorded between 2012 and 2022 (Table 1). In the first half of 2024, this ratio further declined to 1.1%, but it remained within the internationally recognized acceptable range of ±4%. According to the relevant data, the main contributors to the narrowing of the current account surplus were trade in services and primary income, which respectively accounted for 77% and 21% of the decline in the current account surplus.

Table 1 China's Current Account Surplus as a Percentage of GDP (2012-2023)

Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Current Account Surplus as % of GDP	2.30%	2%	2.10%	3%	1.80%	1.30%
Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Current Account Surplus as % of GDP	0.40%	1%	1.90%	1.80%	2.20%	1.40%

Data source: China's Balance of Payments Reports, 2012-2023, SAFE

The trade surplus in goods remains both high and stable, with an impressive performance in intermediate goods trade. As China's economy continues to recover, the resilience of its foreign trade has also been strengthened, with the scale of goods trade imports and exports rising steadily each quarter, maintaining a substantial surplus. In 2023, China's goods trade surplus, as calculated under the balance of payments framework, reached USD 593.9 billion, second only to the USD 665 billion surplus achieved in 2022, marking the second-highest surplus on record. Exports amounted to USD 3.18 trillion, and imports stood at USD 2.59 trillion, both at historically prominent levels. In the first half of 2024, the goods trade surplus remained high at approximately

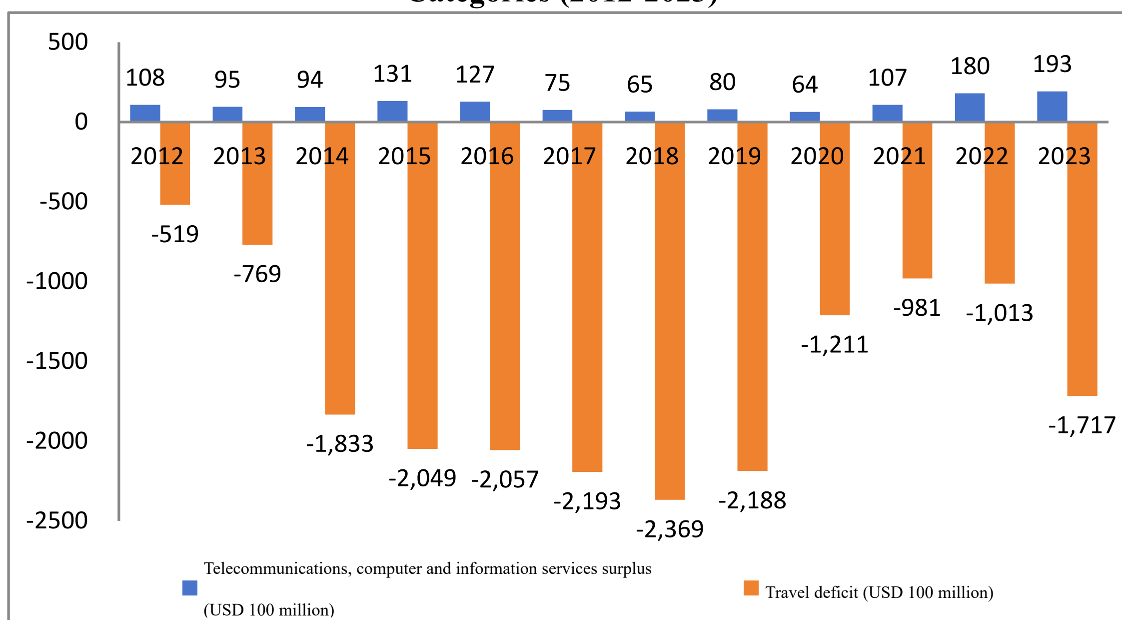
USD 288.4 billion, again the second-highest figure for the same period, trailing only 2022. Exports during this period reached USD 1.58 trillion, up 3% year-on-year, while imports totaled USD 1.29 trillion, up 4% year-on-year. **Breaking it down by category,** based on reports from the World Trade Organization (WTO), China's intermediate goods trade growth significantly outpaced that of general merchandise. According to Chinese customs data, the country's share of the global intermediate goods market rose from 8.8% in 2013 to 12% in 2023. That year, the value of China's imports and exports of intermediate goods reached CNY 25.53 trillion, accounting for 61.1% of total import and export value. Of this, intermediate goods exports amounted to CNY 11.24 trillion, representing 47.3% of total exports, while imports of intermediate goods reached CNY 14.29 trillion, comprising 79.4% of total imports. This reflects China's deepening integration into global supply chains.

The service trade deficit is gradually rebounding, with a significant recovery in the travel sector. From 2020 to 2022, the COVID-19 pandemic led to a narrowing of China's service trade deficit. Since 2023, this deficit has gradually returned to pre-pandemic levels. In 2023, China's service trade deficit reached USD 207.8 billion, a 1.4-fold increase compared to 2022. In the first half of 2024, the service trade deficit stood at USD 123 billion, up 36% year-on-year (see Table 2). Looking at key categories, areas such as cross-border travel for Chinese residents, including personal study abroad and tourism, have recovered significantly, with travel services deficit of USD 171.7 billion in 2023, a 69% increase over 2022. In the first half of 2024, the travel services deficit reached USD 103.2 billion, up 37%, almost returning to the level of the first half of 2019, before the pandemic. Emerging productive services have become the main source of surplus. In 2023, the telecommunications, computer, and information services surplus reached USD 19.3 billion, up 7.2% from 2022. In the first half of 2024, this surplus rose to USD 10 billion, a 25% increase compared to the same period in 2023 (see Figure 1). It is worth noting that, in the first half of 2024, international travel revenues inside China (including business travel, education-related travel such as studying in China, and other personal travel) reached USD 17.2 billion, a year-on-year increase of approximately 42%.

Table 2 China's Service Trade Deficit Scale (2012-2023)

Year	2012	2013	2014	2015	2016	2017
Deficit Scale (USD 100 million)	-797	-1236	-2137	-2183	-2331	-2589
Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Deficit Scale (USD 100 million)	-2922	-2611	-1525	-1012	-874	-2078

Figure 1 China's Import and Export Balance of Service Trade by Selected Categories (2012-2023)



After a slight decrease of 4% in 2023, the primary income deficit in the first half of 2024 amounted to approximately USD 77.8 billion, up by 12.9% compared to the same period in 2023. The main contributor was the investment income deficit (USD 82.4 billion). Specifically, total investment income earned by foreign investors in China reached USD 195.5 billion, an increase of 8% year-on-year, while income from Chinese outward investments totaled USD 113.1 billion, up 4% year-on-year. This growth was partly driven by the significant profit growth reported by foreign-invested enterprises. According to data from the National Bureau of Statistics, between January and June

2024, the total profit of overseas and Hong Kong, Macao, and Taiwan-invested enterprises was CNY 861.49 billion, an increase of 11.0%.

2.2 Capital and Financial Account

The deficit in the non-reserve financial account continued. In 2023, China's non-reserve financial account deficit was approximately USD 209.9 billion, creating an autonomous "one surplus, one deficit" pattern with the current account surplus. This trend persisted throughout the first half of 2024, with a non-reserve financial account deficit of USD 127.2 billion, accounting for about 1.5% of GDP. During this period, foreign investment in China reached USD 91.7 billion, nearly six times that of the same period in 2023, while the country's outward investment amounted to USD 218.9 billion, approximately 2.4 times that of 2023. This indicates that, while China continues to attract foreign capital, it is also actively expanding its outward investment to promote global economic cooperation and development. In terms of specific items, the improvement in net foreign capital inflow in the first half of 2024 was mainly driven by portfolios and other investments into China, while foreign direct investment was a drag on the economy.

Table 3 China's Non-Reserve Financial Account Balance (2012-2023)

Year	2012	2013	2014	2015	2016	2017
Non-Reserve Financial Account Balance	-360	3430	-514	-4345	-4161	1486
Ratio to GDP	-0.4%	3.6%	-0.5%	-3.9%	-3.7%	1.2%
Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Non-Reserve Financial Account Balance	1727	73	-611	-303	-2573	-2099
Ratio to GDP	1.2%	0.1%	-0.4%	-0.2%	-1.4%	-1.2%

Data source: China's Balance of Payments Reports, 2012-2023, SAFE

Direct investment experienced a significant deficit. In 2023, China's net direct investment outflow reached USD 142.6 billion, surpassing the USD 19.8 billion outflow of 2022. In the first half of 2024, this net outflow amounted to USD 113.5

billion, a significant expansion when compared to the same period in 2023. Notably, inward direct investment shifted from a net inflow of USD 37.1 billion in the first half of 2023 to a net outflow of USD 4.7 billion. At the same time, China's direct outward investment increased from USD 88.6 billion for the same period in 2023 to USD 108.9 billion.

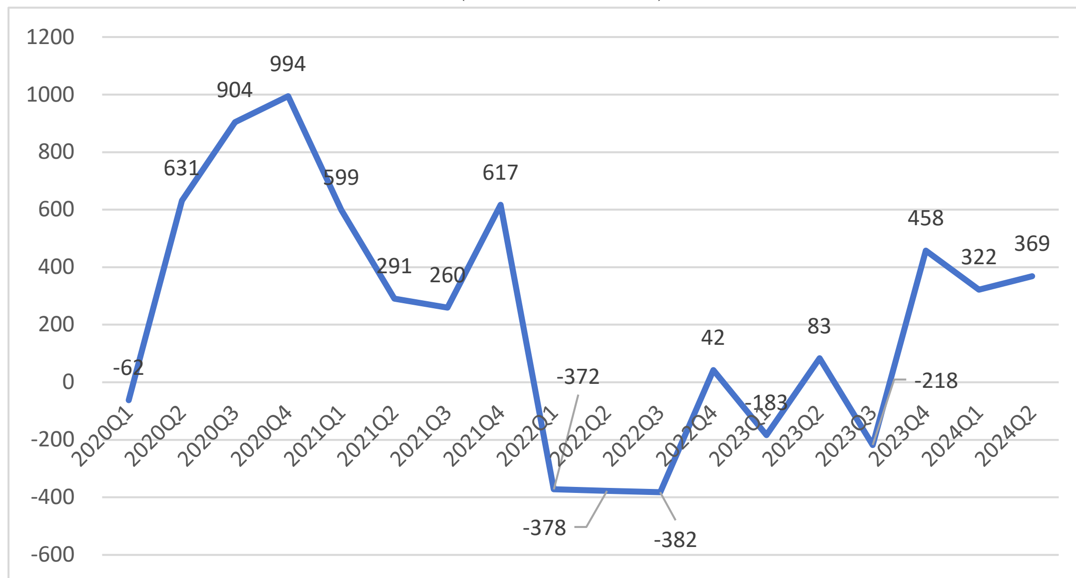
Looking further into equity investments, China's direct outward investment in equity-based assets saw a net outflow of USD 65.3 billion in the first half of 2024, a 17.4% increase year-on-year. At the same time, inward foreign equity-based direct investment registered a net inflow of USD 25.9 billion. This indicates that Chinese enterprises have intensified their efforts in outward equity investment. Although inward equity investments from foreign investors remain in net inflow, their overall scale remains relatively small and still insufficient to offset the outflow. However, it is important to note that capital injections, which reflect long-term investment intent, continued to rise. After a capital inflow of USD 120 billion in 2023, an additional USD 40.7 billion flowed in during the first half of 2024.

The portfolio investments deficit has narrowed significantly. In 2023, the portfolio investments deficit was USD 63.2 billion, down 78.1% from the USD 289.1 billion deficit of 2022. China's outward portfolio investments totaled USD 77.3 billion, a 57.1% decrease from 2022, while inward foreign portfolio investments shifted from a net outflow of USD 109 billion in 2022 to a net inflow of USD 14.1 billion. This trend continued into the first half of 2024, with the net outflow under China's portfolio investments further declining to USD 27.8 billion, a year-on-year decrease of 56%. Specifically, China's outward portfolio investments recorded a net outflow of USD 96.9 billion, an 85% year-on-year increase. In terms of categories, both equity and debt securities saw growth. Net outflows of equity securities investment reached USD 63.3 billion, a 190% increase, accounting for nearly 70% of total outward portfolio investments, while net outflows of debt securities were USD 33.6 billion, a 9% increase. In contrast, inward foreign portfolio investments turned into a net inflow. In the first half of 2024, foreign portfolio investments into China registered a net inflow of USD 69.1 billion, reaching a historic high compared to previous years, while for the same

period in 2023, it had recorded a net outflow of USD 10 billion. This shift partly reflects the bidirectional volatility of China's cross-border portfolio capital flows amid external factors such as changes in the Federal Reserve's monetary policy and global financial market turbulence (Figure 2). 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 (Figure 3).

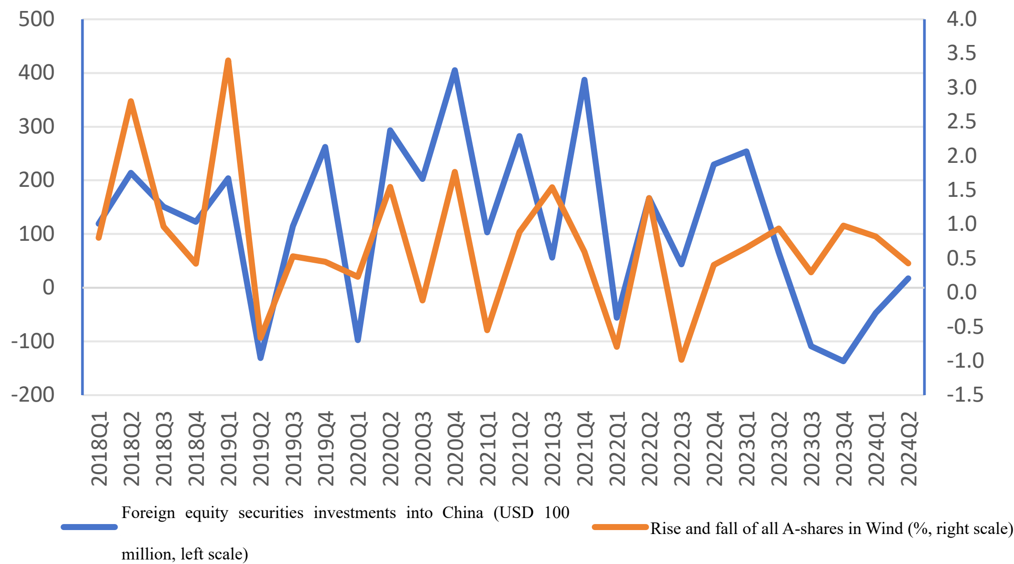
Figure 2 Inflows and Outflows of Foreign Portfolio Investments into China since 2020

(USD 100 million)



Data source: Balance of Payments Report, SAFE.

Figure 3 Foreign Equity Securities Investments into China and A-share Index Trends Since 2018



In addition, as of the end of June 2024, China's foreign exchange reserves stood at USD 3.2 trillion, a slight decrease from the end of 2023, though they remained generally stable. In the first half of 2024, the CNY exchange rate against the U.S. dollar also remained fairly stable, with a slight upward trend. In the third quarter of 2024, benefiting from improvements in investor sentiment both at home and abroad, as well as from the mutual reinforcement of favorable internal and external factors, the CNY appreciated against the U.S. dollar. By the close of trading on September 30, the onshore CNY had appreciated by 2,503 base points, or about 3.44%, while the offshore CNY had risen by 2,900 base points, or about 4%. The CNY central parity rate against the U.S. dollar had been adjusted upward by 1,194 base points, with a total appreciation of over 1.67%.

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

In recent years, a series of unexpected internal and external shocks, including the recovery period from the COVID-19 pandemic, the aggressive tightening of the Federal Reserve, and the spillover risks from the Russia-Ukraine conflict, have posed significant challenges. However, China has effectively responded to these external risks through strengthened macroeconomic controls combined with deeper reforms and opening-up measures. As a result, China has maintained a balance of payments that is characterized by a current account surplus and an autonomously balanced capital account deficit. Of course, in the context of divergent economic cycles between China and the U.S., as well as misaligned monetary policies, China is also facing challenges such as an increasing net outflow of foreign direct investment. In terms of the key internal and external factors driving the latest changes in China's balance of payments, they can be summarized as follows:

3.1 Changes in China's Economic Development Model

The changes in China's economic development model are undoubtedly the core internal factor driving the latest changes in China's balance of payments. With years of rapid sustained growth and an ever-increasing level of openness, China is accelerating the construction of a new development model that prioritizes domestic circulation while promoting mutual reinforcement between domestic and international circulation. **In recent years**, the role of domestic circulation as the main economic driver has been strengthening, with domestic demand playing an increasingly significant role in driving growth. According to data from the National Bureau of Statistics, the contribution rate of domestic demand to economic growth has been rising continuously, reaching 111.4% in 2023, an increase of 25.3 percentage points compared to 2022. At the same time, the expansion of domestic demand has also driven imports. In 2023, China's agricultural imports grew by 5% compared to the previous year, consumer goods by 1.2%, and energy product imports increased by 27.2%. To some extent, this has caused the proportion of the current account surplus to GDP to gradually decline, although it is

important to note that this proportion remains within a reasonable range, reflecting the robustness and sustainability of China's economic structure.

In addition to this, China is actively promoting industrial upgrading and transformation to enhance the overall quality and efficiency of economic development. This has significantly improved the high-tech content and added value of China's exports, thereby boosting their competitiveness in global markets. This stabilization and improvement in exports has further driven the development of the related domestic industries, contributing to the country's overall economic recovery. At the same time, China has been actively expanding its service trade sector, improving the quality and capabilities of its services, and thus further optimizing the international trade structure. In recent years, new forms and models of trade have flourished, including cross-border e-commerce and market procurement trade. These new forms not only diversify China's trade methods but also provide new growth points for the country's balance of payments. According to estimates from the General Administration of Customs, China's cross-border e-commerce imports and exports reached CNY 2.38 trillion in 2023, an increase of 15.6% compared to 2022. In the first three quarters of 2024, cross-border e-commerce imports and exports amounted to CNY 1.88 trillion, growing by 11.5% year-on-year, 6.2 percentage points higher than the overall growth rate of the country's foreign trade volume during the same period. The development of new trade forms not only promotes the growth of goods and services exports but also attracts more foreign investors to focus on the Chinese market, driving the optimization and upgrading of its balance of payments structure.

3.2 China's Continuous Improvement of High-level Institutional Mechanisms for Opening-up

Opening-up is one of China's fundamental government policies. Through steadfast efforts to promote further opening-up, the country has continuously expanded market access and optimized the business environment, providing greater convenience for foreign capital entering the Chinese market. These measures have greatly improved China's international economic competitiveness and attractiveness, contributing to the optimization of its balance of payments structure.

3.2.1. Deepening reform measures in foreign trade. Firstly, China continues to reduce tariffs. In 2023, China applied temporary import tariffs lower than the most-favored-nation rates on 1,020 products, an increase of 66 items compared to 2022, bringing the overall tariff level down to 7.3%. **Secondly,** the country has extended a number of pilot programs for the innovative development of service trade, while launching a negative list for cross-border services. Over a three-year period, 28 regions involved in the pilot programs for the innovative development of service trade introduced 2,883 tasks and measures, resulting in a series of successful pilot projects and innovative experiences. On March 22, 2024, the Ministry of Commerce issued its *Special Administrative Measures for Cross-Border Services Trade (Negative List) (2024 Edition)* and *Special Administrative Measures for Cross-Border Services Trade in Free Trade Zones (Negative List) (2024 Edition)*, effective April 21, 2024. The national version of the cross-border services trade negative list contains 71 items, marking the first time a negative list management system for cross-border services has been established nationwide. The Free Trade Zone version includes 68 items, offering liberalization in areas such as natural person qualifications, professional services, finance, and culture. This initiative aligns with international high-standard economic and trade rules and is a key step in promoting institutional opening-up. It holds significant importance in advancing high-level opening-up and in better serving the development of a new growth paradigm, providing new opportunities for global cooperation in services. **Thirdly,** noteworthy progress has been made in the construction of free trade zones (FTZs). In 2023, China's 22 FTZs achieved a total import and export volume of CNY 7.67 trillion, a year-on-year increase of 2.7%, accounting for 18.4% of the country's total trade volume. The construction of FTZs has not only promoted trade liberalization and facilitation, but also provided important support for optimizing the balance of payments.

3.2.2. Optimizing policies to support cross-border investment and financing. China has intensified efforts to attract foreign investment. The government has repeatedly emphasized the importance of "greater efforts to attract and utilize foreign capital" as a key task for the year. In August 2023, the State Council issued its *Opinions on Further*

Optimizing the Foreign Investment Environment and Intensifying Efforts to Attract Foreign Investment, proposing 24 policy measures across six areas, including improving the quality of foreign investment utilization, ensuring national treatment and strengthening investment protection. On October 18, 2023, President Xi Jinping announced in his keynote speech at the *3rd Belt and Road Forum for International Cooperation* that "China will fully lift restrictions on foreign investment access in the manufacturing sector." This commitment has since been fulfilled, and foreign investment access in the manufacturing sector has been completely lifted.

China has also introduced measures to facilitate foreign exchange. In December 2023, the SAFE issued its *Notice on Further Deepening Reform to Promote Cross-Border Trade and Investment Facilitation*, launching 9 policies to facilitate trade and investment from three major areas: foreign trade exchange, capital account facilitation, and optimization of capital account foreign exchange management. The Notice upgraded the cross-border financing facilitation policy in terms of scope of eligible entities, pilot regions, and limits, particularly by including technology-based small and medium-sized enterprises (SMEs) in the pilot. The policy coverage expanded from 17 provinces and cities to the entire country, with the facilitation limit raised to USD 10 million for these 17 locations. These measures have effectively stimulated enterprises' enthusiasm for engaging in cross-border business.

Finally, China actively supports cross-border financing for domestic enterprises. In February 2023, the China Securities Regulatory Commission (CSRC) issued its *Trial Measures for the Administration of Overseas Securities Offering and Listing by Domestic Enterprises*, along with 5 supporting guidelines, allowing enterprises to list overseas legally and compliantly. Furthermore, for SMEs, especially high-tech and "specialized, refined, differentiated, and innovative" enterprises with smaller net asset scales, cross-border financing facilitation pilots were launched, allowing them to independently borrow foreign debt within limits of USD 10 million or USD 5 million. According to SAFE, the pilot regions now cover approximately 80% of the country, involving around 280,000 high-tech and "specialized, refined, differentiated, and innovative" enterprises. A cross-border financial services platform has also been

established, introducing 8 financing applications and three facilitation scenarios; taken together, they have enabled nearly 100,000 foreign-related enterprises, mostly SMEs, to obtain financing amounting to over USD 290 billion, and foreign exchange payments exceeding USD 1.2 trillion.

3.2.3. Continuously expanding institutional opening-up in the financial sector. Since 2018, China has actively promoted the institutional opening-up of the financial industry by offering national treatment to foreign-funded institutions, removing foreign ownership limits, expanding business scope, and optimizing management rules. By relaxing foreign access restrictions and improving market transparency and predictability, China has provided greater room for cross-border capital flows.

It has continued to lower the entry barriers for foreign institutions: China has removed foreign ownership limits in banking, securities, and fund management, significantly reducing the threshold for foreign institutions to establish financial entities. As of the end of 2023, foreign banks had established 41 incorporated banks, 116 branches of overseas and Hong Kong/Macau/Taiwan banks, and 132 representative offices in China, with a total of 888 operational institutions and total assets of CNY 3.86 trillion. There were 17 foreign-invested or controlled securities companies with total assets exceeding CNY 650 billion and revenue of over CNY 27.5 billion. Foreign insurance institutions had set up 67 operating entities and 70 representative offices, with total assets of CNY 2.4 trillion, accounting for 10% of the total insurance market in the country. In addition, China has extended national treatment to foreign institutions in areas such as payments, credit rating, and corporate credit reporting. In November 2023, Mastercard's joint venture in China, the Mastercard Clearing Network, was approved to commence operations.

China has also continued to expand the business scope of foreign institutions. As well as lowering entry barriers, the range of permissible business qualifications has been broadened, and the overall business environment has been optimized. In January 2023, Standard Chartered Bank (China) was approved to participate in government bond futures trading, becoming the first foreign bank in China allowed to engage in such practices. According to an announcement by the National Association of Financial

Market Institutional Investors (NAFMII), HSBC, Standard Chartered and Banque de l'Indochine were added as lead underwriters for non-financial corporate debt financing instruments in 2023, while JPMorgan, Mizuho Bank, and MUFG Bank were named as lead underwriters for offshore non-financial corporate debt instruments. In addition, BEA, Fubon Bank, Sumitomo Mitsui Banking Corporation and DBS Group were added as underwriters for non-financial corporate debt financing instruments. China's financial regulatory authorities also treat domestic and foreign institutions equally when launching pilot programs for new business activities, as demonstrated by the inclusion of 13 foreign banks, such as Deutsche Bank, Societe Generale, and HSBC, in the People's Bank of China's carbon emissions reduction support tool.

3.2.4. Further deepening financial market connectivity. In recent years, China has actively promoted the two-way opening of its financial markets, forming an open framework that includes the stock market, bond market, foreign exchange market and derivatives market. Programs such as "Shanghai-Hong Kong Stock Connect", "Shenzhen-Hong Kong Stock Connect", "Bond Connect", and "Swap Connect" have become important channels for domestic and foreign investors to engage in financial market connectivity, greatly facilitating the two-way development of portfolio investments. Regarding China's outward portfolio investment, in the first half of 2024, domestic entities purchased USD 47.7 billion worth of overseas stocks and investment fund shares through channels such as "Hong Kong Stock Connect" and Mutual Recognition of Funds, a year-on-year increase of 200%. Qualified Domestic Institutional Investors (QDII and RQDII) invested a total of USD 16 billion in stocks and bonds issued by non-residents, marking a 1.8-fold increase. Through "Southbound Bond Connect", investments in the Hong Kong bond market reached USD 12.4 billion, up 78%. As for inward portfolio investment in China, in the first half of 2024, foreign institutions contributed a net inflow of USD 77.5 billion to the domestic bond market (including "Bond Connect" and direct access to the interbank bond market). Non-residents contributed a net inflow of USD 5.6 billion into overseas-issued stocks of domestic institutions and Global Depositary Receipts (GDRs), and through "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect", there was a

net inflow of USD 5.4 billion. However, there was also a net outflow of USD 17.7 billion through Qualified Foreign Institutional Investor (QFII and RQFII) channels.

3.2.5. Actively promoting payment facilitation measures. In recent years, China has improved payment convenience for foreign visitors to the country by optimizing mobile payment and foreign currency exchange services; this has helped to stimulate growth in international travel revenues. In 2023, the General Office of the State Council issued its "*Measures to Release the Potential of Tourist Spending and Promote the High-Quality Development of the Tourism Industry".* This proposed a number of methods for easier use of overseas bank cards and other electronic payment methods by inward tourists, as well methods for simplifying the foreign currency exchange process. Since 2023, Alipay and WeChat Pay, in collaboration with various commercial banks, clearing institutions and card organizations, have implemented a series of optimization measures. This has included the promotion of "linking foreign cards domestically", allowing overseas bank cards to be linked to Alipay or WeChat Pay when paying domestic merchants. "Using foreign wallets domestically" has also been supported, allowing more overseas electronic wallets to be used in China. Both Alipay and WeChat Pay have already increased their single transaction limit for mobile payments by foreign nationals in China from USD 1,000 to USD 5,000, and the annual cumulative transaction limit from USD 10,000 to USD 50,000. On March 7, 2024, the General Office of the State Council issued its *"Opinions on Further Optimizing Payment Services and Enhancing Payment Convenience"*, focused on improving a multi-level, diversified payment service system to provide better and more convenient payment services for elderly individuals, foreign nationals in China, and other groups. On March 14, the People's Bank of China issued its *"Guide to Payment Services in China"*, offering advice on how to obtain mobile payment, bank card and cash payment tools, addressing the payment challenges faced by overseas visitors coming to China.

In addition, China continues to reform its judicial system to strengthen property rights protection, ensure legal predictability, improve efficiency, and reduce litigation costs. Efforts are also being made to promote alternative dispute resolution mechanisms such as arbitration and international commercial jurisdiction to improve the business

environment for foreign companies and promote international trade and economic cooperation.

3.3 The Challenge of Rising Uncertainties in the Global Trade Environment

Since 2023, the decline in foreign direct investment (FDI) in China has drawn widespread attention. Key influencing factors include weak global economic growth, adjustments in industrial policies and the restructuring of supply chains, the intensification of protectionist trade and investment measures, as well as ongoing regional conflicts and geopolitical tensions. Global trade is still in the process of recovery, and foreign direct investment worldwide has generally contracted. 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%. At the same time, investment protectionism is on the increase, with some countries tightening foreign investment review systems, which is in turn intensifying international competition for cross-border investment. According to the International Monetary Fund (IMF), nearly 3,000 trade restrictions were implemented globally in 2023, approximately five times the number for 2015. Since the beginning of 2024, more economies have chosen to raise tariffs, particularly as the U.S. and Europe have continued to introduce trade protection measures related to Chinese electric vehicles, sparking widespread market concern. These factors have impacted China's cross-border trade and capital flows.

Moreover, adjustments to monetary policies in major economies, particularly interest rate hikes and balance sheet reductions by the Federal Reserve and other central banks, have had a significant impact on global liquidity, thereby further influencing China's cross-border capital flows and balance of payments.

IV. Preliminary Prospect

In August 2024, the IMF projected that China's economy would grow by 5% in 2024 and 4.5% in 2025, both forecasts being revised upward by 0.4 percentage points compared to its April predictions. In October, Goldman Sachs also raised its forecast for China's real GDP growth rate from 4.7% to 4.9%. This reflects a strong momentum of recovery and growth potential for China's economy in 2024, indicating optimism from the international community regarding China's economic outlook. This will help bolster global investor confidence in the Chinese market, further promoting stable economic growth and laying the groundwork for China's balance of payments to remain autonomous and balanced. Specifically:

(1) Current account surplus within a reasonable range. From the perspective of the international trade environment, global trade prospects have gradually improved in 2024. The WTO expects global trade volumes to shift from a 1.2% decline in 2023 to an approximate 2.6% growth. From the internal perspective of China, with the gradual implementation of the latest round of financial support and incremental fiscal policies, both exports and imports still have strong supporting factors. The trade surplus in goods is expected to remain relatively stable. Additionally, improvements in the efficiency of export and import services have become significant drivers in facilitating trade. According to data from China's General Administration of Customs, by December 2022, the average customs clearance times for imports and exports nationwide were reduced to 32.02 hours and 1.03 hours, respectively, which is 67.1% and 91.6% shorter compared to 2017.

In terms of service trade, cross-border tourism expenditures by Chinese residents and revenues from inward tourism are expected to grow in tandem. Especially with further optimization of policies in 2024, such as improving payment services and visa facilitation for foreigners visiting China, travel-related income is projected to continue increasing, potentially recovering to pre-pandemic levels of 2019.

(2) More orderly and convenient cross-border capital flows, with increased foreign direct investment (FDI) and outward investment. As China's financial market

continues to open up in both directions and cross-border capital flow regulatory mechanisms are further refined, cross-border capital movements are expected to become more orderly and convenient. Regarding FDI into China, the stabilization of the domestic economy, accelerated development of the modern industrial system, continuous optimization of the business environment, and improvements in external conditions are expected to lead to a steady recovery in the scale of foreign investment in China. As for Chinese outward investment, driven by the enhanced competitiveness of domestic enterprises and the acceleration of global production layout strategies, demand for outward direct investment (ODI) will continue to grow steadily. According to data from the SAFE, China's annual ODI has exceeded USD 120 billion since 2014, with peak years in 2016 and 2022, both surpassing USD 210 billion. With the increasing international competitiveness of Chinese enterprises, the scale of ODI is expected to further expand in the future.

For portfolio investments, it is expected that foreign equity investments will gradually improve along with the recovery of China's capital markets. Foreign investors are likely to steadily allocate more CNY assets. However, the potential disruptions caused by the U.S. presidential election should be noted. For instance, the California State Teachers' Retirement System (CalSTRS) mentioned that, from a technical and fundamental perspective, the prices of certain Chinese stocks are quite attractive, but no one has indicated plans to increase investment in China. "No one is willing to act rashly before the U.S. presidential election."

(3) While the foreign exchange market has remained generally stable, it may exhibit two-way fluctuations. The CNY exchange rate appreciated in the third quarter of 2024, driven by two key factors. First, expectations of monetary easing in the U.S., with potential interest rate cuts, and second, China's launch of a new round of financial support measures and a package of incremental fiscal policies. These effects have been reflected in the foreign exchange market. According to bank data on customer foreign exchange transactions, in August 2024, China's banks recorded a foreign exchange surplus of USD 910 million in client transactions, compared to a deficit of USD 45.67 billion in July. This marked the first surplus since June 2023, indicating a shift in market

expectations.

Looking ahead, the sustained and stable growth of China's economy, along with the recovery of international trade and investment activities, will provide support for the stable operation of the CNY exchange rate. However, the stability of the CNY will depend not only on China's economic performance but also on the global political and economic environment, as well as the monetary policy actions of the Federal Reserve. In September, the Federal Reserve implemented its first rate cut of 50 basis points, reducing the upper limit of its policy rate from 5.5% to 5.0%, leading to market speculation that it may have entered a rate-cutting cycle. However, according to data from the CME FedWatch tool, since the release of U.S. non-farm payroll data on October 4, the number of market participants expecting further rate cuts has significantly decreased. On October 3, the percentage of traders expecting a 50-basis-point rate cut, a 25-basis-point cut, or no rate cut stood at 32.1%, 67.9%, and 0%, respectively. By October 9, the proportions shifted to 0%, 80.3%, and 19.7%, respectively. External factors, such as the Federal Reserve's monetary policy outlook, will have a considerable impact on CNY exchange rate volatility, which is likely to show two-way fluctuations going forward.

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