

Analysis of the Changes and Influencing Factors of China's Balance of Payments

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Abstract: Balance of payments balance, as one of the four major macroeconomic objectives, is of great significance to the internal and external economic equilibrium of a country. With the deepening of reform and opening up, the foreign exchange management system have been continuously adjusted, and the connection between China's economy and the world economy has become increasingly close. From the perspective of balance of payments, this paper combines relevant data and changes in the international economic environment to sort out the historical trend of China's balance of payments and the specific reasons behind it, and through the analysis, puts forward suggestions for China to maintain the balanced development of its economy both internally and externally, in terms of the current account, the financial account and the analysis of the current account, the financial account, and the analysis.

Keywords: Balance of Payments Changes; Current Account; Influencing Factors

1. Introduction

The major scientific judgment and strategic decision to build a new pattern of dual domestic and international circulation that promotes each other, that is, to actively promote the coordinated development of domestic and foreign demand, import and export, attracting foreign investment and foreign investment, and to promote the basic balance of international payments.^[1] The balance of payments reflects a country's economic development, the degree of openness, and is an important basis for studying the changes in the economic situation within a country^[2]. The balance of payments is a microcosm of a country's external economy

and the overall macroeconomic situation. In recent years, China's financial development is facing great challenges, and internationally, the "great change not seen in a century" has accelerated the evolution of the new crown epidemic leading to the downturn of the global economy, the rise of unilateralism, hegemony and protectionism, the process of economic globalisation has been impeded, and geopolitical crises have been extended to the economic and financial spheres^[3]. China's balance of payments has changed its high momentum, and there has been a decrease in surplus and even a deficit. The fluctuation of the balance of payments situation also has an impact on China's economy as a whole. Therefore, this paper selects part of the data in China's balance of payments from 1982 to 2022, and analyses the trend of changes in China's balance of payments and the factors affecting it from the three main aspects of the current account, the capital and financial account and the reserve assets, and puts forward suggestions to cope with them. The study, to a certain extent, understands the historical process of China's economic development and the current situation, and gives corresponding solution suggestions for the problems.

2. Stages of Development and Evolution of China's Balance of Payments Structure and Analysis of its Characteristics

2.1 Stages in the Evolution of the Development of the Country's Balance of Payments Structure

As shown in Figure 1, since 1982, when China began to publish the balance of payments, China's balance of payments has gone through three phases in terms of the changes in the current account and the financial account of a non-reserve nature^[4], a surplus and a deficit in 1982-1993, a double surplus in 1994-2011, and

a surplus and a deficit in 2012-2022. In the period 1982-1993, "one surplus and one deficit", 1994-2011, "double surplus", and 2012-2022, "current account surplus, non-reserve financial account surplus and deficit". From the perspective of the current account, China's current account had a deficit only five times before 1994, and the rest were in surplus, and reached a historic peak of \$420. 6 billion in 2008, and in 2020, the current account surplus of \$274 billion, the surplus rose sharply, expanding by 166 per cent year-on-year. Trade in goods is the main source of China's current account surplus^[5], trade in goods continued to be in surplus after the RMB exchange rate convergence in 1994, and the surplus expanded rapidly after joining the WTO in 2001 and reached a peak of US\$576. 2bn in 2015, followed by a continuous decline. 2020 is a surplus of US\$515bn, second only to 2015. Trade in services is mainly in deficit^[6], which started a widening trend in 2009 and narrowed in 2020. The current account deficit continues to widen in 2020-2022. In terms of the non-reserve financial account, there was a continuous surplus starting in 1999 and alternating surpluses and deficits starting in 2012, with increased volatility and a rapid increase in the size of the balance. Direct investment was in surplus in all but a few years, and the scale expanded rapidly from 1993, with a maximum surplus of US\$231. 7 billion in 2011, but the overall scale declined sharply from 2015, and a deficit was recorded in 2016. 2020 was in surplus, and the deficit was in deficit and the scale of the deficit widened in 2021-2022, with a deficit of US\$211. 0 billion in 2022, and the size of the deficit was US\$211. 0 billion in 2012, with increased volatility and a rapidly expanding gap. In 2020, there will be a surplus, and in 2021-2022, there will be a deficit and the size of the deficit will widen to \$211 billion.

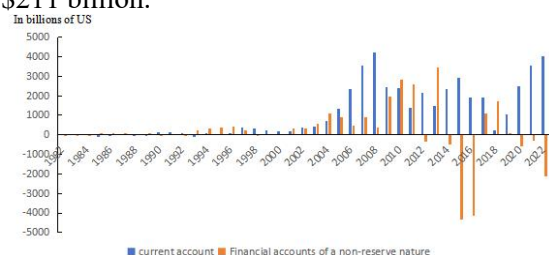


Figure 1. China's Balance of Payments, 1982-2022

Source: State Administration of Foreign Exchange

2.2 Characterisation of the Country's Balance of Payments

2.2.1 Current account surplus for many years, capital and financial account balance reversed from surplus to deficit



Figure 2. China's current Account Receipts and Expenditures on Major Sub-accounts, 1982-2022

Source: State Administration of Foreign Exchange

As shown in Figure 2 and Figure 3, since the outbreak of the U. S. financial crisis in 2008, the size of China's current account surplus has narrowed, and the capital and financial account balance has changed from surplus to deficit^[7], and after experiencing the U. S-China trade friction, China's current account has achieved a rapid growth in size in 2019-2022. Specifically manifested as: first, the goods trade surplus from a low level to a high level, the size of the goods trade surplus in the past three years from 511. 1 billion U. S. dollars to 668. 6 billion U. S. dollars. Second, the services trade deficit continues to expand, but there are signs of gradual narrowing^[8]. China's trade in services for a long time for the deficit, only 15. 1 billion U. S. dollars in 2010, 2013 jumped to 123. 6 billion U. S. dollars, 2018 further expanded to 292. 2 billion U. S. dollars, but from 2020 onwards, China's trade in services deficit narrowed to 152. 5 billion U. S. dollars, 2021 to achieve a year-on-year negative growth of 33. 6 per cent in 2022, the year-on-year growth rate of -8. 79 per cent. It can be seen that our services trade deficit is shrinking. The huge scale of goods trade surplus is the main reason for the current account surplus. Thirdly, direct investment has turned into a deficit. The scale of outward foreign direct investment has grown faster in recent years^[9], with \$37. 4 billion in 2001, increasing to \$145 billion in 2014, and a deficit of \$41. 7 billion in 2016 for the first time in the history of the direct investment account, and from 2017-2022 China's direct investment has been in a

surplus position.



Figure 3. Income and Expenditure on the Main Subheads of China's Financial Account of a Non-Reserve Nature, 1982-2022

Source: State Administration of Foreign Exchange

2.2.2 Current account and capital account "positive and negative complementarity" may be the new normal of China's balance of payments structure in the new period.

Balance of payments theory and historical experience have shown that long-term "double surpluses", "double deficits" and "one surplus and one deficit" with huge contrasts are imbalances and carry greater risks in the balance of payments structure^[10]. From 2006 to 2014, China maintained a large current account surplus due to significantly improved trade competitiveness and a domestic "savings-investment" surplus. From 2006 to 2014, China maintained a large current account surplus due to a significant increase in trade competitiveness and a domestic "savings-investment" surplus. At the same time, a large number of short-term and long-term investments also flowed into China, resulting in the rapid growth of the scale of China's "double surplus" and the surge of foreign exchange reserves, but the huge foreign exchange reserves actually flowed back to foreign countries in the form of U. S. Treasury bonds and other low-return investments, which not only caused a further accumulation of the risk of short-term capital flows, but also caused China to suffer from the welfare loss of poor investment returns. Therefore, the "double surplus" structure at this stage is not a stable balance of payments structure^[5]. 2014 onwards, China's balance of payments became "one surplus and one deficit", which is an adjustment of the previous "double surplus". This is an adjustment of the previous "double surplus" and a new feature of the balance of payments in the new economic period. On the

one hand, long-term domestic savings have made a current account surplus inevitable. On the other hand, the domestic investment return is lower, the attractiveness of foreign countries has increased, China from a net importer of capital into a net exporter, part of the foreign exchange reserves to carry out the low-yield foreign investment, to the private sector to carry out high-yield investment. Therefore, the balance-of-payments structure of "surplus and deficit complementarity" is consistent with China's higher stage of development and deeper participation in the international division of labour.

3. Factors Affecting the Changes in China's Balance of Payments and Analysis of Their Causes

3.1 The First Phase, 1982-1993, "One Good and One Bad", was Generally Balanced

At the beginning of the reform and opening-up period, China's opening-up to the outside world was still at the initial stage of testing the waters, the reform of the economic system was imperfect, and the economic policy wavered due to the lack of scientific theories and practical experience. At that time, China's balance of payments showed a small volume and unstable structure, with monetary and cyclical imbalances. However, due to strict management, the current account and the financial account of non-reserve nature were generally in surplus and in deficit, maintaining balance (See tables 1 and 2.).

3.1.1 Current account

The current account balance in this period, which depends mainly on trade in goods and services, is divided into four phases: first, from 1982 to 1984, when State-owned enterprises launched market-oriented reforms, the efficient use of productive resources, increased productivity and exports, and a current account surplus. Secondly, from 1985 to 1989, the "double-loosening" policy and rising prices created high inflation expectations, investment and consumption fever, increased imports, and the continuous downward adjustment of the renminbi exchange rate after 1985 led to a contraction of exports and a current account deficit. Thirdly, from 1990 to 1992, the official exchange rate of RMB implemented a managed floating mechanism from 1991,

the exchange rate went downward, but the national policy of encouraging exports led to a sharp increase in exports and a current account surplus, while the "southern patrol speech" in 1992 stimulated the economic enthusiasm, and the domestic economy overheated in 1993, resulting in a recurrence of the current account deficit.

In terms of goods, import and export demand is high, with frequent shifts in surplus and deficit; imports are mostly equipment and raw materials, and exports

are dominated by primary products and labour-intensive manufactured goods, with a crude trade pattern at the lower end of the industrial chain^[11]. Service items maintain a small surplus and are rising steadily, with imports concentrated in processing and travel services and expenditures in transport items, reflecting the rise of processing services and inbound tourism driven by labour resources, while the transport industry is yet to be developed.

Table 1. Income and Expenditure on Major Sub-accounts of China's Current Account, 1982-1993 (in US\$ billion)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
sports event												
current account	57	42	20	-114	-70	3	-38	-43	120	133	64	-119
Goods and services	48	26	1	-125	-74	3	-41	-49	107	116	50	-118
cargoes	42	18	-2	-131	-90	-13	-56	-72	70	62	19	-143
service	6	8	2	6	16	16	15	23	37	54	31	25
processing service	1	2	2	0	-2	-4	2	16	22	26	33	37
Maintenance and repair services	0	0	0	0	0	0	0	0	0	0	0	0
haulage	-1	-2	-3	-5	-5	-4	-7	-14	-10	-10	-27	-38
travelling	8	9	10	9	12	15	16	14	17	23	14	19
construct	1	1	1	1	2	1	0	1	1	1	0	0
Insurance and pension services	1	1	1	1	1	1	1	1	1	1	2	1
financial service	0	0	0	0	0	0	0	0	0	0	0	0
Intellectual property royalties	0	0	0	0	0	0	0	0	0	0	0	0
Telecommunications, computer and information services	0	0	0	0	0	0	0	1	1	2	3	4
Other business services	-2	-2	-7	1	7	7	3	5	6	12	6	6
Personal, cultural and recreational services	0	0	0	0	0	0	0	0	0	0	0	0
Government goods and services not mentioned elsewhere	-1	-1	-2	-1	0	1	-1	-2	-1	-1	-1	-3
Initial income	4	12	15	8	0	-2	-2	2	11	8	2	-13
Secondary income	5	5	4	2	4	2	4	4	3	8	12	12

Source: State Administration of Foreign Exchange

3.1.2 Capital and financial account

The difference between the capital and financial accounts for this period lies entirely in the financial account. First, between 1982 and 1984, China's degree of opening to the outside world was low, foreign investors had misgivings about investing in China, the amount of foreign direct investment was small, and the financial system was imperfect, the ability to finance securities was limited, and the financial account was in deficit^[12]; second, between 1985 and 1992, the reform of the economic system was pushed forward, opening up to the outside world was deepened, the national economy was high in growth and low

in inflation, the society was stable, the investment environment was improved, and the confidence of foreign investors was strengthened. Secondly, between 1985 and 1992, the economic system reform was promoted, opening to the outside world deepened, the national economy experienced high growth and low inflation, social stability was achieved, the investment environment improved, foreign investment confidence was strengthened, and the amount of direct investment increased from 1.3 billion US dollars in 1985 to 7.2 billion US dollars in 1992, resulting in a basic surplus on the financial account.

Table 2. Income and Expenditure on the Main Sub-accounts of China's Financial Account, 1982-1993 (in billions of US dollars)

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
sports event												
Capital and financial account	-60	-41	-32	139	83	11	48	42	-89	-65	19	217
capital account	0	0	0	0	0	0	0	0	0	0	0	0

financial account	-60	-41	-32	139	83	11	48	42	-89	-65	19	217
Financial accounts of a non-reserve nature	-17	-14	-38	85	65	27	53	64	-28	46	-3	235
Reserve assets	-42	-27	5	54	17	-17	-5	-22	-61	-111	21	-18
Net errors and omissions	3	-2	12	-25	-12	-14	-10	1	-31	-68	-83	-98

Source: State Administration of Foreign Exchange

3.2 Second Phase, 1994-2011 "Double Surplus"

In this stage, the national macroeconomic regulation and control tools are gradually improved and mature, and China's economy enters into a period of stable and high-speed development. In 1994, China's exchange rate of RMB was converged, and the double surplus began^[13], and after the accession to the WTO in 2001, China has formed the export-led growth mode of export-demand-pulled investment, which is based on processing of incoming raw materials, and attracts a large number of export-led direct investment. There is a floating exchange rate mechanism that gives trade a price advantage and expands the current account surplus, and the strict management of the capital account supports the long-term net inflow of the non-reserve financial account. Cheap labour, resources and the "lenient entry, strict exit" policy have enabled China to maintain a double surplus pattern for a long time. As a result of its export-orientation and capital-attraction policy, the balance of payments continued to run a double surplus; after 2001, the two accounts grew rapidly and then fluctuated to maintain a large volume, resulting in a long-term structural imbalance in the balance of payments.

3.2.1 Current account

During this period, the domestic savings rate was high^[14], domestic demand was insufficient, and exports were relied upon to resolve the asset surplus. The government advocated exports to expand domestic demand, and introduced preferential policies to promote high export growth and sustained current account surpluses. First, from 1994 to 1996, the implementation of mandatory bank foreign exchange settlement and exchange rate convergence, the liberalisation of the current account, the tightening of fiscal and monetary policy, and a small current account surplus; from 1997 to 2004, the opening of the coastal special economic zones, the scale of exports increased, and the current account surplus reached \$37 billion in 1997, and remained in

surplus under the Asian financial crisis, and grew steadily from 2002; third, from 2005 to 2008, the accession to the WTO, the domestic savings of the country was high, and there was insufficient domestic demand. surplus reached US\$37 billion, the surplus was still maintained under the Asian financial crisis, and has been growing steadily since 2002; third, from 2005 to 2008, foreign trade exploded after joining the WTO, the export of goods surged, and the current account surplus exceeded US\$100 billion and expanded year after year^[15]; fourth, from 2009 to 2013, affected by the 2008 economic crisis, the 2009 The current account surplus plummeted and then fluctuated at that level, and the decrease in surplus was mainly due to the faster growth of imports than exports, which was related to the reduction of import tariffs and the increase in residents' consumption demand.

As shown in Figure 4, with regard to goods items, the use of cheap labour to develop labour-intensive industries, the price of surplus is environmental pollution and value chain squeeze. The overall deficit in services has expanded rapidly since 2009, with changes in the inputs of some services, tourism moving from a surplus to a deficit, and the deficits in three items, including transport, increasing, with the structure of exports lower than the structure of the economy and not optimised. The investment income in the initial income is mostly in deficit and the amount is expanding, the asset and liability structure and the low capacity of outward direct investment are the main reasons, although the outward investment deficit is a necessary stage in the development of emerging market countries, and it can accept the current higher cost of financing, but the Chinese enterprises "going out" still need to improve the professional talents, risk assessment and accountability mechanism^[16].

3.2.2 Capital and financial account

As shown in Figure 5, the capital and financial account was basically in surplus during this period for the following reasons: "going out" was slower than "bringing in", and foreign direct investment far exceeded China's outward investment; capital account control

led to a narrow channel for capital outflow; and the regulation of international investment in portfolio investment was weak. The specific stages are as follows: first, from 1994 to 1996, foreign investment enthusiasm continued, financial account surplus expanded^[17]; second, from 1997 to 2000, the Asian financial crisis led to the withdrawal of some foreign capital, the surplus decreased in 1997, the deficit in 1998, and returned to a small surplus in the last two years; third, from 2001 to 2008, the capital and financial account surplus, with fluctuations. 2005, the reform of the exchange rate formation mechanism, may make the capital outflow channel narrow; poor regulation of international investment in securities investment. The reform of the exchange rate formation mechanism in 2005 may have changed the pattern of surplus growth from that year onwards, with the capital account surplus surging and stabilising; and fourthly, from 2009 to 2013, the capital and financial account surplus exceeded \$100 billion.

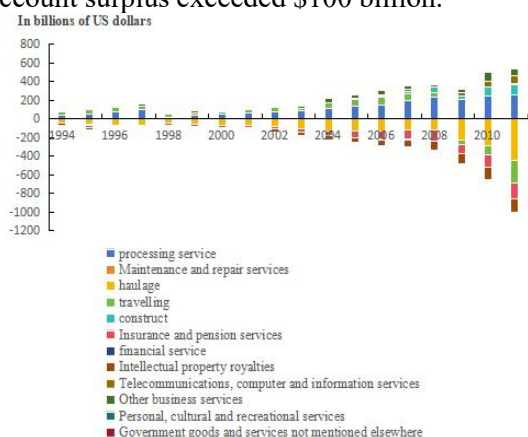


Figure 4. China's Current Account Receipts and Expenditures on Major Sub-accounts, 1994-2011

Source: State Administration of Foreign Exchange

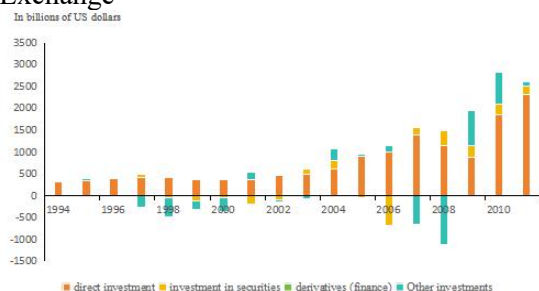


Figure 5. Income and Expenditure on Major Sub-components of our Financial Account, 1994-2011

Source: State Administration of Foreign Exchange

3.3 Phase III, 2012-2022: "Maintaining Current Account Surpluses and Non-reserve Financial Account Surpluses and Deficits"

At this stage, the economy has been regulated by a variety of means, the RMB exchange rate reform has been boldly promoted, and the work of promoting the balance of payments has gained milestones, forming a pattern of autonomous balance with a current account surplus and a deficit in the capital and financial accounts, and demonstrating the effectiveness of "storing foreign exchange for the people". On the one hand, the decline in the current account surplus is inevitable. The rising cost of labour in China has weakened the competitiveness of low-end manufacturing exports^[18], and the rising demand for imported consumer goods and overseas tourism services due to higher incomes of residents has resulted in uneven returns on foreign assets and liabilities. On the other hand, after the large deficit in the non-reserve financial account from 2014 to 2016, the account has basically achieved short-term balance with the "8-11 exchange reform" and the improvement of the "macro-prudential management + micro-regulation" system.

3.3.1 Current account

As shown in Figure 6, from 2012 to 2015, both the current account surplus and the capital and financial account were in deficit; from 2016 to 2019, it was a situation where both the current account and the capital and financial account were in surplus; from 2020 to 2022, the current account was in surplus, the capital and financial account was in deficit, and the current account surplus was maintained at the scale of hundreds of billions of dollars. Goods surplus grows, service deficit grows at a fast pace, the hidden dangers of the crude export model appear, and the export structure needs to be improved urgently. The surplus on goods items continued to grow, but demand decreased in 2016 due to the slowdown in global economic growth. On service items, the traditional low-end service industry input decreased, the input of telecommunication and other services increased steadily, the development of maintenance and repair services was good, the deficit of transport and other three items decreased steadily, and the deficit of travelling services expanded, which

showed that the structural adjustment of the export was beginning to show its effect, the construction of international ports was accelerated, and the "China Creation" emerged, and at the same time, the demand for overseas travel was released, and the domestic tourism resources were to be developed. At the same time, the demand for overseas tourism has been unleashed, and domestic tourism resources have yet to be developed. In addition, China's secondary income has shifted from a long-term surplus to a deficit, indicating that China, as a responsible big country, has received free assistance from a number of countries and international organisations in the course of its development, and that its economic strength has been strengthened in recent years, and that it has also been helping other developing countries in their economic development.

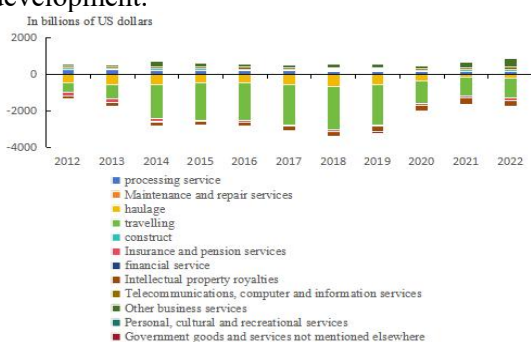


Figure 6. Income and Expenditure on Major Sub-components of our Current Account, 2012-2022

Source: State Administration of Foreign Exchange

3.3.2 Capital and financial account

As shown in Figure 7, the capital and financial account deficit will continue to widen from 2020 to 2022, with significant signs of outflows of portfolio investment and direct investment. Since the second quarter of 2020, China's balance of payments has seen a pattern of "one surplus and one deficit" on the current account and the capital and financial account for ten consecutive quarters. since the spring of 2020, countries have seen a reduction in demand for goods and services, central banks have pursued large-scale monetary policies, and quantitative easing in developed economies has had a multifaceted spillover effect on China's balance of payments. Restrictions on the movement of people hit tourism and transport projects, and international transport prices remained high for

a while, affecting the scale and speed of imports and exports. 2020 China further promoted the two-way opening up of securities investment, and the scale of inflows and outflows of securities investment projects had a greater degree of growth of 73 per cent and 87 per cent, with overall net inflows expanding by 51 per cent year-on-year. the scale of cross-border capital flows exceeded that of 2008 in 2022, and the scale of cross-border financial flows exceeded that of 2022 in 2022. In the third quarter, China's capital and financial account deficit was \$149. 01 billion, a record high since 1998 when statistics were available; the annual deficit scale of \$311. 3 billion was a new high after the 2008 financial crisis.

The capital and financial account has been in deficit in recent years. Direct investment projects due to the "Belt and Road", capital export and enterprises go abroad and other strategies, outward investment growth, overseas acquisitions and mergers increased; portfolio investment due to the central bank to release liquidity, cross-border investment increased to become a deficit. 2022 international situation turbulence, China has introduced a series of measures to stabilise growth, the other investment account assets and liabilities are reduced and the asset impairment is greater than the liability impairment, the account shows a surplus. In 2022, China introduced a series of measures to stabilise growth, other investment account assets and liabilities both decreased, and asset impairment is greater than the impairment of liabilities, the account shows a surplus^[19], from the amount of other investment projects continued to grow can be predicted, the adjustment of other investment projects will become China's main means to achieve balance of payments independent balance.

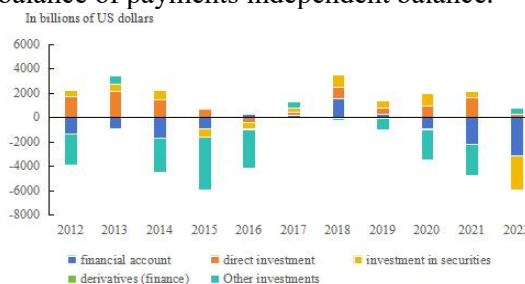


Figure 7. Income and Expenditure on Major Sub-items of our Financial Accounts of a Non-Reserve Nature, 2012-2022

Source: State Administration of Foreign Exchange

China's foreign exchange reserves fell back but gold reserves increased^[20], and the pace of diversification of international reserve assets accelerated. As shown in Figure 8, as at the end of December 2022, China's foreign exchange reserve balance stood at US\$3, 127. 7 billion, a decline of US\$122. 5 billion from the end of 2021, mainly due to the combined negative valuation effect of about US\$220. 7 billion, driven by the decrease in the discounted dollar value of reserve assets in non-U. S. currencies, as well as by the decline in global equity and bond asset prices. Since the fourth quarter of 2022, however, the balance of our foreign exchange reserves has rebounded, mainly driven by a positive rebound in asset prices. Notably, our monetary gold reserve balance was \$117. 2 billion at the end of 2022, an increase of \$4. 1 billion from 2021. Among them, US\$3. 5 billion came from the transaction-induced increase in monetary gold reserves, and the size of the change in non-transaction factors was about US\$0. 6 billion. 2022 In the fourth quarter of 2022, the central bank used foreign exchange to buy gold in the international market for the first time since the second quarter of 2009. In recent years, China has been committed to enhancing the diversification and diversification of international reserve assets, and the central bank has also increased its holdings of gold reserves on several occasions. At present, China's gold reserves account for about 3. 5 per cent of reserve assets, up 2. 7 percentage points from the end of 2008, but there is still room for improvement compared with the reserve levels of major developed economies. Under the background of the continuous impact of the new crown epidemic and the Fed's policy of fast in and fast out, China has withstood the test of large cross-border capital inflows and outflows, exchange rate ups and downs, and the external economic sector has demonstrated a strong resilience^[21].

From the perspective of informal calibre, the scale of hidden capital flows has generally narrowed, but non-traditional channels represented by crypto assets need further attention^[22]. In the balance of payments data, the "net errors and omissions" not only includes statistical errors and omissions, but also covers a significant portion of capital flows outside the formal calibre, which are mainly short-term cross-border "hot money"

with higher risks. From the data changes in recent years, since 2009, China's "net errors and omissions" are in deficit, especially after 2015, the size of the annual deficit of more than 100 billion U. S. dollars. However, from the preliminary value of 2022 released by the State Administration of Foreign Exchange, the deficit is significantly narrower than before, and the volatility of the quarterly data is significantly higher than before. Crypto-digital currencies, NFTs and other crypto-virtual assets that have boomed in recent years have not yet been included in the statistics on the external financial assets of China's residents, and may become a new channel to circumvent capital outflow controls. According to Coin Market Cap, in 2022, the global digital currency market has about 22, 000 crypto digital currencies, with a total market capitalisation of more than \$800 billion; NFT started a little later but is developing rapidly, and according to Crypto Slate, the total trading volume of NFT in 2022 was \$55. 5 billion, a ringgit increase of 175%. As the distributed ledger technology used by crypto assets can realise peer-to-peer holdings and transactions without any intermediaries, and there is no comprehensive and coordinated regulatory norms for crypto assets globally, how to accurately and promptly grasp the scale of cross-border liquidity of the crypto asset channel in the future will be an urgent issue to be resolved.



Figure 8. Income and Expenditure on Major Sub-items of our Reserve Assets, 2012-2022

Source: State Administration of Foreign Exchange

4. Summary and Policy Recommendations

Balance of payments is a relative concept, from 1982 to the present, China's balance of payments structure has experienced several major changes and has shown a trend of continuous optimisation in recent years, which can not be separated from a good international

economic environment and scientific domestic economic policies^[14]. At the same time, China's industrial structural adjustment is in deep water, the financial market is not mature enough and perfect, and the severe status quo of investment project deficit will continue. Conforming to the geese and geese transfer of the international industrial chain, promoting the development of high-tech industries and the export of high-end services, and expanding the opening up of the financial market to the outside world under the premise of maintaining the independence of monetary policy, steadily pushing forward the reform of the RMB exchange rate market formation mechanism, optimising the mode and structure of utilising foreign investment, and improving the speed and quality of outward investment will be China's main goals in the next period of time. Based on this, this paper puts forward the following suggestions.

4.1 Current Account: Adhering to Supply-Side Reforms, Improving the Industrial Structure and Enhancing Industrial Competitiveness, and Improving the Ability to Withstand Risks

The manufacturing industry should take advantage of the momentum of large-scale output to deepen the supply-side structural reform, explore new economic opportunities in the crisis, accelerate industrial transformation and upgrading, and promote the transformation of low-value-added segments of traditional industries and the cultivation of new high-value-added industries. The aim is to enhance the adaptability of the domestic industrial structure to market demand, improve the international competitiveness of products, and stabilise the current account trade surplus in goods by focusing on both imports and exports. At the same time, we will actively develop high-quality international service industries, expand high-technology-intensive service areas such as transport, culture and education, and intellectual property rights, strengthen independent research and development, optimise the structure, and reduce technology dependence on foreign countries, so as to narrow the trade deficit in services. In addition, it has guided outward investment enterprises to rationally deploy overseas, adjusted the structure of overseas investment, encouraged high-quality and high-yield investment,

reduced blind investment, and reasonably guided the repatriation of profits of outward investment enterprises to improve the returns on outward investment.

4.2 Financial Accounts: Steadily Promoting the Gradual Liberalisation of Financial Accounts and Enhancing the Stability of Cross-border Capital Flows

First, top-level policy design should be strengthened to attract long-term direct investment, optimise the structure of foreign capital utilisation, and promote the facilitation and high-quality development of cross-border investment. Each region should formulate differentiated investment promotion programmes according to local conditions, optimize the business environment, increase the attraction and protection of foreign investment, guide foreign investment to high-tech, high-end manufacturing and other fields, attract high-quality long-term capital, abandon the traditional way of attracting capital at the expense of the market and the environment, and promote the development of domestic economy and technology through upgrading the structure of the utilization of foreign investment and stabilizing the cross-border capital flow. Secondly, China should promote the two-way opening up of the securities market in a proactive, steady and orderly manner, and strengthen macroprudential counter-cyclical regulation to prevent disorderly cross-border capital flows. two-way opening of the securities market, it is necessary to strengthen macro-prudential counter-cyclical regulation to prevent disorderly cross-border capital flows. Strengthen the monitoring of the scale and flow of cross-border capital, do a good job of guiding market expectations, and control the strength and pace of the implementation of the two-way opening-up policy, so as to prevent large fluctuations in capital in the short term.

4.3 Strengthening Situation analyses and research, and improving the "Macro-Prudential+Micro-Regulatory" two-in-one management framework for the foreign exchange market.

Firstly, we have kept a close eye on changes in the international and domestic economic and financial situations, strengthened our research and judgement, enhanced our risk sensitivity,

and reported abnormalities and points of concern in a timely manner. Secondly, we will improve the "macro-prudential+micro-regulatory" management framework. On the one hand, it will improve the monitoring, early warning and response mechanism of macro-prudential management, improve the management system of cross-border capital flows, enrich policy tools and strengthen counter-cyclical adjustment; on the other hand, it will promote micro-regulation, maintain the stability of the foreign exchange market and guide the market through authenticity auditing, behavioural supervision and micro-prudential management, so as to prevent large fluctuations in cross-border funds and imbalance in the balance of payments. Strengthening the mutual promotion and cooperation between the two will guarantee a stable foreign exchange market and balanced development of the economy both internally and externally.

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