CHINA'S BALANCE OF PAYMENTS: RECENT DEVELOPMENTS AND IMPLICATIONS

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Net flows of foreign direct investment (FDI) into China have remained weak since mid-2022, with net FDI outflows totalling US$143 billion over the course of 2023. This drastic decline reflects rising risk aversion towards investing in China, given continuing geopolitical tensions. US-China sovereign yield differentials and China's lacklustre economic performance have also led to a sharp deceleration of FDI inflows into China. China's outbound investment will continue with ongoing supply chain reconfiguration while attracting FDI could remain challenging. China's merchandise trade surplus reached an all-time high of nearly US$890 billion in 2022 and moderated only slightly to US$859 billion. A key driver appears to be China's policy push to further drive growth by bolstering domestic manufacturing production, implying significant overcapacities. This has prompted widespread concerns and led countries like the European Union to propose imposing additional tariffs on Chinese imports of green tech products such as electric vehicles.

(Click on the link to read the above in Chinese, French and Spanish)

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***Chinese*:**
中国国际收支：近期发展及影响

自 2022 年中期以来，中国的外国直接投资（FDI）净流入一直疲弱，2023 年 FDI 净流出总额为 1,430 亿美元。FDI 净流入大幅下降反映出在持续紧张的地缘政治下对投资中国的风险厌恶情绪不断上升。中美主权收益率差异和中国经济表现不佳也导致中国的 FDI 流入量急剧减速。 随着供应链的持续重组，中国的对外投资将继续下去，但吸引 FDI 可能仍然充满挑战。 2022 年中国的商品贸易顺差达到近 8900 亿美元的历史最高水平，随后略有回落至 8590 亿美元。一个关键驱动因素是中国通过提振国内制造业生产进一步推动经济增长的政策推动，导致电动汽车出口激增。这引起了广泛的担忧并导致欧盟等国家提议对中国进口的绿色科技产品例如电动汽车征收额外关税。

***French*:**
LA BALANCE DES PAIEMENTS DE LA CHINE: ÉVOLUTIONS RÉCENTES ET IMPLICATIONS

Les flux nets d'investissements directs étrangers (IDE) vers la Chine sont restés faibles depuis le milieu de 2022, avec des sorties nettes d'IDE totalisant 143 milliards de US$ au cours de 2023. Cette baisse drastique reflète l'aversion croissante au risque à l'égard des investissements en Chine compte tenu des tensions géopolitiques persistantes. Les écarts de rendement souverain entre les États-Unis et la Chine et les performances économiques médiocres de cette dernière ont également entraîné une forte décélération des flux d'IDE vers le pays. Les investissements chinois à l'étranger se poursuivront avec la reconfiguration en cours des chaînes d'approvisionnement, tandis que l'attrait des IDE en Chine pourrait rester difficile. L'excédent commercial du pays a atteint un niveau record de près de 890 milliards de US$ en 2022 et n'a que légèrement diminué pour atteindre 859 milliards de US$. L'un des principaux moteurs semble être la volonté politique de la Chine de stimuler davantage la croissance en renforçant la production manufacturière nationale, entrainant ainsi une forte hausse des exportations de véhicules électriques. Cela a suscité de nombreuses inquiétudes et a conduit des économies comme l'Union européenne à imposer des droits de douane supplémentaires sur les importations chinoises de produits de la transition énergétique tels que les véhicules électriques.

***Spanish*:**
BALANZA DE PAGOS DE CHINA: DESARROLLOS RECIENTES E IMPLICACIONES

Los flujos netos de inversión extranjera directa (IED) en China han permanecido débiles desde mediados de 2022, con salidas netas de IED que suman 143.000 millones de dólares a lo largo de 2023. Esta drástica caída refleja un aumento de la aversión al riesgo hacia la inversión en China, debido a las continuas tensiones geopolíticas. Las diferencias de rendimiento soberano entre EE.UU. y China y el rendimiento económico mediocre de China también han llevado a una fuerte desaceleración de los flujos de IED hacia China. La inversión extranjera de China continuará con la reconfiguración de la cadena de suministro en curso, mientras que atraer IED podría seguir siendo un desafío. El superávit comercial de mercancías de China alcanzó un máximo histórico de casi 890.000 millones de dólares en 2022 y solo se moderó ligeramente a 859.000 millones de dólares. Un impulsor clave parece ser el impulso de las políticas de China para seguir impulsando el crecimiento mediante el fortalecimiento de la producción manufacturera nacional, lo que lleva a un aumento en las exportaciones de vehículos eléctricos (EV). Esto ha generado preocupaciones generalizadas y ha llevado a países como la Unión Europea a proponer la imposición de aranceles adicionales a las importaciones chinas de productos tecnológicos verdes, como los vehículos eléctricos.

Executive Summary

1. China's direct investment deficit widened to a record high US$143 billion in 2023 from US$20 billion in 2022 as net non-resident foreign direct investment (FDI) inflows continued to fall. While the decline aligns with the global FDI drop, it also reflects firms' efforts to diversify supply chains and promote domestic production.

2. Data from China's Ministry of Commerce (MOFCOM) on inbound FDI in 2023 showed a more limited outflow than the SAFE data. Utilised FDI fell by nearly 14% to approximately US$163 billion. SAFE measures FDI on a net basis (FDI inflows minus FDI outflows) while MOFCOM measures gross FDI inflows.

3. Although inbound investment to China has declined, FDI remains important, accounting for below 1% of GDP and less than 5% of total investments. It provides a channel for technology transfers, best practices and market discipline, helping Chinese companies to compete globally.

4. While developed economies like the United States and Japan have reduced investment in China, particularly in sectors that it deems strategic to national interest, the Middle East, specifically the Gulf Cooperation Council (GCC) countries, could become a new source of FDI and capital. As diplomatic ties grow closer, these GCC economies are expected to invest more in China.

5. Coupled with deficit in services, the deterioration in non-resident capital inflows, particularly FDI, means that China's FX reserves have not increased much despite the huge trade surpluses, which accounted for nearly 5% of GDP in 2023 (up from 4% in 2021). China's large trade surplus has somewhat cushioned the potential fall in its foreign reserves.

6. China has enjoyed trade surpluses due to its industrial policy that bolsters domestic manufacturing production capacities, particularly in priority sectors like renewable energy industries. State support has made China competitive in manufacturing green tech products such as electric vehicles and lithium batteries.

7. China's trade surpluses are likely to be sustained due to the economy's comparative advantage but concerns about China's state-driven industrial policy leading to overcapacity in many sectors are growing.

8. China would do well to prioritise measures that support household disposable income and consumer confidence through direct fiscal support and structural reforms, including social safety net improvements and further liberalisation of the household registration system. It should also promote the growth of its services sectors rather than focus merely on manufacturing to drive economic growth.