China: Capital Flows and ODI

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China’s foreign exchange reserves declined from about $4 trillion in mid-2014 to $3.5 trillion by September 2015. At the same time, the RMB broke the pattern of continued appreciation vs. the USD.

• What has happened?
• Are these developments a cause for concern?
• What are the implications for China’s financial sector reform and outward investment?
Foreign Reserves

Source: IMF.
RMB Exchange Rate
(In RMB per USD)

Source: IMF.
A BOP Turning Point?

US$, Billion

Source: SAFE.
Cross-Border Capital Flows by Type of Investment

Source: SAFE.
China Capital Flows, 2014Q2-2015Q2

Inflows

<table>
<thead>
<tr>
<th>Inflows</th>
<th>(Billion of USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>309.8</td>
</tr>
<tr>
<td>Portfolio</td>
<td>93.5</td>
</tr>
<tr>
<td>Other</td>
<td>-192.1</td>
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</tbody>
</table>

Outflows

<table>
<thead>
<tr>
<th>Outflows</th>
<th>(Billion of USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>102.2</td>
</tr>
<tr>
<td>Portfolio</td>
<td>73</td>
</tr>
<tr>
<td>Other</td>
<td>202.1</td>
</tr>
<tr>
<td>Errors &amp; Omissions</td>
<td>220</td>
</tr>
</tbody>
</table>

Source: SAFE.
Composition of “Other Investment”
2014Q2-2015Q2

- Currency and Deposit, 37.1%
- Loan, 34.1%
- Trade finance, 26.1%
- Other, 2.7%

Source: SAFE.
Composition of Foreign Assets

Source: SAFE.
Composition of Foreign Liabilities

Source: SAFE.
NIIP and Income Balance

(% of GDP)

NIIP

CA Income Balance

Source: IMF.
Financial Account: “Q” Programs

Source: PBC, *Q2.
Conclusions

Far-reaching changes in China's BOP

• Cyclical drivers
• Structural drivers

Implications:

• Towards an open capital account
• FDI/ODI
• Portfolio investment
• Containing speculative flows/volatility
Thanks!