

The study of factors affecting China's balance of international payment

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Abstract: Maintaining the balance of international payment of our country's economy is one of the four objectives of our country's macro-control, which is of great significance to the stable and normal operation of our country's economy. Therefore, this paper takes China's balance of international payments from 2000 to 2014 as the object of study, and concludes that China's balance of international payments has a large trade surplus in goods, a large direct investment surplus and a rising balance of China's foreign exchange reserves. In order to analyze the causes of these problems, this paper applies the theory of four factors that affect the imbalance of international payments, including economic cycle, national income, monetary value and economic structure, and makes an empirical analysis based on China's national conditions to draw practical and effective conclusions. Finally, the paper gives some instructive Suggestions for the problems in the balance of international payments.

1. Introduction

Maintaining the balance of international payment of our country's economy is one of the four objectives of our country's macro-control, which is of great significance to the stable and normal operation of our country's economy. However, currently China's balance of payments is out of balance, which to a large extent, hindered the development of China's overall economy. So it is necessary for us to study the current situation of China's balance of payments, analyse relevant factors and give reasonable advice.

2. Organization of the Text

● Theory Basis

Theoretically speaking, there are four major factors affecting the imbalance of international payments, namely, the economic cycle, national income, currency value and economic structure.

2.1 Economic cycle

A country is in different economic cycle, the relative quantity of domestic supply and demand is different. The excess supply or demand caused by the relative quantity difference will inevitably affect a country's import and export volume, thus affecting the balance of payments. Take a country in a prosperous economic period for example, when the national disposable income increases and the income stimulates the growth of demand. In this period, the domestic supply is insufficient to meet the domestic demand, so the excess demand will flow to the international market, increasing the import volume and reducing the export volume. Finally it leads to the appearance of the imbalance of international payments.

2.2 National income

A country's purchasing power is positively correlated with its national income. The purchasing power of citizens directly determines the demand of the country. When domestic demand and supply do not match, there will be import and export phenomenon, resulting in imbalance of international payments. Take the increase of a country's national income as an example. At this time, the purchasing power of the citizens is improved, and the domestic demand is strong. The insufficient domestic supply leads to the increase of imports and the decrease of exports, which eventually leads to the imbalance of international payments, namely the deficit.

2.3 Monetary value

Monetary value is divided into external value and internal value. External value refers to the exchange rate of a currency; internal value refers to the interest rate in a country's financial markets. These two kinds of value fluctuations will affect the balance of payments in different ways.

(1) External value that is exchange rate. Take the depreciation of a country's exchange rate, that means the devaluation of its currency as the example. The depreciation of domestic currency makes the price of export commodities lower and exports have price advantages. Therefore, it is more likely to lead to the appearance of surplus, an imbalance of international payments.

(2) Internal value, that is interest rate. In theory, a country's interest rate is determined by the relationship between its money supply and demand. Here, in order to simplify the study, it is assumed that the money demand is constant, so the interest rate is only determined by the money supply of a country. Take the increase in the money supply of a country as an example, the price of domestic goods will rise accordingly, and thus the price of domestic export goods expressed in foreign currency will rise. Since there is a negative correlation between price and demand, this situation is not conducive to domestic exports, and is more likely to lead to the emergence of a balance of payments imbalance called deficit.

2.4 Economic structure

To economic structure, we need to understand it from industrial structure and macro structure. The industrial structure emphasizes the consistency and coordination between the industrial structure of one country and that of the whole world. When the two are not in harmony, a country's exports of goods and services will be difficult, more likely to lead to a deficit of international payments imbalance phenomenon. The macro structure emphasizes the ratio of investment and savings. Take the situation that a country's investment is greater than its savings as an example. At this time, investment demand is excessive, while domestic output is relatively insufficient, and domestic investors can only be satisfied through imports. This phenomenon can easily lead to the appearance of the imbalance of balance of payments.

3. Current situation

In order to get a more comprehensive and deeper understanding of the situation of China's international balance of payments, this paper uses the website from the state administration of foreign exchange of our country from 2000 to 2014 for the balance of payments data. According to the division standard, the balance of payments account could be divided into current account, capital account and financial account and change in reserve assets. By analyzing these three kinds of accounts one by one, we can get a general understanding of the balance of international payments of our country.

3.1 Current account

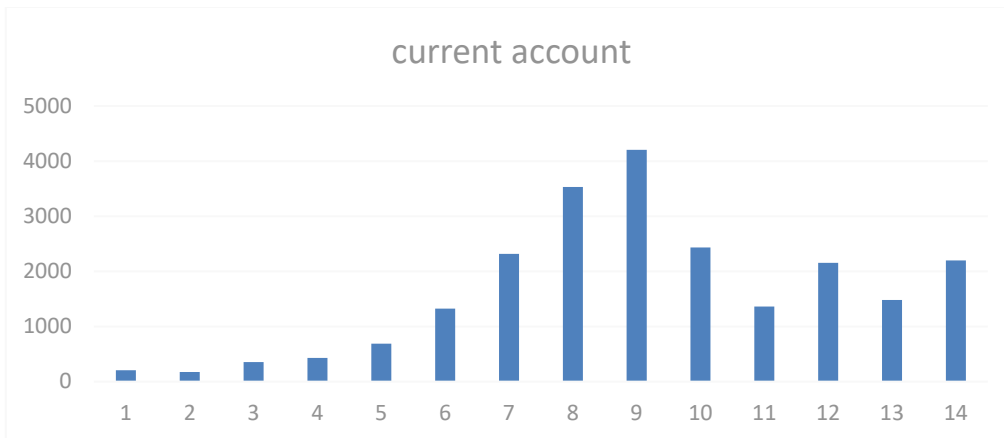


Figure 1. Current account balance from 2000 to 2014

From figure 1, we could conclude that the current account continued to run a surplus between 2000 and 2014. From 2000 to 2008, the current account surplus grew significantly. Within eight years, the trade surplus had reached more than 420 billion us dollars, more than 20 times the level in the first year. From 2008 to 2014, the current account declined significantly compared with that of 2008, and in the six years, the current account rose and fell, but it still maintained a surplus, basically maintaining a high level of 200 billion us dollars, more than 10 times the level in the first year.

3.2 Capital account and financial account

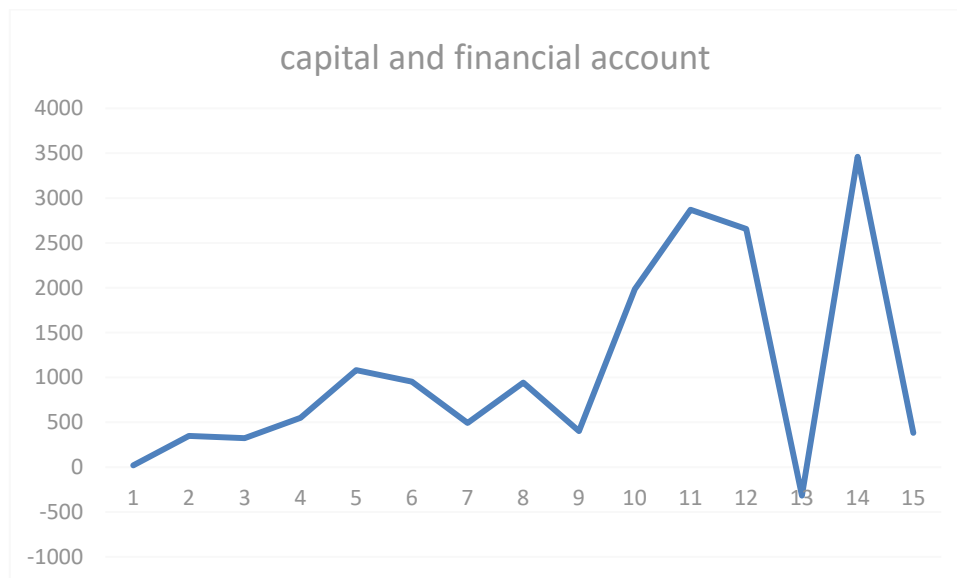


Figure 2. Capital and finance account balance from 2000 to 2014

From figure 2, we could conclude that for the capital account, it has been in a trade surplus phase for 14 years, with the exception of a slight deficit in 2004, but in small absolute terms. As for the financial account, from 2000 to 2009, it was in the position of trade surplus, and the balance of trade surplus rose and fell, basically between 50 and 100 billion us dollars. Since 2009, it has seen several notable jumps to \$350 billion, but two sharp declines and even deficits. However, in general, during the 14 years, the capital and financial accounts showed a trade surplus, with a large surplus.

3.3 Change in reserve assets.

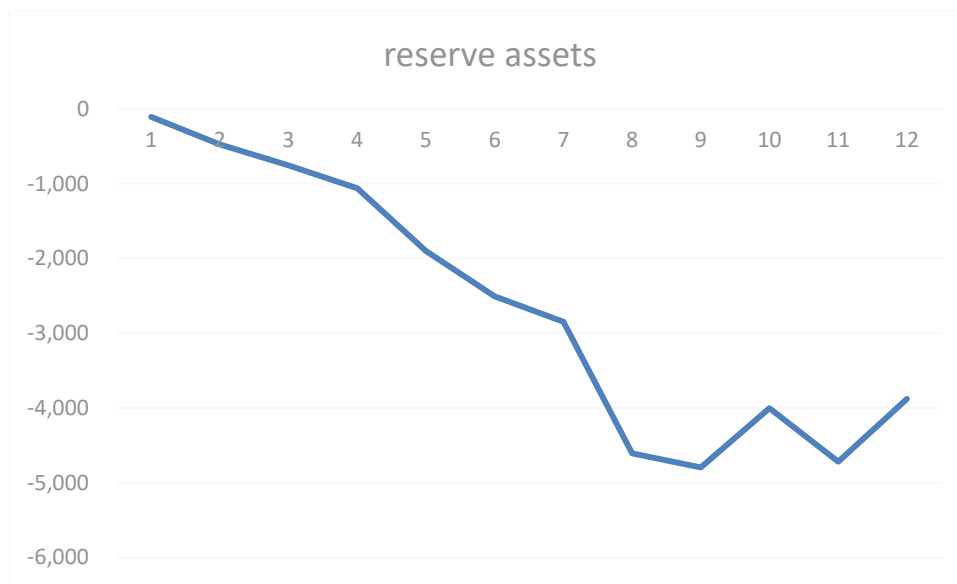


Figure 3. Change in reserve assets from 2000 to 2014

From figure 3, we could conclude that during 14 years, the reserve assets were in deficit, with the absolute value declining in some years but maintaining a high growth rate in most years.

4. Cause analysis

4.1 China's economic cycle

Judging the economic cycle that our country is in, we can consider it from the gross domestic product of our country and rate of inflation.

According to the economic growth and inflation from 2000 to 2014, it can be divided into two economic stages, namely from 2000 to 2008 as an economic cycle (good economic trends, rapid GDP growth, rising prices and vibrant economy), from 2008 to 2014 for another economic cycle (the economic downturn, slow GDP growth, falling prices). The emergence of this phenomenon is closely related to the global crisis in 2008. With the further improvement of China's openness, China's economy is increasingly affected by the trend of the world economy. According to the guidance of the theoretical part, the following conclusions can be easily obtained. During the period of 2000 to 2008, our country economy is at a good stage. At this time, the national disposable income was increasingly growing. Income boost demand growth. Domestic supply is insufficient to meet domestic demand and the excess demand will flow to the international market, increasing imports, decreasing exports and eventually leading to deficit in the balance of payments imbalance. However, from 2008 to 2014, China was in the period of economic recession. In this time, the national disposable income decreased. The demand decreased and the domestic oversupply would flow to the international market, leading to the increase of export volume and the decrease of import volume. Finally it leads to the appearance of the imbalance of international payments, i.e. the surplus.

4.2 The national income of our country

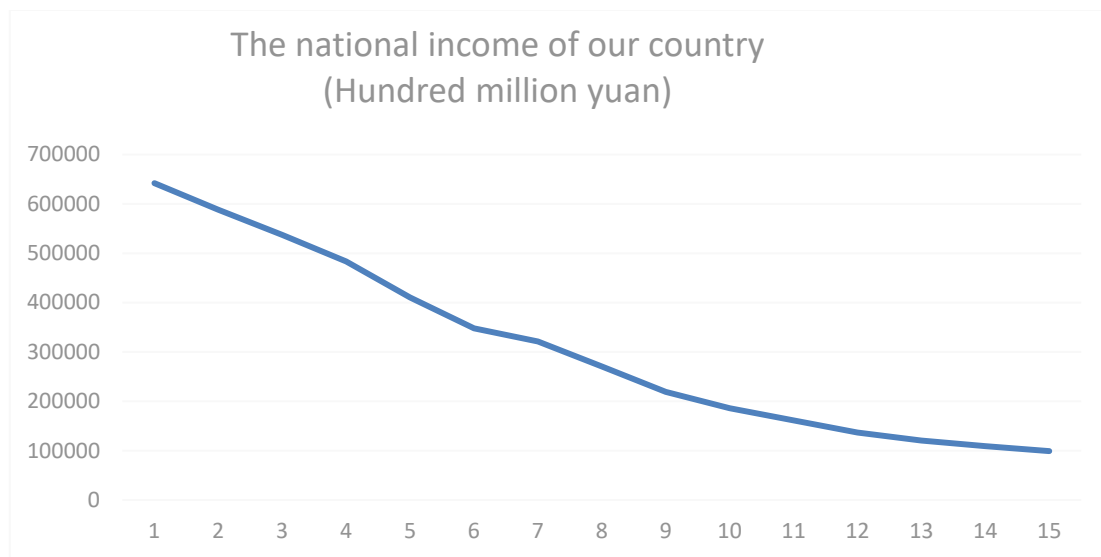


Figure 4. Change in the national income of our country from 2000 to 2014

According to the change data of gross national income from 2000 to 2014 obtained from the National Bureau of Statistics, China's national income showed a significant growth trend during the 14 years. According to the theoretical analysis, it can be concluded that when China's national income is significantly increased, its citizens' purchasing power is improved and domestic demand is strong. So insufficient domestic supply leads to increased imports and decreased exports, which is very easy to lead to the phenomenon of deficit. However, although China's national income growth is fast, but the amount of national income each person is small. Compared with developed countries, there is still a big gap. Therefore, the consumption capacity of Chinese residents is still low and China is still in the stage of a large surplus in goods.

4.3 Monetary value in China

Exchange rate

Taking the RMB against the us dollar and the euro as an example, it can be concluded that the RMB has an obvious trend of appreciation against the us dollar and the euro, although a small range of decline occurred around 2014. Although the appreciation trend of RMB is obvious, there is still a significant gap in purchasing power between RMB and us dollar and euro. Because of the exchange rate, China still has a great price advantage in commodity export. In view of this, with the theoretical part as the basis, it is easy to get the conclusion that China's goods trade surplus is larger.

Interest rate

From 2000 to 2014, China's interest rate fluctuated little and remained low. Using the knowledge of the theoretical part, it can be concluded that under the assumption that the interest rate is only determined by the money supply of a country, the low interest rate in China is caused by the small money supply in China. In turn, the price of commodities in our country decreased, so the price of export commodities in foreign currency decreased. Because price and demand are negatively correlated, this situation is conducive to the export of our goods. Therefore, we can explain the situation of the large surplus of trade in goods.

4.4 China's economic structure

(1) Industrial structure

At the beginning of the reform and opening up, China was in need of capital, technology and other production factors to develop its industry. Its only advantage was that it had cheap and abundant labor resources. At that time, Singapore and Hong Kong developed export industries to earn foreign exchange, undertaking the industrial transfer of western countries, actively taking advantage of labor resources to develop processing industries and achieving economic take-off.

Coupled with the impact of the Latin American debt crisis, China decided to learn from the development experience of Singapore and Hong Kong, establishing special economic zones, actively attracting foreign direct investment and developing the processing trade industry. The industrial structure dominated by industrial trade has resulted in a double surplus structure of large trade surplus in goods and large trade surplus in direct investment.

(2) Macro structure

Macro structure is the ratio of household savings and investment. First of all, China's financial market is still very imperfect and the capital market is not very mature. There is a lack of good investment and financial management products for Chinese residents to choose. Secondly, Chinese people's investment and financial management concept is weak, the household savings rate is high, at the same time, Chinese people do not advocate advanced consumption and advocate thrift. These factors make the savings ratio higher than the investment ratio. According to theoretical analysis, it is easy to find that China's savings is greater than investment. At this time, the domestic investment demand is small, while the domestic financial market has a larger demand for financing, which attract foreign investors and make foreign capital inflow. This phenomenon is easy to lead to the appearance of surplus.

5. Conclusion

China's balance of international payments is mainly manifested as large trade surplus in goods, large direct investment surplus and rising balance of China's foreign exchange reserves. The factors that affect China's imbalance of international payments include economic cycle, national income, currency value and economic structure. In view of this, this paper proposes the following measures to improve China's international balance of payments imbalance.

(1) The government should use fiscal and monetary policies reasonably and properly to promote the balanced and coordinated development of the foreign exchange market.

(2) We should improve policies and regulations to reform the financial market and purify the financial market environment.

(3) We are supposed to promote the external development of enterprises and encourage enterprises to explore overseas markets.

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