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Abstract

In 2021, the global economic recovery was repeatedly interrupted by the COVID-19 pandemic, and the international economic and financial situations were complex and changeable. China satisfactorily coordinated and promoted pandemic control with economic and social development, and the domestic economy maintained a momentum for recovery and development . On the whole, China's foreign-exchange market was stable, and the RMB exchange rate remained basically steady at an appropriate and balanced level with solid performance throughout the year.

China's balance of payments maintained a basic equilibrium in 2021 and its foreign-exchange reserves stabilized at about USD 3.2 trillion. The current account recorded a surplus of USD 317.3 billion, accounting for 1.8 percent of GDP and continuing within a reasonable balanced range. In particular, the surplus of trade in goods increased further, reflecting the comparative advantages of China's industrial and supply chain despite the impact of the pandemic. The deficit of trade in services, though affected by the pandemic, continued to be at a low level. Cross-border two-way investments remained active, and the non-reserve financial account recorded a surplus of USD 38.2 billion. In particular, the surplus of direct investments was at an elevated level, mainly because foreign capital continued to be optimistic about China's market and about the good growth potential of the economy. The surplus of portfolio investments continued and they remained active in both directions, which showed that the opening-up of China's financial market was gradually deepening, and RMB assets were becoming more attractive to foreign investment. Other investments posted a deficit, mainly due to the increase in external deposits and loans by domestic entities. By the end of 2021,

China's external financial assets and liabilities had increased by 5 percent and 11 percent, respectively, over the end of 2020, and its net external assets reached nearly USD 2 trillion.

In 2022, global economic growth will slow down, the monetary policies of the major developed economies will continue to adjust, and many unstable and uncertain factors will remain in the external environment. However, China's economic operations will continue to be within a reasonable range, the reform and opening-up of the financial market will advance steadily, and the maturity of the foreign-exchange market will continue to improve, all of which will help to keep a basic equilibrium in the balance of payments. It is expected that the current account will maintain a reasonable surplus and cross-border capital flows will develop steadily and orderly. The foreign-exchange administration department will prioritize stability while pursuing progress, implement the new development concept, build a new development pattern, coordinate development and security, promote reform and opening-up in the field of foreign exchange, maintain stable operations in the foreign-exchange market, create a good environment for the stable development of the domestic economy, and welcome the successful convening of the 20th CPC National Congress with practical actions.

I. Overview of the Balance of Payments

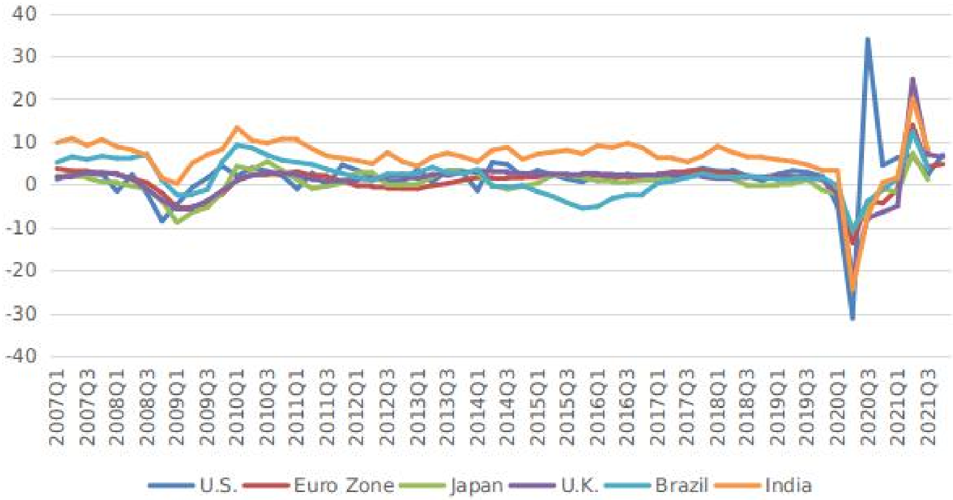
（I）The Balance-of-Payments Environment

In 2021, the ongoing recurring Covid-19 pandemic disturbed the global economic recovery, the inflation level of many economies increased, and the developed economies shifted their monetary policies as the fluctuations in international financial markets continued. China coordinated pandemic prevention and control as well as economic and social development, steadily improved the domestic economy, registered new achievements in high-quality development, and made a good start for the 14th Five-Year Plan.

Global economic trends began high, but thereafter they began to decline. In 2021, the global economy generally recovered, but the recovery was insufficient and uneven. In the first half of the year, stimulated by positive progress in vaccinations and in the financial policies of the developed economies, the momentum for a global economic recovery was good. In the second half of the year, Omicron accelerated its spread, continuing to affect improvements in the supply chain, and the marginal global economic recovery slowed down. The growth rate of GDP in the major developed economies fell in the third quarter (see Chart 1-1), the PMI in the US and the euro area were 58.8 and 58.0, respectively, down 1.8 percentage points and 5.4 percentage points, respectively, from June. The emerging economies were forced to take lockdown measures due to the relatively limited vaccinations, and their economic recovery was slow. In January 2021, the IMF forecast that the global economy would grow by 5.9 percent in 2021.

Shift in the monetary policies of the developed economies. In the first half of 2021, the major economies maintained generally loose monetary policies, while in the second half of the year, inflation pressures started to accumulate. In December, in CPI in the US rose by 7 percent year o -year, while the HICP in the euro area rose by 5 percent, and the central banks of the major economies began to adjust their monetary policies and accelerate their pace of tightening. Among them, the Federal Reserve reduced the scale of assets purchases by USD 15 billion per month in November and December. With US inflation reaching the highest level in nearly 40 years, the Fed announced it would abandon use of the term “temporary” inflation, support an earlier termination of asset purchases, and accelerate the reduction in the scale of asset purchases. In December, the Bank of England unexpectedly raised the benchmark interest rate by fifteen basis points to 0.25 percent. The ECB and the Bank of Japan also began to slow down the speed of their asset purchases. The central banks in New Zealand and Norway raised their interest rates twice in 2021 by a cumulative fifty basis points. To cope with the comparatively serious inflation, exchange-rate deceleration, and capital outflow risks, the major emerging economies frequently raised their interest rates in 2021. The central banks in Russia, Brazil, Mexico, and South Africa raised interest rates seven times, seven times, five times, and once, respectively, with a cumulative increase of 725 basis points, 425 basis points, 150 basis points, and twenty-five basis points, respectively.

Chart 1-1 Economic growth rate of the major economies



Note: The US growth rate is the annualized quarterly growth, whereas the growth rates of the other economies are the quarterly growth rates year on year.

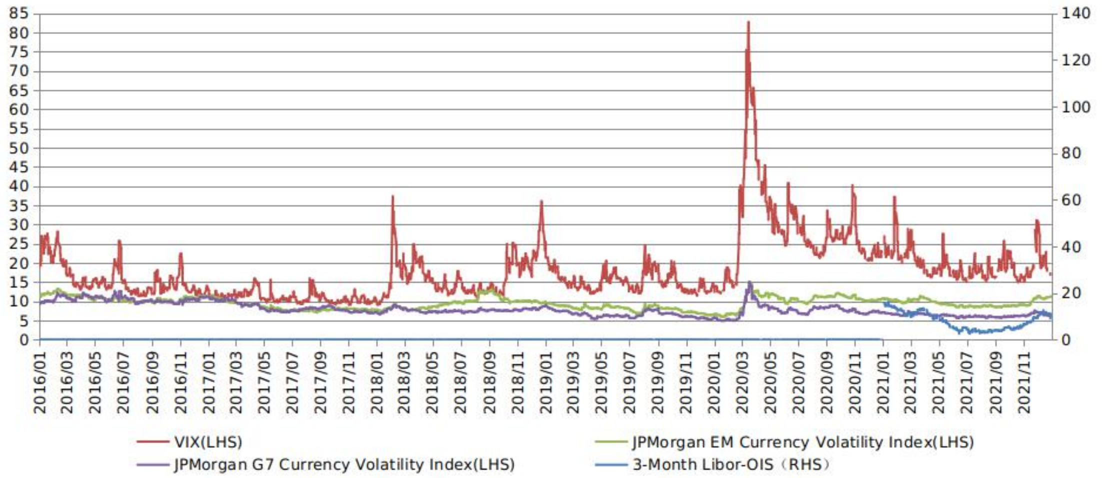
Source: Huanya economic database.

International financial markets continued to fluctuate. Affected by factors such as the recurrence of the pandemic, differences in the economic recovery, and upward inflation, global financial markets fluctuated greatly in 2021.The dislocation of production and demand, extreme weather, geopolitical conflicts, and other factors led to a continuous rise in energy prices. In 2021, the price of Brent crude oil futures rose by 50.6 percent, and the S&P Goldman Sachs Commodity Price Index (S&P GSCI) rose by 37.1 percent. Driven by the shift in monetary-policy expectations and the rise in risk aversion, the USD Index in 2021 tended to rise to as much as 6.4 percent,[1] while the Emerging Market Currency Index (EMCI) fell 9.2 percent. The yield of 10-year Treasury bonds fluctuated upward, rising to a high of 1.74 percent in 2021. As a whole, the stock indexes in the developed economies rose, with the US S&P 500 Index and the Euro Zone Stoxx 50 Index rising 26.9 percent and 21.0 percent, respectively, and the MSCI Emerging Market Stock Index

[1] Dollar index data in this report are from Bloomberg.

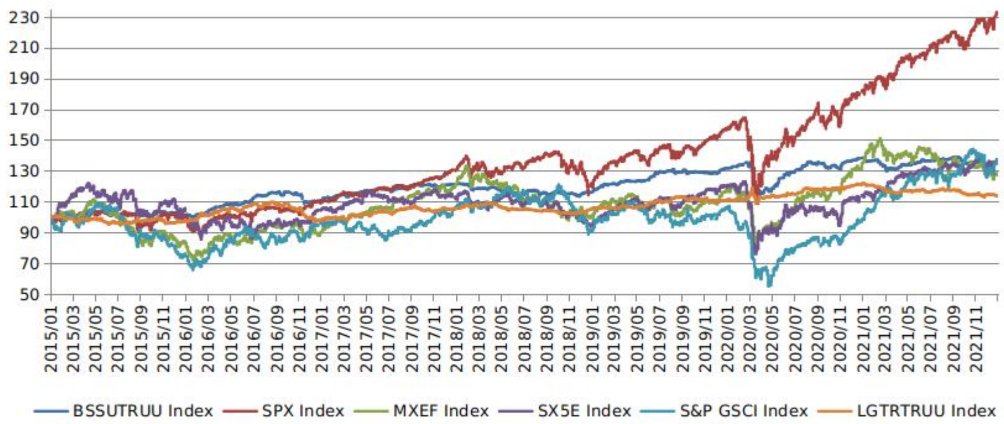
fell by 4.6 percent (see Chart 1-2 and Chart 1-3).

Chart 1-2 Interest Rates in International Financial Markets and Volatility Ratios of International Currencies



Source: Bloomberg.

Chart 1-3 Global Stocks, Bonds, and Commodity Market Prices

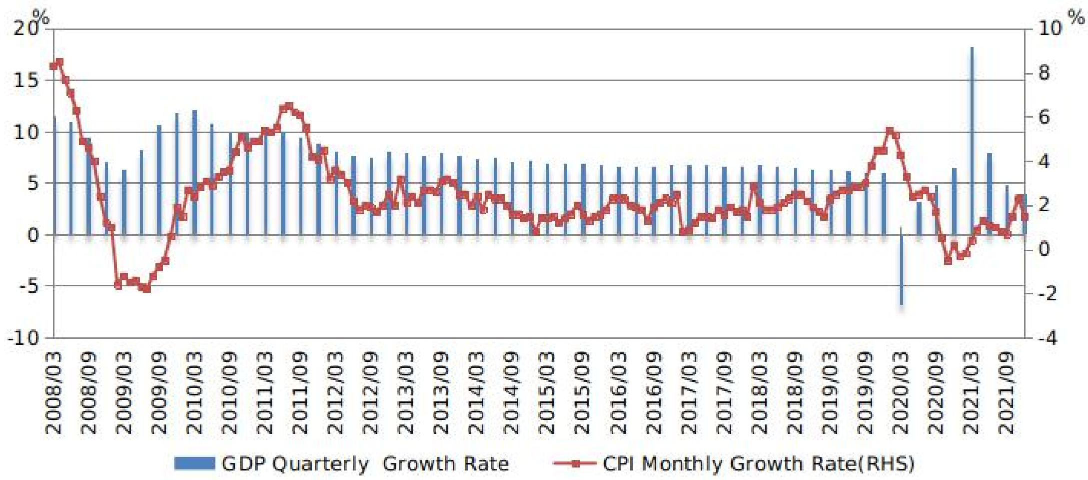


Note: BSSUTRUU and LGTRTRUU are the Bloomberg Barclays Emerging Market Index and the Developed Country Sovereign Bond Index, respectively; MXEF is the MSCI Emerging Market Index, SPX is the S&P 500 Index, SX5E is the Euro STOXX 50 Index, and SPGSCI is the S&P GSCI Commodity Price Index, all of which were one hundred at the beginning of 2015.

Source: Bloomberg.

The domestic economy has maintained its recovery and development. In 2021, in the face of the complex and serious external environment, China's economic development and pandemic prevention and control maintained a leading global level. Overall, the national economy operated within a reasonable range, and economic strength was significantly enhanced. According to the preliminary accounting of the National Bureau of Statistics, GDP in 2021 was RMB 114.4 trillion, which is 8.1 percent higher than that in 2020 at comparable prices, with an average growth of 5.1 percent in the two years, and the contribution rate to world economic growth was expected to reach about 25 percent. The Consumer Price Index (CPI) was 0.9 percent higher than that in 2020 (see Chart 1-4). China’s main macroeconomic indicators met expectations, achieving an optimized combination of higher growth, lower inflation, and more employment, as China took new steps to build a new development pattern.

Chart 1-4 Growth Rate of China's Quarterly GDP and Monthly CPI



Source: NBS.

（II）The Main Characteristics of the Balance of Payments

The current account maintained a surplus, and the non-reserve financial account posted a small surplus. In 2021, the current account recorded a surplus of USD 317.3 billion, up 28 percent. The non-reserve financial account posted a surplus of USD 38.2 billion, as opposed to a small deficit in 2020 (see Table 1-1).

Table 1-1 Structure of the BOP Surplus

USD 100 Million

Item	2014	2015	2016	2017	2018	2019	2020	2021
Current account balance	2360	2930	1913	1887	241	1029	2488	3173
As a % of GDP	2.3%	2.6%	1.7%	1.5%	0.2%	0.7%	1.7%	1.8%
Financial account excluding reserve assets	-514	-4345	-4161	1095	1727	73	-611	382
As a % of GDP	-0.5%	-3.9%	-3.7%	0.9%	1.2%	0.1%	-0.4%	0.2%

Sources: SAFE, NBS.

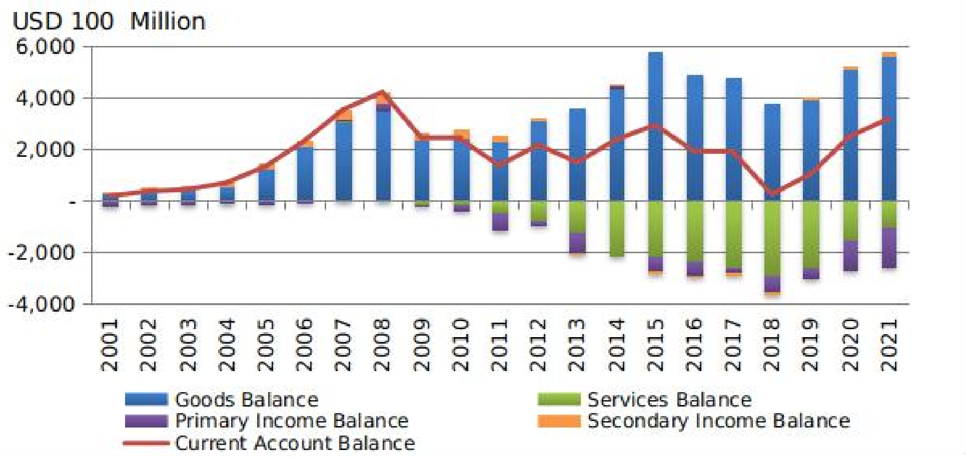
The surplus in trade in goods increased. Based on the balance-of-payments statistics,[2] exports of trade in goods in 2021 totaled USD 3215.9 billion, up 28 percent. Imports of trade in goods totaled USD 2653.1 billion, up 33 percent. Trade in goods recorded a surplus of USD 562.7 billion, thus continuing its growth trend (see Chart 1-5).

The deficit in trade in services narrowed. In 2021, revenue from trade in services totaled USD 338.4 billion, up 48 percent, and expenditures totaled USD 438.4 billion, up 15 percent. Trade in services recorded a deficit of USD 99.9 billion, down 34 percent (see Chart 1-5). In particular, transportation recorded a deficit of USD 20.6 billion, down 46 percent, due to the rapid growth of transportation revenue. The travel deficit totaled USD 94.4 billion, down 22 percent, reflecting the sustained

[2] BOP statistics and statistics of the General Administration of Customs with respect to trade in goods can be reconciled by the following: First, trade in goods in the BOP statistics only records those goods whose ownership has been transferred (such as general trade or processing trade with imported material), and goods whose ownership has not been transferred (such as processing trade with supplied material or outward processing trade) are not recorded in the trade in goods but rather are recorded in the trade in services. Second, as far as the valuation is concerned, the BOP statistics require that the values of the imports and exports of goods are recorded on a FOB basis, while the Customs statistics record the export value of goods on the FOB price but the import value of goods on the CIF price, so the BOP statistics obtain the international freight and premium expenditures from the import value of goods in the Customs statistics and bring them into the trade in services statistics of the BOP statistics. Third, some import and export return data are supplemented in the BOP statistics. Fourth, the net export data of goods under resale trade not counted by the Customs are supplemented. Fifth, the differences in caliber caused by the differences in the special OEM mode and the valuation method are adjusted.

impact of the COVID-19 global pandemic on cross-border travel by Chinese residents.

Chart 1-5 Major Items under the Current Account



Source: State Administration of Foreign Exchange.

Primary income[3] recorded a deficit. In 2021, revenue from primary income totaled USD 274.5 billion, up 12 percent, and expenditures from primary income totaled USD 436.5 billion, up 20 percent. Primary income thus recorded a deficit of USD 162 billion (see Chart 1-5). In particular, the deficit in employee compensation was USD 1.3 billion, and investment income posted a deficit of USD 163.8 billion. Expenditures for inward investments totaled USD 417.4 billion, and revenue from outward investments totaled USD 253.6 billion.

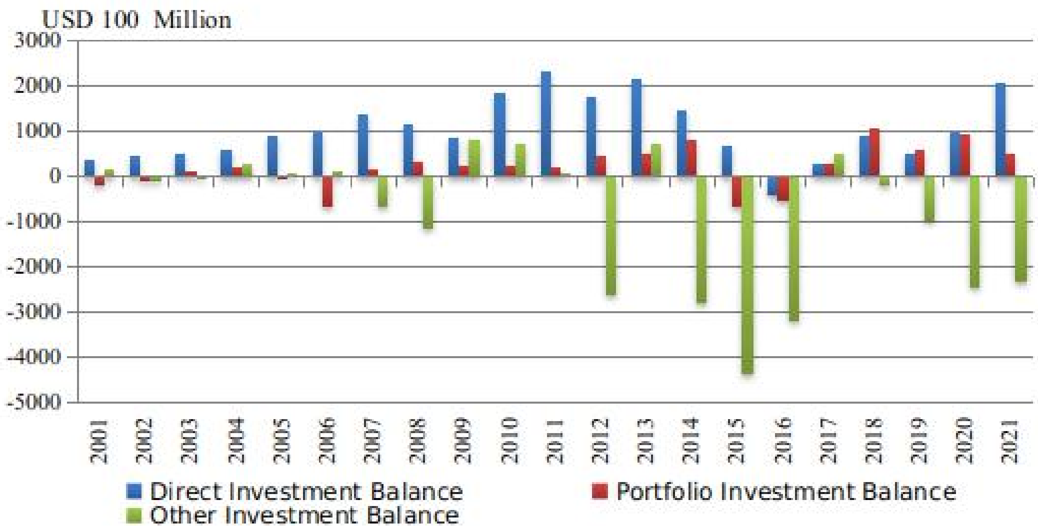
Secondary income continued to post a surplus. In 2021, revenue from secondary income totaled USD 49.2 billion, up 37 percent. Expenditures for secondary income were recorded at USD 32.7 billion, up 19 percent. Secondary income thus recorded a surplus of USD 16.5 billion, up 95 percent (see Chart 1-5).

The surplus in direct investments increased. Based on the

[3] The IMF's *Balance of Payments* and *International Investment Manual* (Sixth Edition) renamed the income item under the current account as primary income and renamed current transfers as secondary income.

balance-of-payments statistics,[4] direct investments posted a surplus of USD 205.9 billion in 2021, compared with a surplus of USD 99.4 billion in 2020 (see Chart 1-6). Outflows of outward direct investments (the net increase in direct-investment assets) amounted to USD 128 billion, down 17 percent, reflecting that cross-border investments and M&As of domestic enterprises were generally reasonable and orderly despite the impact of the pandemic. Inflows of foreign direct investments (the net increase in direct-investment liabilities) totaled USD 334 billion, up 32 percent, showing that China's economic growth maintained a global leading edge and that its attraction to foreign investment increased.

Chart 1-6 Major Items under the Capital and Financial Account



Source: State Administration of Foreign Exchange.

Portfolio investments maintained a surplus. In 2021, portfolio investments posted a surplus of USD 51 billion (see Chart 1-6). In particular, outflows of outward portfolio investments (the net increase in assets) totaled USD 125.9 billion, down 17 percent, and inflows of

[4]The BOP compiles and reports direct investments following balance-sheet rules, whereas the Ministry of Commerce compiles and reports direct investments by direction, with differences between the principles for reverse investments and investments among affiliates. In addition, direct investments based on the BOP statistics also include unpaid and unremitted profits, retained earnings, shareholders' loans, foreign capital utilized by financial institutions, and real-estate purchases by non-residents.

inward portfolio investments (the net increase in liabilities) totaled USD 176.9 billion, down 28 percent.

Other investments continued to record a deficit. In 2021, other investments, including loans, trade credits, and deposits, posted a deficit of USD 229.8 billion (see Chart 1-6). In particular, net outflows of outward other investments (the net increase in assets) totaled USD 387.3 billion, up 15 percent. Net inflows of inward other investments (the net increase in liabilities) totaled USD 157.6 billion, up 73 percent.

Reserve assets increased while maintaining stability. In 2021, reserve assets involving transactions (excluding the effects of non-transactional values, such as exchange rates and prices) increased by USD 188.2 billion. In particular, foreign-currency reserves involving transactions increased by USD 146.7 billion. By the end of 2021, China's foreign-currency reserves reached USD 3250.2 billion, an increase of USD 33.6 billion over 2020, taking into account transactions, exchange rates, changes in asset prices, and other factors.

Table 1-2 China's Balance of Payments in 2021

USD 100 million

Item	Line No.	2021
1. Current account	1	**3,173**
Credit	2	38,780
Debit	3	-35,607
1.A Goods and services	4	**4,628**
Credit	5	35,543
Debit	6	-30,915
1.A.a Goods	7	**5,627**
Credit	8	32,159
Debit	9	-26,531
1.A.b Services	10	**-999**
Credit	11	3,384
Debit	12	-4,384
1.A.b.1 Manufacturing services on physical inputs owned by others	13	135

Credit	14	142
Debit	15	-7
1.A.b.2 Maintenance and repair services n.i.e	16	40
Credit	17	79
Debit	18	-38
1.A.b.3 Transport	19	-206
Credit	20	1,273
Debit	21	-1,479
1.A.b.4 Travel	22	-944
Credit	23	113
Debit	24	-1,057
1.A.b.5 Construction	25	56
Credit	26	154
Debit	27	-97
1.A.b.6 Insurance and pension services	28	-144
Credit	29	49
Debit	30	-193
1.A.b.7 Financial services	31	4
Credit	32	52
Debit	33	-47
1.A.b.8 Charges for the use of intellectual property	34	-351
Credit	35	117
Debit	36	-468
1.A.b.9 Telecommunications, computer, and information services	37	106
Credit	38	507
Debit	39	-401
1.A.b.10 Other business services	40	339
Credit	41	869
Debit	42	-531
1.A.b.11 Personal, cultural, and recreational services	43	-18
Credit	44	14
Debit	45	-33
1.A.b.12 Government goods and services n.i.e	46	-17
Credit	47	16
Debit	48	-32
1.B Primary income	49	**-1,620**
Credit	50	2,745
Debit	51	-4,365
1.B.1 Compensation of employees	52	-13
Credit	53	171
Debit	54	-184

1.B.2 Investment income	55	-1,638
Credit	56	2,536
Debit	57	-4,174
1.B.3 Other primary income	58	31
Credit	59	38
Debit	60	-7
1.C Secondary income	61	**165**
Credit	62	492
Debit	63	-327
1.C.1 Personal transfers	64	9
Credit	65	54
Debit	66	-45
1.C.2 Other secondary income	67	156
Credit	68	438
Debit	69	-282
2. Capital and financial account	70	**-1,499**
2.1 Capital account	71	**1**
Credit	72	3
Debit	73	-2
2.2 Financial account	74	**-1,500**
Assets	75	-8,116
Liabilities	76	6,616
2.2.1 Financial account excluding reserve assets	77	**382**
Financial assets excluding reserve assets	78	-6,234
Liabilities	79	6,616
2.2.1.1 Direct investment	80	**2,059**
2.2.1.1.1 Assets	81	**-1,280**
2.2.1.1.1.1 Equity and investment fund shares	82	-992
2.2.1.1.1.2 Debt instruments	83	-288
2.2.1.1.1.a Financial sector	84	-370
2.2.1.1.1.1.a Equity and investment fund shares	85	-338
2.2.1.1.1.2.a Debt instruments	86	-32
2.2.1.1.1.b Non-financial sector	87	-910
2.2.1.1.1.1.b Equity and investment fund shares	88	-654
2.2.1.1.1.2.b Debt instruments	89	-256
2.2.1.1.2 Liabilities	90	**3,340**
2.2.1.1.2.1 Equity and investment fund shares	91	2,772
2.2.1.1.2.2 Debt instruments	92	568
2.2.1.1.2.a Financial sector	93	235
2.2.1.1.2.1.a Equity and investment fund shares	94	185
2.2.1.1.2.2.a Debt instruments	95	50

2.2.1.1.2.b Non-financial sector	96	3,105
2.2.1.1.2.1.b Equity and investment fund shares	97	2,587
2.2.1.1.2.2.b Debt instruments	98	518
2.2.1.2 Portfolio investment	99	**510**
2.2.1.2.1 Assets	100	**-1,259**
2.2.1.2.1.1 Equity and investment fund shares	101	-856
2.2.1.2.1.2 Debt securities	102	-403
2.2.1.2.2 Liabilities	103	**1,769**
2.2.1.2.2.1 Equity and investment fund shares	104	831
2.2.1.2.2.2 Debt securities	105	938
2.2.1.3 Financial derivatives (other than reserves) and employee stock options	106	**111**
2.2.1.3.1 Assets	107	179
2.2.1.3.2 Liabilities	108	-68
2.2.1.4 Other investment	109	**-2,298**
2.2.1.4.1 Assets	110	**-3,873**
2.2.1.4.1.1 Other equity	111	-6
2.2.1.4.1.2 Currency and deposits	112	-1,525
2.2.1.4.1.3 Loans	113	-1,205
2.2.1.4.1.4 Insurance, pension, and standardized guarantee schemes	114	-44
2.2.1.4.1.5 Trade credit and advances	115	-616
2.2.1.4.1.6 Other accounts receivable	116	-478
2.2.1.4.2 Liabilities	117	**1,576**
2.2.1.4.2.1 Other equity	118	0
2.2.1.4.2.2 Currency and deposits	119	656
2.2.1.4.2.3 Loans	120	51
2.2.1.4.2.4 Insurance, pension, and standardized guarantee schemes	121	33
2.2.1.4.2.5 Trade credit and advances	122	335
2.2.1.4.2.6 Other accounts payable	123	85
2.2.1.4.2.7 Special drawing rights	124	416
2.2.2 Reserve assets	125	**-1,882**
2.2.2.1 Monetary gold	126	0
2.2.2.2 Special drawing rights	127	-416
2.2.2.3 Reserve position in the IMF	128	1
2.2.2.4 Foreign exchange reserves	129	-1,467
2.2.2.5 Other reserve assets	130	0
3.Net errors and omissions	131	**-1,674**

Notes:

1. This chart was compiled according to the Balance of Payments Manual (Sixth Edition). The statistics are for all economic transactions between Chinese residents and non-residents. Chinese residents follow the principle of economic entity, excluding institutions and individuals in Hong Kong, Macao SAR, and Taiwan of China. Therefore, the trade and investment transactions between mainland China and

the above three regions are recorded as cross-border transactions.

2. "Credits" are shown as positive values and "debits" are shown as negative values, with the balance equal to the "credits" plus the "debits." Except for the items marked "credit" and "debit," all other items in this table refer to the balance.

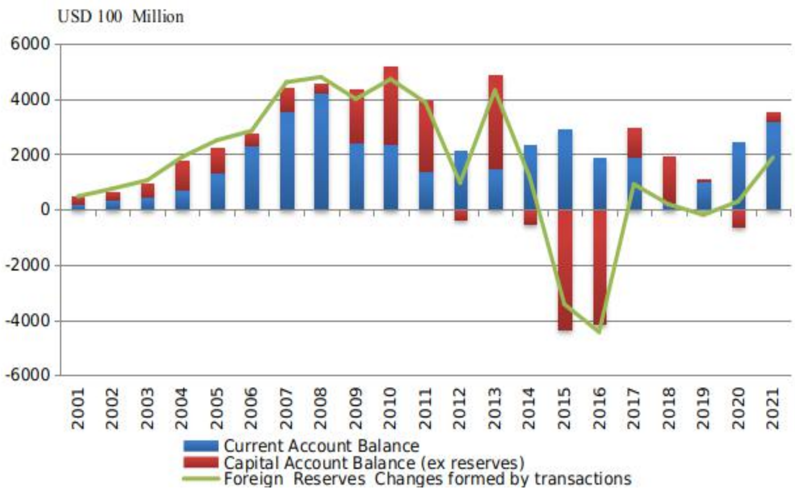
3. This chart is based on rounding principles.

Source: State Administration of Foreign Exchange.

(III) Evaluation of the Balance of Payments

China's economy continued to recover steadily and the balance of payments maintained a basic equilibrium. In 2021, the global economic recovery was repeatedly interrupted by the COVID-19 pandemic, and the major developed economies began to shift their monetary policies. In the face of the complex and serious international financial situation, China retained its leading role in economic development and pandemic control, building a solid foundation for maintaining an equilibrium in the balance of payments. The surplus in the current account increased and continued to be within a reasonable balanced range. Cross-border two-way investments under the non-reserve financial account remained active, showing a small surplus and an overall equilibrium. Foreign-exchange reserves remained stable at about USD 3.2 trillion (see Chart1-7).

Chart 1-7 Structure of China's BOP

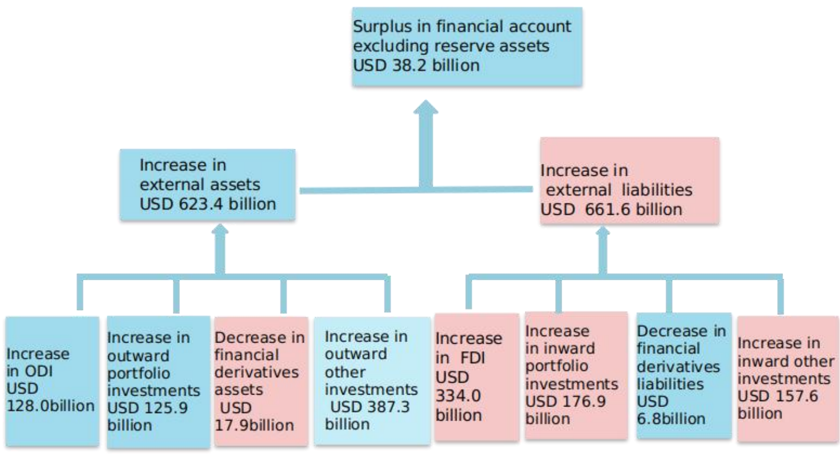


Source: State Administration of Foreign Exchange.

The current account maintained a surplus within the range of a reasonable equilibrium. In 2021, the current account recorded a surplus of USD 317.3 billion, accounting for 1.8 percent of GDP, which continued to be within the range of a reasonable equilibrium. The steady operation of China's current account mainly benefited from two factors. First, the advantages of domestic industrial and supply chains continued to play a role and the measures to improve the quality and efficiency of foreign trade were productive. At present, China's trading partners are becoming increasingly diversified, the structure of export commodities is continuously being optimized, and the vitality of the participants in foreign trade is becoming enhanced, which is the internal driving force for the steady growth of trade in goods. Second, the global pandemic continued to restrain the import of trade in services. In 2021, repeated outbreaks of the pandemic overseas hindered the cross-border movement of people, travel, and other consumer expenditures that determine the status of trade in services continued to decline, so the deficit in trade in services remained low.

Both outward and foreign investments remained active. In terms of foreign investments, the total net increase of outward and foreign investments in 2021 was USD 661.6 billion, mainly due to foreign direct investments in China and the purchase of RMB assets by foreign capital. In particular, foreign direct investments increased by 32 percent compared with 2020, reaching a record high and indicating that the good prospects for China's economic development had a strong attraction among overseas long-term capital. Although foreign portfolio investments in China were lower than those in 2020, they were still significantly higher than those in 2019 before the pandemic, reflecting the comparative advantages of China's continuous opening-up of its financial market, the relative stability of the value of the RMB, and the high investment value of domestic stocks and bonds. In terms of outward investments, the total net increase in 2021 was USD 623.4 billion, mainly due to the increase in investments, deposits, and loans abroad by domestic entities against the background of abundant domestic foreign-currency liquidity. This also shows that most of the current account surplus and foreign investments in China turned into external assets held by China's private sector, thus contributing to an independent equilibrium in the balance of payments (see Chart 1-8).

Chart 1-8 Structure of China's Cross-Border Capital Flows in 2021



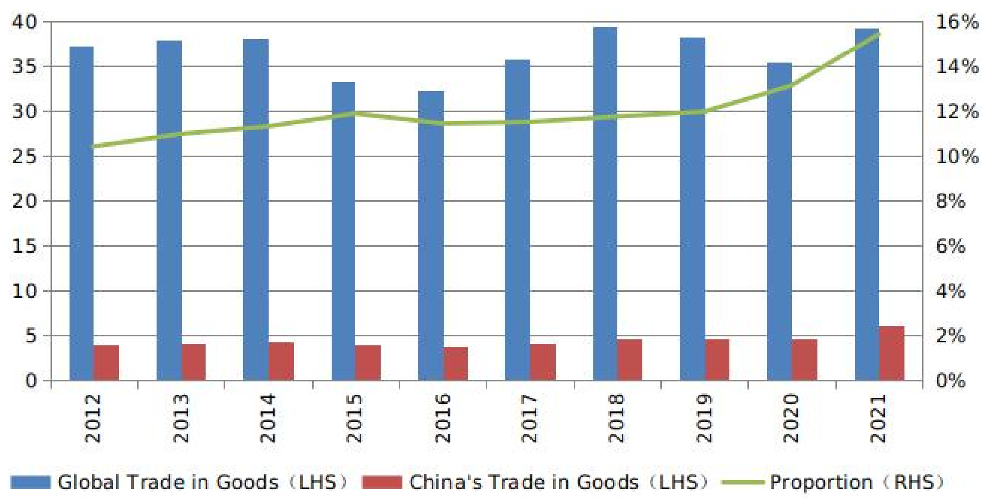
Source: State Administration of Foreign Exchange.

II. Analysis of the Major Items in the Balance of Payments

(Ⅰ) Trade in Goods

Exports and imports of goods reached a new high. In 2021, China performed well in terms of its high-quality economic development. In the context of the rapid growth in its major economic indicators, the rebound in domestic production and consumer demand, and the increase in external demand boosted by the global economic recovery, China's foreign trade increased rapidly and exports and imports recorded new highs. According to customs statistics, in 2021 China's total import and export volume of foreign trade reached USD 6.05 trillion, an increase of 30 percent over 2020 and surpassing USD 5 trillion and USD 6 trillion, respectively, during the year. According to the World Trade Organization, global trade in goods was expected to grow at 10.8 percent in 2021. The World Trade Organization also forecast that China could account for 15 percent of global trade in 2021, up two percentage points from 2020 and recording a historic high. China’s position as a major trading economy will be further strengthened.

Chart 2-1 Global Trade in Goods and China’s Trade in Goods from 2012 to 2021



Sources: General Administration of Customs, World Trade Organization.

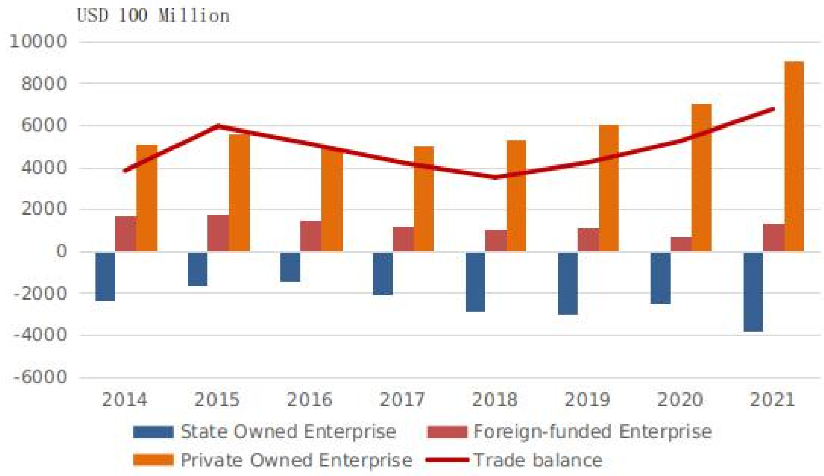
The composition of trade has continuously improved. In 2021, China's general foreign trade totaled USD 3.72 trillion, an increase of 34 percent over 2020, nearly four percentage points higher than the overall growth of foreign trade. China’s processing trade totaled USD 1.32 trillion, an increase of 19 percent. In the context of the transformation and upgrading of domestic industries, in recent years the proportion of China’s general trade in the total foreign trade continuously increased, while the proportion of processing trade decreased.

Chart 2-2 Proportion of General Trade and Processing Trade from 2017 to 2021

Source: General Administration of Customs.

Private enterprises were more active in foreign trade. In 2021, exports and imports of goods by private enterprises totaled USD 2.865 trillion, an increase of 36 percent over 2020 and accounting for 47 percent of total foreign trade. This ratio is two percentage points higher than that in 2020. Exports and imports of goods by foreign-invested enterprises totaled USD 2.1717 trillion, accounting for 36 percent. Exports and imports of goods by state-owned enterprises totaled USD 919 billion, accounting for 15 percent. In terms of net exports, in 2021 the trade deficit by state-owned enterprises reached USD 381.1 billion. The trade surplus by foreign-invested enterprises and private enterprises reached USD 134.3 billion and USD 905.5 billion, respectively, accounting for 44 percent and 133 percent, respectively, of the growth in the trade surplus.

Chart 2-3 Balance of Trade in Goods in Terms of Contributors

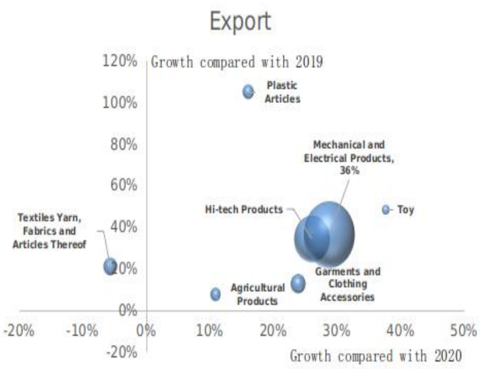


Source: General Administration of Customs.

The composition of export commodities continued to improve. In 2021, China's exports of high value-added products became prominent. Exports of high-tech products totaled USD 979.6 billion, an increase of 26 percent over 2020 and accounting for approximately 30 percent of total exports. China's exports of mechanical and electrical products totaled USD 1985.7 billion, up 29 percent and accounting for 59 percent of total exports. Among these, exports of traditional key products, including computers, mobile phones, and household appliances, increased steadily. Exports of new energy products, such as electric vehicles, lithium batteries, and photovoltaic products, continued their rapid growth. For example, exports of lithium-ion batteries came to USD 28.4 billion, an increase of 78 percent.

Rises in volume and prices pushed up China’s imports. According to customs statistics, in 2021 China's import volume index increased an average of 8 percent, and the import price index denominated in RMB increased by an average of 12 percent. The rise in volume and price contributed to the rapid growth of imports. On the one hand, the rise in commodity prices increased the imports of iron ore and crude oil by 49 percent and 44 percent, respectively, year on year, contributing 11 percent and 13 percent, respectively to the growth of imports. This was a key factor in pushing up China's imports. On the other hand, imports of mechanical and electrical products increased by 20 percent. Among these, imports of integrated circuits increased by 24 percent, accounting for 38 percent of China's imports of mechanical and electrical products, largely due to the global chip shortage and the rise in prices as well as due to the rapid development of emerging industries, such as 5G, smart cars, and the Internet of Things.

Chart 2-4 Volume and Growth Rate of China's Exports and Imports of Major Commodities in 2021

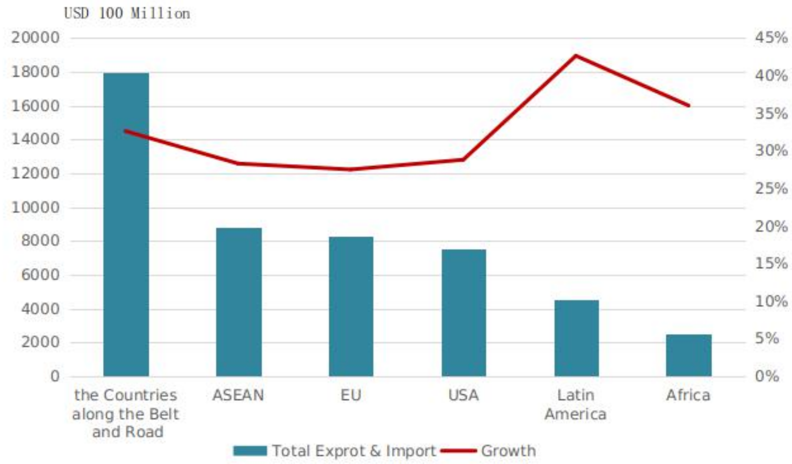


Note: The circle represents the exports or imports of commodities. The larger the area, the larger the exports or imports, and vice versa.

Source: General Administration of Customs.

Our trade partners have been further diversified. In 2021, China's trade with its top three trade partners, ASEAN, the European Union, and the United States, amounted to USD 878.2 billion, USD 828.1 billion, and USD 755.6 billion, respectively, an increase of 28 percent, 27 percent, and 29 percent over 2020. The surplus reached USD 89.2 billion, USD 208.4 billion, and USD 396.6 billion, respectively. At the same time, Chinese enterprises have been successful in greatly diversifying the markets. In 2021, China's exports and imports to Latin America, Africa, and countries along the "Belt and Road" increased by 43 percent, 36 percent, and 33 percent, respectively, year on year, all of which were higher than the overall growth rate.

Chart 2-5 China's Exports and Imports with its Major Trade Partners in 2021

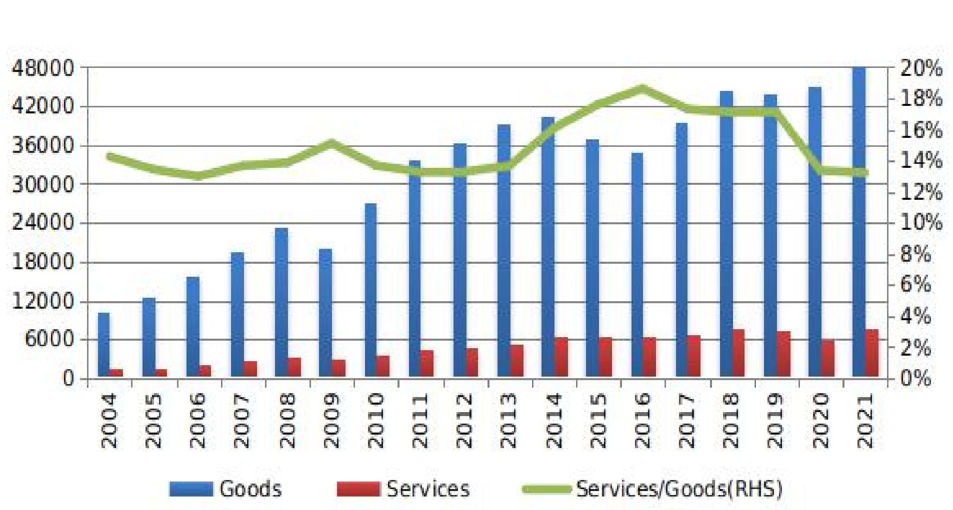


Source: General Administration of Customs.

（Ⅱ） Trade in services

Trade in services grew rapidly. In 2021, China's trade in services totaled USD 776.8 billion, an increase of 27 percent over 2020. The total amount rebounded to the 2019 level before the pandemic. The ratio of trade in services to trade in goods was 13 percent, approximately the same as that in 2020 (see Chart 2-6). In terms of major items, due to China's leading position in export recovery, the enhancement in export transportation capacity, and the rise in international freight fares, China's transportation services totaled USD 275.1 billion, an increase of 82 percent, ranking the largest service item in terms of both volume and growth rate. Other business services totaled USD 140 billion, surpassing travel services as the second largest item.

Chart 2-6 Comparison of the Total Volume of Trade in Goods and Total Volume of Trade in Services



Source: State Administration of Foreign Exchange.

Box 1

The SAFE Is Steadily Constructing China's Statistical System for International Trade in Services

Since the 1980s, the SAFE has gradually established and improved the statistics on international trade in services,5 so as to record China' s development in this field. During the period, the total amount of China's international trade in services grew from less than USD 5 billion in 1982 to approximately USD 800 billion in 2021, fully reflecting China's accelerating integration into the global economy and deep participation in the international division of labor for trade in services.

1. Chinese statistics on international trade in services began in the 1980s

In 1980, China restored its lawful seat in the International Monetary Fund. To comply with the duties of IMF members, in 1981 the State Administration of Foreign Exchange established China's first balance-of-payments statistical system based on the internationally recognized statistical standards and China's economic background. China' s statistics on international trade in services were established accordingly. Based on the administrative customs records, the Ministry of Trade and Economic Cooperation, the Tourism Administration, and other state administrative departments,

[5] Statistics on international trade in services include twelve components, including transport, processing services, travel, use of intellectual property, etc., which can be classified in three modes of supply. According to the World Trade Organization, there are four modes of supply in international trade in services, namely, cross-border supply, consumption abroad, presence of natural persons, and commercial presence. Among these four modes, the first three modes of supply are reflected in the twelve components of trade in services in the Balance of Payments, while the commercial presence is included in the direct investments in the Balance of Payments.

the SAFE compiled China's international trade in services. In September 1985, the SAFE released China's balance of payments for 1982–1984 for the first time.

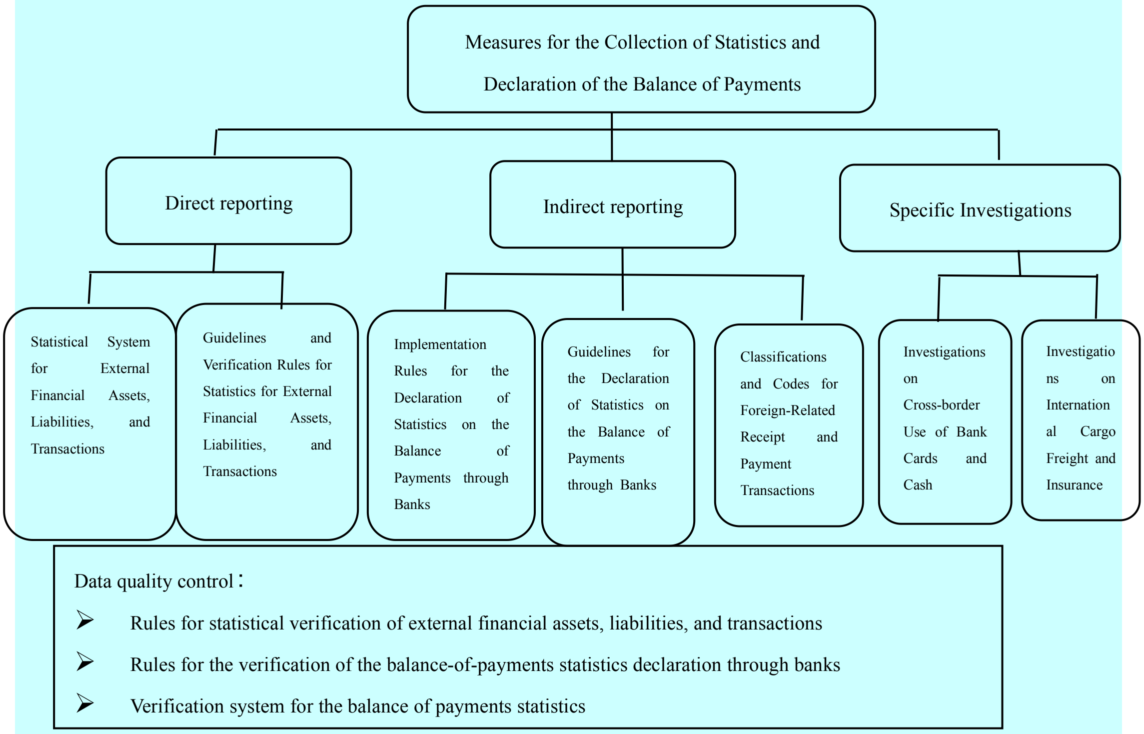
2. China's statistics on international trade in services have gradually improved

China's statistical system for trade in services has gradually been improved. To strengthen foreign-related statistics, in 1995 the SAFE launched The Measures for the Collection of Statistics and Declaration of the Balance of Payments, which were approved by the State Council and implemented in 1996. The Measures established the foundation for statistics on the balance of payments in China. Since then, China's statistics on trade in services has continuously improved, constituting a statistical system covering direct reporting, indirect reporting, specific investigations (see Chart C1-1), and corresponding data quality checks. Since 2012, the SAFE has disseminated a timetable for the release of data. Over the years, the standardized process for data collection, verification, and dissemination has provided a solid institutional foundation for China's international trade-in-services statistics.

China releases data on international trade in services more frequently. From 1982 to 2000, the SAFE released data on trade in services annually via the balance of payments. From 2001, the data were released semi-annually, and from 2010 the data were released quarterly. In 2012, the SAFE released quarterly BOP data from 1998, largely enhancing statistical transparency. Meanwhile, the time lag has gradually been shortened from 4 months to 40 days after the referenced quarter. Since 2014, the SAFE has released monthly data on China's international trade in services separately from the BOP statement. The data are released within one month after the referenced month to demonstrate the timely development of China's trade in services.

The data quality has continuously improved. Data quality is the lifeline of statistics. The SAFE adopts various means to ensure data accuracy. On the one hand, the SAFE collects data automatically through electronic systems to reduce manual operations and to increase efficiency. On the other hand, to ensure data quality, approximately 1,000 verification rules are applied daily to check large data changes, complemented by regular off-site and on-site verifications. At the same time, the SAFE organizes various BOP statistical trainings to maintain good interactions and relations with the data reporters and to ensure the accuracy, comprehensiveness, and timeliness of the statistics.

Chart C1-1 China's Statistical System on International Trade in Services



3. China' s statistics on trade in services are marching forward to a high level

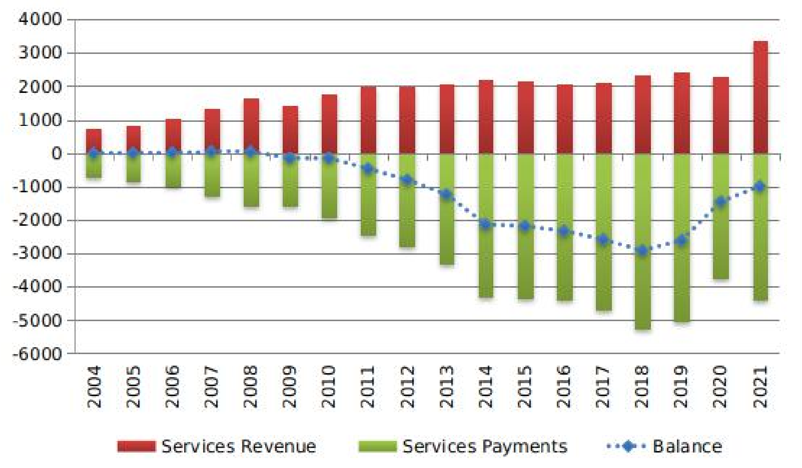
The SAFE has actively participated in the statistical rulemaking for trade in services. The Balance of Payments Statistical Committee (BOPCOM) of the International Monetary Fund is reviewing the statistical rules for the updates to the BOP manual, including those for trade in services. Over the years, the SAFE has been actively participating in the work of the BOPCOM on behalf of China. Since 2005, the SAFE has continuously recommended experts to join the BOPCOM and has participated in the launch of the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) and reviewed key issues, such as recognizing "re-sale" as goods rather than as services. Currently, the SAFE is actively participating in the updates of the BPM6, reviewing principal issues on the feasibility of further adjustments to trade in services, and contributing new ideas.

The SAFE is steadily improving China' s statistics on trade in services. With the continuous opening-up, new industries, businesses, and models have swiftly emerged in China. Statistics on trade in services need to be upgraded accordingly. At the same time, the increasing and more scattered enterprise reporters are requesting a better grasp of the BOP statistical requirements. It has become both urgent and important that direct reporting, indirect reporting, and specific investigations be coordinated and that their advantages be complementary. In recent years, the SAFE has solidly promoted the direct reporting by enterprises on various foreign-related businesses, strengthened reporting guidance, enhanced the quality of data, and promoted the statistical level of trade in goods, trade in services, and external financial assets and liabilities.

Statistics on international trade in services is a key component of the balance-of-payments statistical system. Together with other statistics for which the SAFE is responsible, the statistics on trade in services reflect the foreign-related economic performance by domestic entities. They also provide a comprehensive and systemic perspective on the macro situation and industrial policy-making. In the future, the SAFE will continuously improve the statistical system, enhance the statistical methodology, and improve the statistical team. The SAFE will also continuously integrate international standards with Chinese practices, actively participate in international statistical rulemaking, and continue to reinforce statistics on international trade in services.

Revenue from trade in services recorded a historic high. In 2021, revenue from trade in services totaled USD 338.4 billion, an increase of 48 percent over 2020 (see Chart 2-7). Among the major items, revenue from transportation was USD 127.3 billion, up 1.25 times year on year and accounting for 38 percent of total revenue. Revenue from other business services was USD 86.9 billion, up 24 percent year on year and accounting for 26 percent of total revenue. Revenue from telecommunications, computers, and information services was USD 50.7 billion, up 30 percent year on year and accounting for 15 percent of total revenue.

Chart 2-7 Revenue and Expenditures in Trade in Services

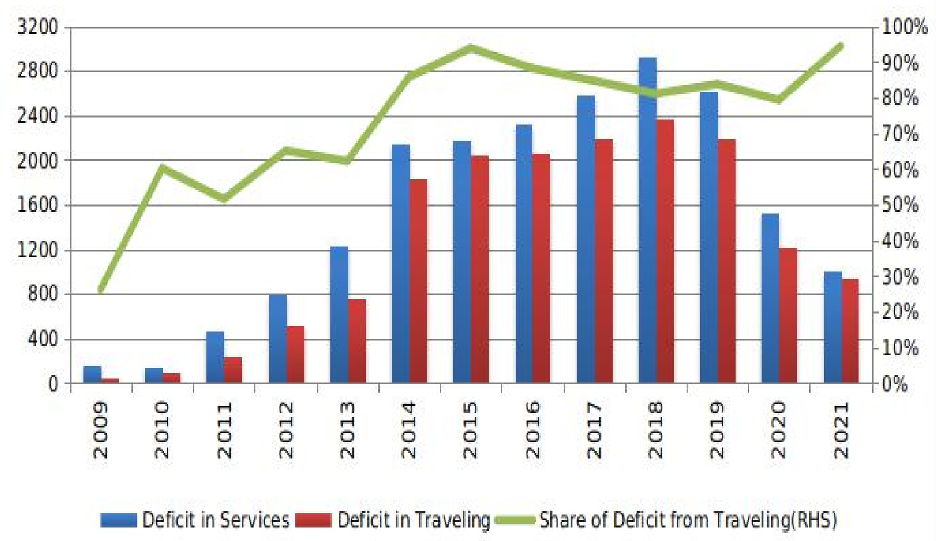


Source: State Administration of Foreign Exchange.

Expenditures for trade in services rebounded from 2020. In 2021, expenditures for trade in services totaled USD 438.4 billion, up 15 percent year on year. Among the major items, transportation recorded expenditures of USD 147.9 billion, up 56 percent year on year and accounting for 34 percent of total expenditures. Travel recorded expenditures of USD 105.7 billion, down 19 percent year on year and accounting for 24 percent of total expenditures. Use of intellectual property recorded expenditures of USD 46.8 billion, up 24 percent year on year and accounting for 11 percent of total expenditures.

The trade-in-services deficit narrowed. In 2021, the deficit in trade in services was USD 99.9 billion, down 34 percent year on year. Travel continued to be the main source of the deficit, with a deficit of USD 94.4 billion, down 22 percent, mainly because expenditures for cross-border personnel flows remained low (see Chart 2-8). Use of intellectual property and transportation were the second and third largest deficit items under trade in services, respectively. The deficit in the use of intellectual property amounted to USD 35.1 billion, up 20 percent, mainly due to the increase in expenditures. The transportation deficit amounted to USD 20.6 billion, down 46 percent.

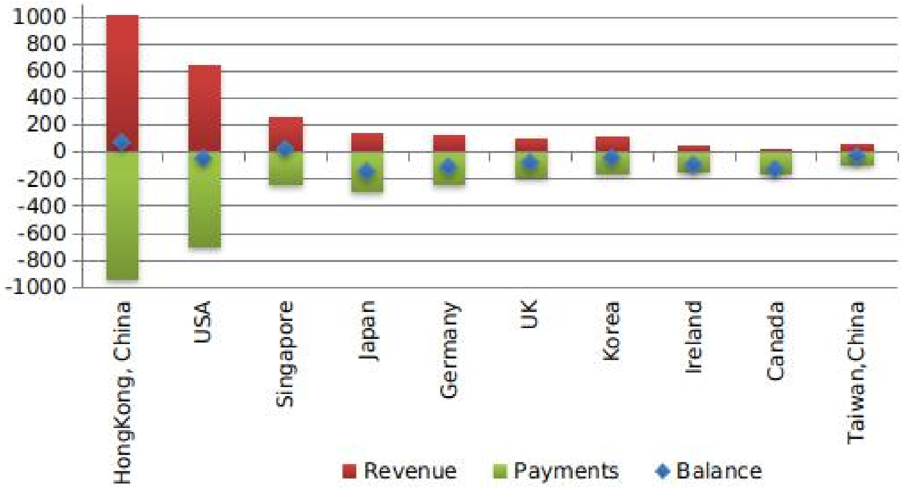
Chart 2-8 Contribution of Travel to the Deficit in Trade in Services



Source: State Administration of Foreign Exchange.

Chinas trade partners continued to be concentrated and stable. In 2021, Chinas top ten partners in terms of trade in services were Hong Kong SAR, the United States, Singapore, Japan, Germany, the United Kingdom, South Korea, Ireland, Canada, and Taiwan Province, which were basically the same as those in 2020. Trade with these partners totaled USD 571.4 billion, accounting for 74 percent of Chinas total trade in services (see Chart 2-9). China posted a change from a deficit to a surplus in trade in services with Hong Kong SAR, and it has continued to maintain a small surplus with Singapore. China posted deficits in trade in services with its other major trade partners, but China’s deficits with these trade partners generally have been narrowing.

Chart 2-9 China's Trade in Services in Terms of Trade Partners in 2021



Source: State Administration of Foreign Exchange.

Box 2

The Scale of Imports and Exports of China's Cultural Services Has Exceeded USD 100 Billion

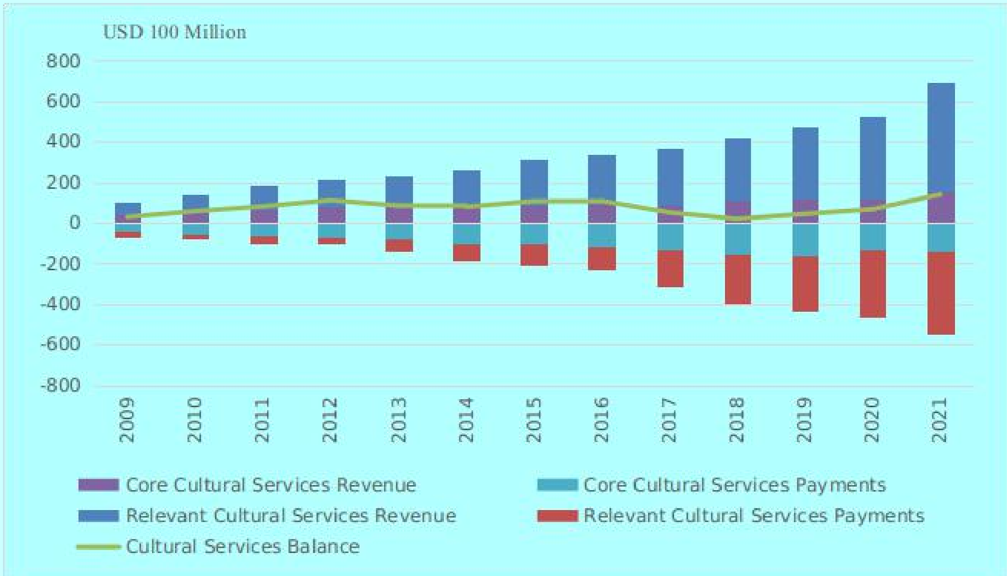
UNESCO divides cultural services into core cultural services and relevant cultural services. Among them, core cultural services include copyright licensing of films and television works, information services such as news and communications, advertising services, design services such as architecture, cultural and entertainment services, etc. Relevant cultural services mainly refer to the auxiliary carrier trade of culture dissemination, including computer technology services, computer software, intellectual property licensing, etc.

1. **In recent years, the scale of imports and exports of China's trade in cultural service has increased year by year**

Import and exports of cultural services have grown rapidly. From 2009 to 2021, China's imports and exports of cultural services increased from USD 17.7 billion to USD 124.4 billion. In 2021, imports and exports of cultural services exceeded US $100 billion for the first time. Among these, exports increased from USD 10.3 billion to USD 69.1 billion, with an average annual growth of 17 percent. Imports increased from USD 7.4 billion to USD 55.2 billion, with an average annual growth of 18 percent.

Overall trade in cultural services has registered a surplus. From 2009 to 2012, China's trade surplus in cultural services grew rapidly, from USD 2.8 billion to USD 11 billion, with an average annual growth of 58 percent. From 2013 to 2020, the surplus remained at an average annual level of about USD 6.9 billion. The surplus will further expand in 2021, increasing by 1.1 times, as compared with 2020, to reach USD 13.9 billion

Chart C2-1 Imports and exports of cultural-services trade from 2009 to 2021



Data Source: State Administration of Foreign Exchange.

2. At present, China's core cultural services and relevant cultural services register a small surplus

In 2021, China's trade surplus in core cultural services was USD 1.4 billion. Among these, the advertising services surplus was USD 4.5 billion and the market research service surplus was USD 1.1 billion, reflecting the attraction of China's huge domestic demand market for overseas brands. The deficit in sales of audiovisual product licensing services and architecture and engineering designs and other technical services was USD 2.1 billion and USD 1.6 billion, respectively, mainly due to the large demand for imports of China's film and television musical products, automobiles, and architectural designs and other technical services.

In 2021, China's trade surplus in relevant cultural services was USD 12.5 billion.

Among these, the surplus from computer services was USD 9.7 billion and the surplus from licensing fees for copying or distributing computer software was USD 2.8 billion. China's trade surplus in relevant cultural services mainly came from the provision of computer technology services and the sale of computer software.

3. China's trade partners for cultural services were diversified

The United States, Hong Kong SAR, and Ireland are China's major trade partners for cultural services. In 2021, the trade volume of cultural services with the United States, Hong Kong SAR, and Ireland accounted for 27 percent, 26 percent, and 11 percent of China's total trade in cultural services, respectively, mainly for receiving or providing computer services, collecting marketing promotion fees from domestic advertising companies or domestic enterprises affiliated with foreign brands, and purchasing automobile and architectural design services, rights for the use of audio-visual products, etc.

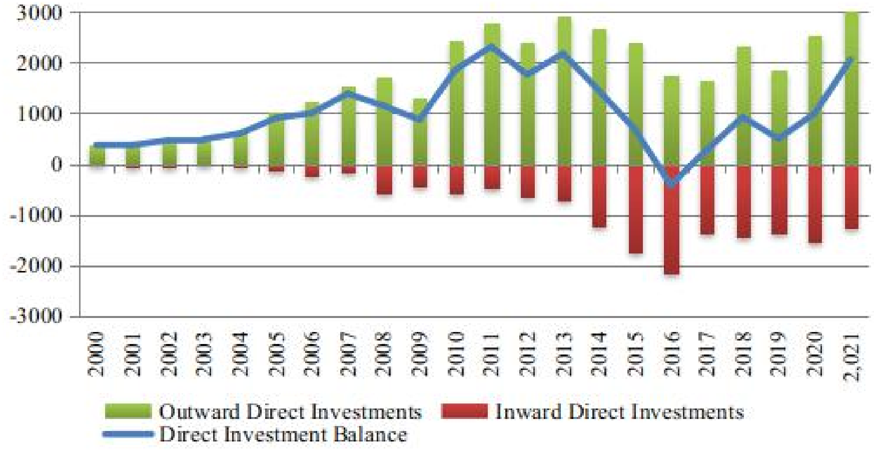
China's trade in cultural services with the major emerging market countries (regions) has grown rapidly. The trade volume of cultural services in 2021 increased by 23 percent over 2020, mainly focusing on computer services, advertising services, architectural design, and other projects.

In the future, China can rely on a variety of channels to gradually deepen exchanges between China's culture and global civilizations, forming a complete cultural and creative industry chain with cultural products as the core, further enhancing the scale of imports and exports of cultural services, and promoting cultural exchanges and communications for their common economic development.

(III) Direct Investments

Net inflows of direct investments[2] significantly increased. In 2021, net inflows of direct investments in China's balance of payments totaled USD 2059 billion, an increase of 1.1 times compared to that 2020 (see Chart 2-10).

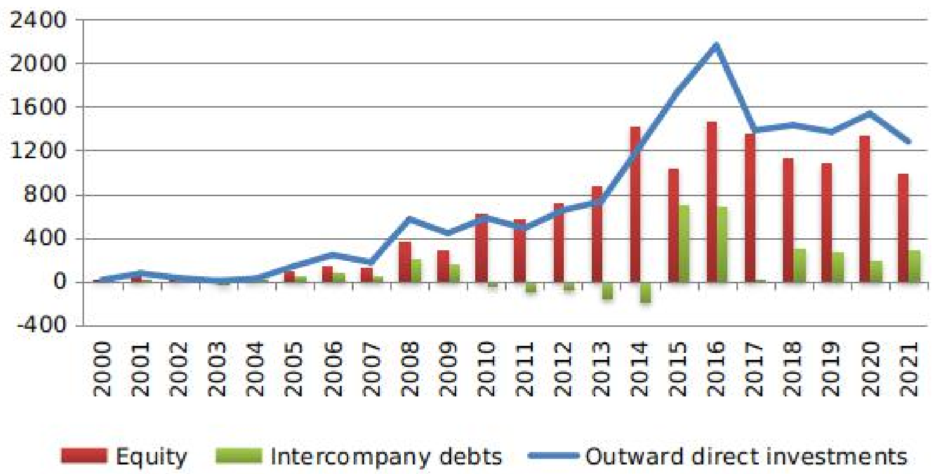
Chart 2-10 China’s Direct Investments



Source: State Administration of Foreign Exchange.

Outward direct investments (ODI) declined but were stable. In 2021, China's ODI (net increase in direct-investment assets) [3] totaled USD 128 billion, down 17 percent from 2020. In the context of the pandemic, China’s ODI by domestic enterprises remained stable and orderly.

Chart 2-11 China’s Direct-Investment Assets

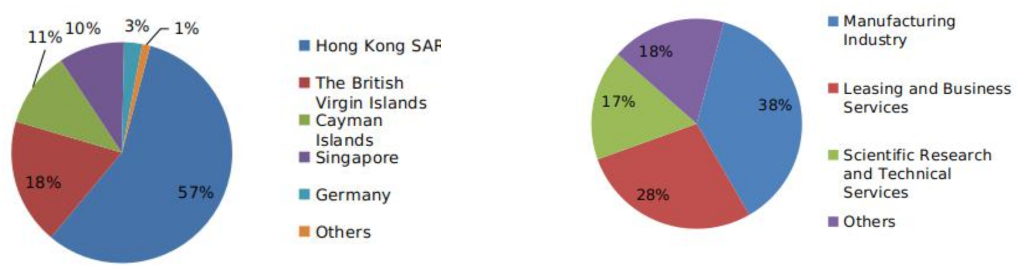


Source: State Administration of Foreign Exchange.

In terms of the composition of direct investments, equity investments constituted the major part, supplemented by loan assets. First, equity investments amounted to USD 99.2 billion, a decline of 26 percent year on year. Second, net outflows of loans to affiliates amounted to USD 28.8 billion, up 51 percent year on year, at USD 12.3 billion and USD 16.5 billion, respectively, in the first and second half of the year, and cross-border lending from domestic entities to foreign affiliates remained stable.

In terms of sectors, China's non-financial sector constitutes a major part of its outward direct investments, while the financial sector has shown relatively higher ODI growth. First, direct-investment assets by the non-financial sector amounted to USD 91 billion, down 30 percent from 2020. The first destination for “going out” by domestic enterprises is still Hong Kong, China, with the manufacturing industry accounting for 38 percent and ranking at the top (see Chart 2-12). Second, direct investments by the financial sector reached USD 37 billion, up 56 percent year on year, with increasing capital injections and profit reinvestments in overseas subsidiaries.

Chart 2-12 Distribution of China's ODI by Non-Financial Sectors in 2020 (by Investment Destination and Domestic Industry)



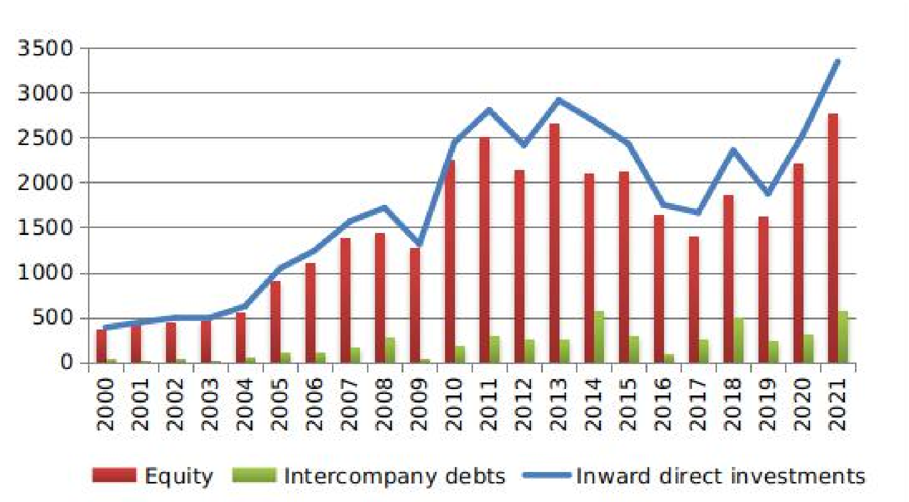
Source: State Administration of Foreign Exchange.

Inward foreign direct investments in China reached a record high. In 2021, net inflows of inward direct investments (net increase in liabilities)[6] in China totaled USD 334 billion, up 32 percent year on

[6] Direct-investment liabilities are mainly composed of foreign direct investments. These include reverse investments to domestic parent companies by overseas subsidiaries.

year (see Chart 2-13). With its broad economic development prospects, effective pandemic prevention and control, expanding opening-up to the outside world, and continued optimization of the business environment, China is a strong attraction for long-term overseas capital. According to a report by the United Nations Conference on Trade and Development, in 2021 China had the second largest foreign capital inflows in the world.

Chart 2-13 Direct-Investment Liabilities



Source: State Administration of Foreign Exchange.

In terms of the composition of inward foreign direct investments, both equity investments and loans from foreign affiliates increased. First, net inflows of equity investments in China totaled USD 277.2 billion, up 26 percent year on year. Equity investments and earnings reinvestments increased as the profitability of foreign-invested enterprises continuously improved along with the steady recovery of China’s economy. Second, China received loans from foreign affiliates in the amount of USD 56.8 billion, an increase of 76 percent year on year.

In terms of sectors, more than 90 percent of direct investments in China are absorbed by the non-financial sectors. First, China's

The net increase in direct-investment liability transactions, which is positive on the balance-of-payments statement, represents a net inflow.

non-financial sectors absorbed USD 310.5 billion of direct investments in China, up 32 percent from 2020, with an improving quality of foreign direct investments. Among these, leasing and commercial services absorbed the most foreign direct investment, accounting for 24 percent. The information technology services industry ranked the second, accounting for 22 percent of total foreign direct investments and up five percentage points from 2020, while the wholesale and retail industry accounted for 15 percent. At the same time, the non-financial sectors in China mainly absorbed direct investments from Hong Kong SAR, accounting for 80 percent, followed by the Cayman Islands and Singapore, which together accounted for 7 percent of the direct investments in the non-financial sectors. Second, financial sectors absorbed USD 23.5 billion of direct investments in China, an increase of 37 percent, mainly due to the increase in capital.

Box 3

During the past decade, China's outward foreign direct investments have achieved positive results

Since the 18th CPC National Congress, China has adhered to the opening-up strategy in the new era, developed a higher-level open economy, promoted the scale of outward foreign direct investments from small to large, and continuously optimized the investment structure. Over the past decade, China's foreign investments and cooperation have increased in both quantity and quality, and they have played a significant positive role in promoting mutual benefits and win-win results and in enhancing international competitiveness.

1. Development characteristics of China's outward foreign direct investments during the past decade

In terms of quantity, the scale of investment continues to expand. From 2012 to 2020, the average annual growth of China's outward foreign direct investments exceeded 7 percent,[5] ranking among the top three in global outward direct-investment flows for nine consecutive years. According to data released in the *World Investment Report 2021* by the United Nations Conference on Trade and Development, China's outward foreign direct investments jumped to the top for the first time in 2020, reaching USD 153.7 billion, an increase of 12.3 percent over 2019. The share of China's outward foreign direct investments in the global outward foreign direct-investment flow during the same period continued to increase from 6.3 percent in 2012 to 20.2 percent in 2020, making an increasingly obvious contribution to the world economy. Even in 2021, when the global environment was complex and serious, China's balance-of-payments data show that there were still large-scale outward foreign direct investments, at USD128 billion. According to the data of the United Nations Conference on Trade and Development, at the end of 2020 the stock of China's outward foreign direct investments reached USD 2.6 trillion, nearly five times that at the end of 2012, and its global share increased from 2.3 percent in 2012 to 6.6 percent, raising its ranking from 13th to 3th, 2nd only to the United States (USD 8.1 trillion) and the Netherlands (USD 3.8 trillion). The international investment position shows that at the end of 2021 China's outward foreign direct-investment stock was stable at USD 2.6 trillion.

In terms of quality, the investment structure has been continuously optimized. First, the investment field is expanding widely. By the end of 2020, more than 80 percent of the investment stock was distributed in six major industries, including leasing and business services (32.2 percent of total stock), wholesale and retail (13.4 percent), information transmission and software and information technology services (11.5 percent), manufacturing (10.8 percent), finance (10.5 percent), and mining (6.8 percent), with all sectors of the national economy being covered by China's outward foreign direct investments. Second, the investment regions are becoming increasingly diverse. By the end of 2020, China's outward foreign direct- investment stock was distributed in 189 countries (regions) around the

[5] Unless otherwise noted, the data used in this column are from the *Statistical Bulletin on China's Foreign Direct Investments* in 2020.

world, accounting for 81.1 percent of the total number of countries (regions) in the world.

2. Development achievements of China's outward foreign direct investments during the past decade

Outward foreign investment and cooperation was continuously promoted, showing mutual benefits and win-win results. China has always adhered to the basic national policy of opening to the outside world, paying equal attention to "bringing in" and "going out," constantly increasing the intensity, depth, and breadth of foreign investment, driving the export of products, services, and technologies, promoting adjustments in the domestic industrial structure, and highlighting the effects of mutual benefits and win-win results. In 2020, overseas Chinese–funded enterprises paid a total of USD 44.5 billion in taxes to investment areas, employing 2.218 million foreign employees and accounting for 60.6 percent of the total number of employees in overseas enterprises. Overseas Chinese–funded enterprises registered sales revenue of USD 2.4 trillion, and outward foreign investments led to China's export of goods in the amount of USD 173.7 billion.

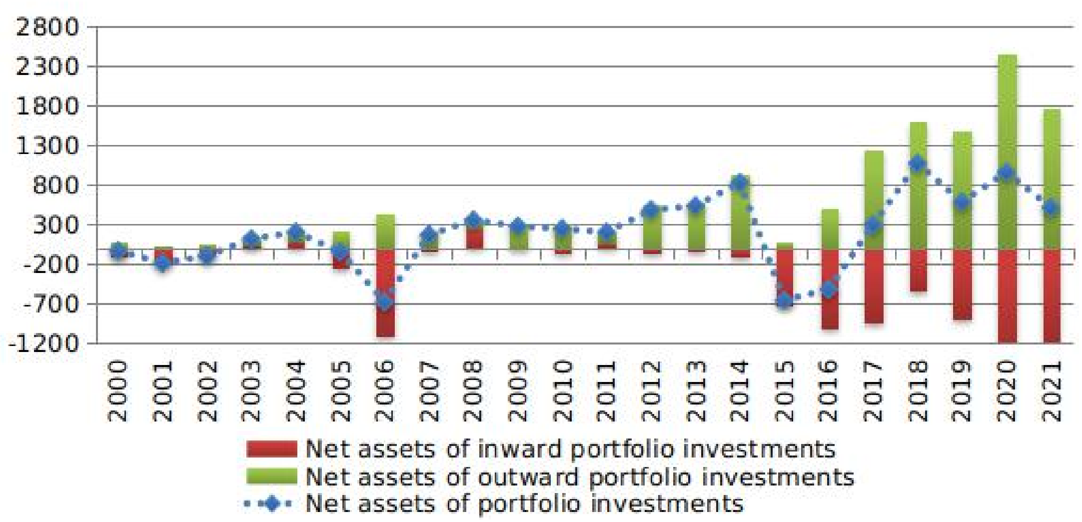
The "going out" of enterprises and financial services was continuously promoted, which effectively enhanced international competitiveness. First, the internationalization level of Chinese enterprises has been significantly improved. The "list of China's top 100 multinational corporations" released at the joint press conference of Chinese enterprises in 2021 shows that the total overseas assets of China's top one hundred multinational corporations were as high as RMB 9.4 trillion, the overseas operating revenue was RMB 6.6 trillion, and the total number of overseas employees was about 1.185 million. On the list of the world's top five hundred enterprises published by *Fortune* magazine in 2021, there are 143 Chinese enterprises. Second, financial institutions have been driven to improve service competitiveness. By the end of 2020, China's major large commercial banks had opened 105 branches and sixty-two subsidiaries in fifty-one countries (regions), and China had set up eighteen insurance institutions abroad.

Over the past decade, China's foreign direct investments have been healthy and have developed steadily, making positive contributions to the deepening of international economic and trade cooperation and promoting the construction of an open world economy. In the future, China will unswervingly expand reform and opening-up, actively promote foreign investment cooperation to a higher level, effectively realize internal and external linkages and resource sharing, draw power from a broader market, and let its development achievements benefit the entire world.

（IV）Portfolio investments

Both outward and inward portfolio investments were close to historic highs. In 2021, China's net inflows of portfolio investments reached USD 51 billion. Among these, the net outflows of outward portfolio investments were USD 125.9 billion and the net inflows of portfolio investments in China were USD 176.9 billion, both second largest only to 2020 (see Chart 2-14). In recent years, with the continuous high-level opening-up, China's stock and bond markets have been gradually incorporated into the international mainstream index. The two-way flows of cross-border portfolio investments have become more active, and the net flows have been generally stable.

Chart 2-14 Performance of Cross-border Portfolio Investments



Note: Positive outward portfolio investments indicate a decrease in equity or bond assets, and vice versa. Positive inward portfolio investments indicate an increase in equity or bond liabilities, and vice versa.

Source: State Administration of Foreign Exchange.

China’s outward portfolio investments were mainly equity investments. In 2021, net outflows (net increase in assets) of China's outward portfolio investments totaled USD 125.9 billion, down 17 percent from 2020. Among these, equity investments were USD 85.6 billion, down 35 percent. Bond investments were USD 40.3 billion, almost double those in 2020. In the first half of 2021, under the circumstances of the loose monetary policies in the major developed economies, the world’s major stock markets performed well. China's net outflows of outward portfolio investments reached USD 99.6 billion. In the first quarter of 2021, China’s net outflows reached a historic high for all quarters. In the second half of 2021, outward portfolio investments stabilized.

In term of channels for outward portfolio investments, first, domestic non-bank institutions and individuals invested USD 58.7 billion in overseas securities via channels such as the Shanghai–Hong Kong Connect and the Mutual Recognition of Funds, a decrease of 32 percent. Second, domestic banks and other financial institutions invested USD 44.2 billion in overseas bonds, an increase of 1.5 times. Third, qualified domestic institutional investors (QDIIs and RQDIIs) invested a total of USD 12.8 billion in stocks and bonds issued by non-residents, an increase of 43 percent.

Inward portfolio investments in China were mainly bond investments. In 2021, China’s inward portfolio investments (net increase in liabilities) were recorded at USD 176.9 billion, a decrease of 28 percent compared with 2020 mainly due to the high base. Among these, net inflows in China’s bonds totaled USD 93.8 billion, and net inflows in

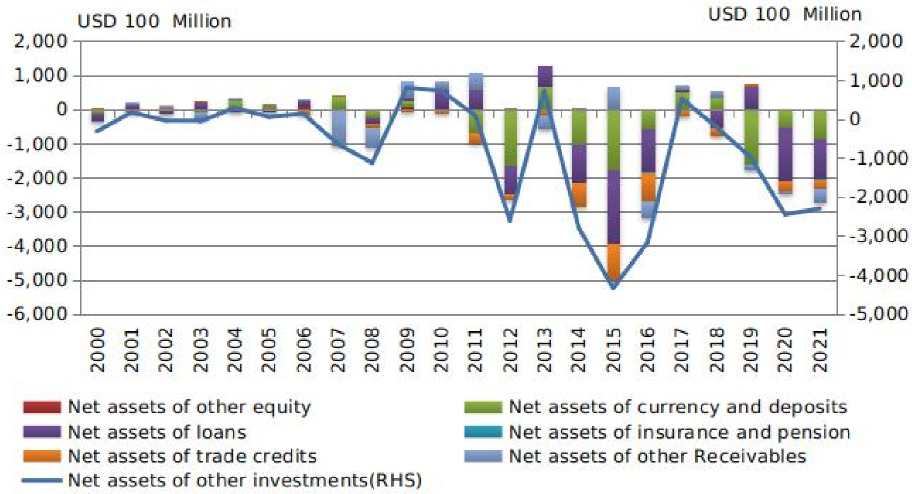
China’s equity totaled USD 83.1 billion. On a quarterly basis, although the net inflows of inward portfolio investments fluctuated, the amount remained relatively high in each quarter, at USD 59.7 billion, USD 29.1 billion, USD 26 billion, and USD 62 billion, respectively.

In terms of the major channels for inward portfolio investments, first, overseas institutions, mainly foreign central banks, banks, and other investors, invested USD 74.4 billion in the domestic bond market (including the Bond Connect and the direct-investment channel in the inter-bank bond market) and in bonds issued abroad by Chinese institutions (including RMB bills issued by the central bank in Hong Kong SAR). Second, investments via the Stock-Connect totaled USD 67.1 billion, an increase of 1.2 times. Third, QFIIs and RQFIIs recorded a total net inflow of USD 26.5 billion, an increase of 1.4 times. China's securities market remained attractive to foreign capital due to multiple favorable factors, such as China's leading position in global economic development, the relative stability of the RMB, the extension of preferential tax policies, and the inclusion of Chinese government bonds in the FTSE Russell World Bond Index.

(V). Other Investments

The deficit in other investments decreased slightly. In 2021, net outflows (increase in net assets) of other investments totaled USD 229.8 billion (see Chart 2-15), a decrease of 6 percent compared with 2020. In particular, net outflows of currency and deposits totaled USD 86.9 billion, net outflows of loans registered USD 115.4 billion, net outflows of trade credits totaled USD 28.2 billion, and net outflows of other receivables and payables totaled USD 39.4 billion.

Chart 2-15 Net Flows of Other Investments



Source: State Administration of Foreign Exchange.

External assets under other investments increased. In 2021, China's net outflows (net increase in assets) of other investments totaled USD 387.3 billion. In particular, net outflows of currencies and deposits totaled USD 152.5 billion, an increase of 4 percent, mainly due to the increase in the usage of overseas capital by domestic financial institutions. Loan assets increased by USD 120.5 billion, down 11 percent year on year. The increase in exports led to a net outflow of trade credit assets, such as export receivables of USD 61.6 billion, up 66percent. Net outflows of other receivables totaled USD 47.8 billion, an increase of 2.4 times compared with 2020.

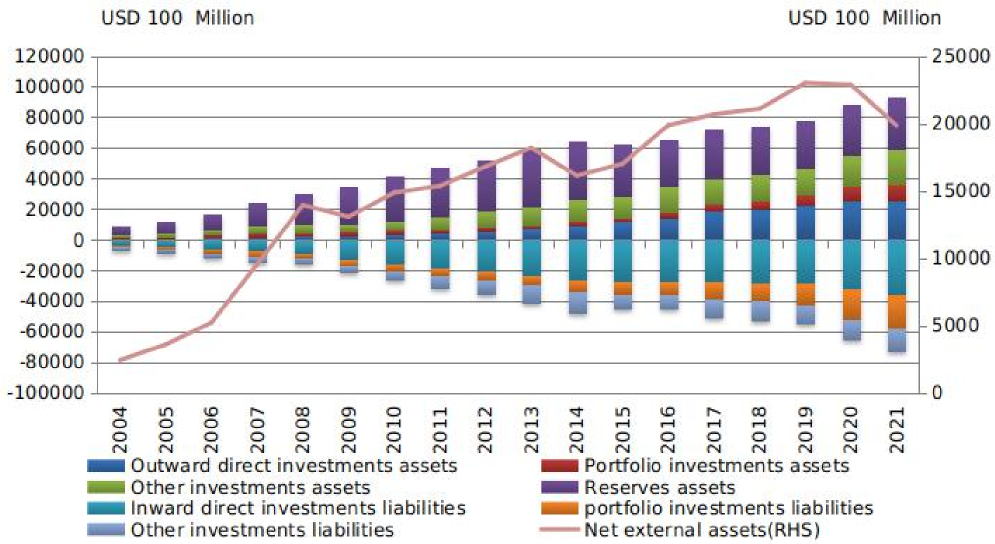
Net inflows in liabilities under other investments increased. In 2021, China's net inflows of other investments (net increase in liabilities) totaled USD 157.6 billion, an increase of 73 percent year on year. In particular, currency and deposit liabilities registered net inflows of USD 65.6 billion, a decrease of 29 percent. Liabilities under loans recorded net inflows of USD 5.1 billion, compared with net outflows of USD 18.3 billion. Affected by the increase in imports, net inflows of trade credit liabilities, such as enterprise import payables, totaled USD 33.5

billion, an increase of 3.3 times year on year. Net inflows of other liabilities payable totaled USD 8.5 billion, up 37 percent year on year. In August 2021, the International Monetary Fund (IMF) allocated Special Drawing Rights (SDR) to member countries, leading to an increase of USD 41.6 billion in China’s SDR liabilities.

III. International Investment Position

China's external financial assets and liabilities[7] were both on the rise, and foreign net assets maintained a relatively high scale. At the end of 2021, China's external financial assets reached USD 9324.3 billion, up 5 percent from end-2020; external liabilities reached USD 7341.0 billion, up 11 percent; and net assets reached USD 1983.3 billion, remaining at a high scale. China's external asset liability structure is sound (see Figure 3-1). The steady increase in the scale of foreign financial assets and liabilities is the result of the high-quality development of China's foreign-related economy, and it also reflects the positive results of China's trade and investment liberalization and facilitation policies.

Chart 3-1 External Financial Assets, Liabilities, and Net Assets

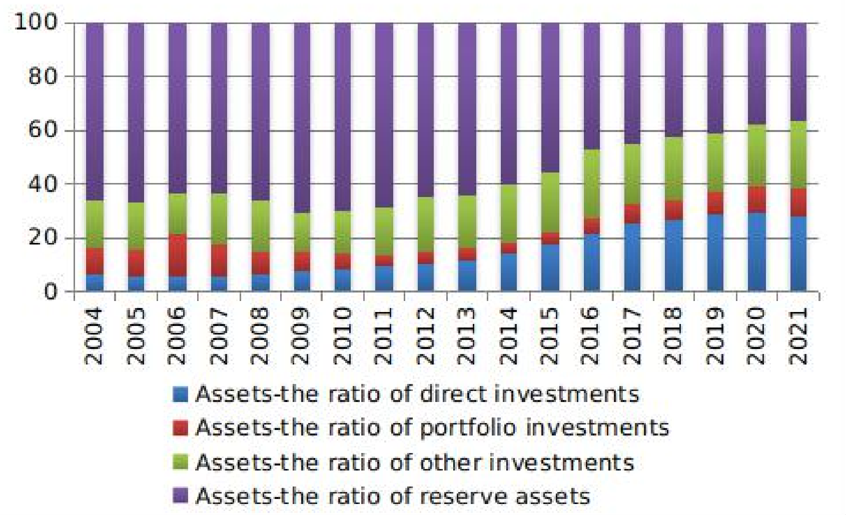


Source: State Administration of Foreign Exchange.

[7]External financial assets and liabilities include direct investments, portfolio investments, and other investments, such as deposits and loans. Outward direct investments are included as financial assets because the equity issued by non-resident direct-investment enterprises and held by domestic investors is the same type of financial instrument as the equity investments in portfolio investments. The difference is that direct investments require a higher threshold of equity holdings to reflect a considerable influence or control over production and operations of the enterprises. Inward direct investments belong to external financial liabilities because foreign investors hold equity in foreign-owned companies.

Reserve assets continued to play the role of a "ballast stone" and private-sector holdings continued to rise. Among the external financial assets, at the end of 2021 reserve assets amounted to USD 3426.9 billion, up 2 percent from end-2020. As the largest component of external financial assets, reserve assets accounted for 37 percent of China's total external financial assets, down one percentage point from end-2020. Direct-investment assets amounted to USD 2581.9 billion, accounting for 28 percent of total assets, down 1.4 percentage points from end-2020. Portfolio-investment assets amounted to USD 979.7 billion, accounting for 11 percent, up 0.3 percentage point. Financial-derivative assets amounted to USD 15.4 billion, accounting for 0.2 percent. Other investments, such as loans and trade credits, amounted to USD 2320.5 billion, accounting for 25 percent, up 2.2 percentage points from end-2020 (see Chart 3-2).

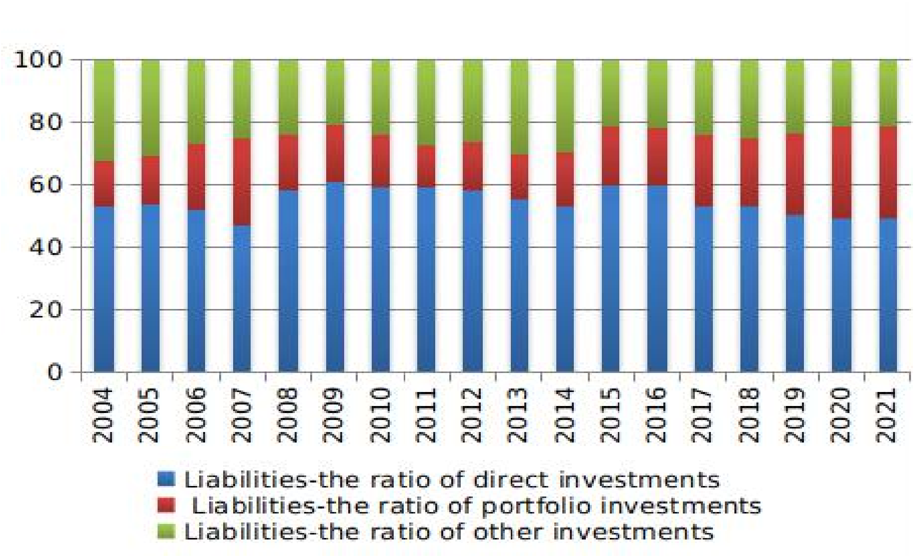
Chart 3-2 Changes in the Structure of China's External Financial Assets



Source: State Administration of Foreign Exchange.

Foreign investment in China, especially medium- and long-term investment, continued to grow, and the proportion of diverse types of investments in China was relatively stable. Among the external liabilities, FDI[8] totaled USD 3623.8 billion at the end of 2021, up 12 percent from end-2020 and accounting for 49 percent of total external liabilities, up 0.3 percentage point and remaining the largest component of external liabilities. Foreign portfolio-investment liabilities amounted to USD 2155.4 billion, up 10 percent from end-2020, accounting for 29 percent, down 0.3 percentage point from end-2020. At the end of 2021, foreign investors' holdings of China's domestic securities totaled approximately USD 1298.4 billion, with an enormous potential for further improvements in the future. Among these, foreign holdings of stocks accounted for 5.2 percent of the total market value of A-shares; holdings of bonds accounted for 3.1 percent of total domestic bonds under custody, up 0.1 percentage point from end-2020. Other investment liabilities, such as loans and deposits, amounted to USD 1551.6 billion, up 11 percent from end-2020, stably accounting for 21 percent (see Chart 3-3).

Chart 3-3 The Structure of External Liabilities

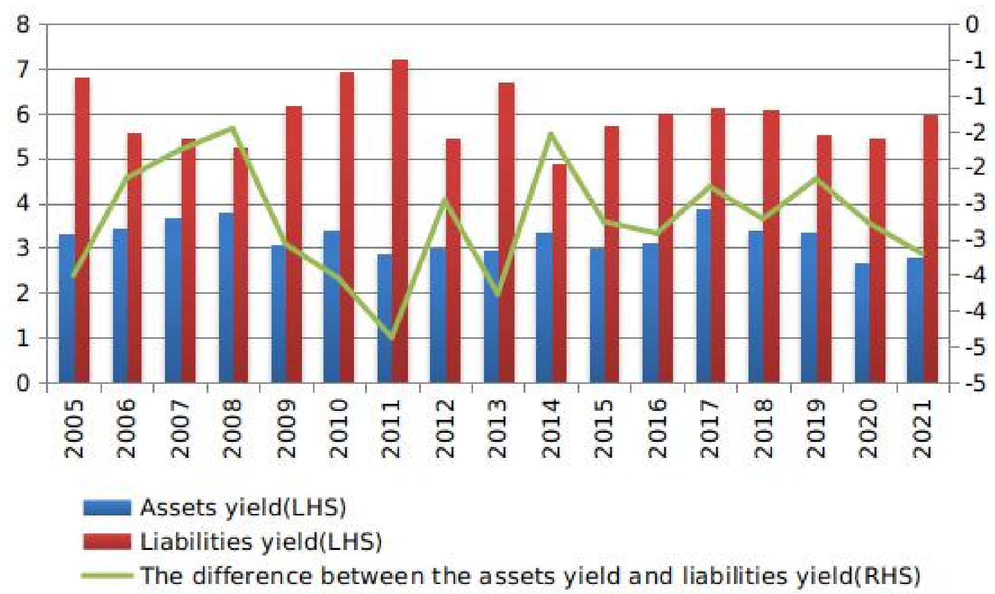


Source: State Administration of Foreign Exchange.

[8]The inward FDI position includes FDI stocks of both the non-financial sector and the financial sector. The position also reflects the impact of revaluation factors.

Two-way investment income in China and abroad was generally stable, and the differences in yield mainly reflect the leading advantage of China's economic fundamentals. On the income payment side, in 2021 income payments for absorbing foreign investments recorded USD 417.4 billion, up 20 percent from 2020, at a stable rate of return of about 6.0 percent (see Chart 3-4). On the income revenue side, the external economic recovery was still continuing, but the momentum was hampered by repeated outbreaks of the pandemic. In 2021, foreign investment income was USD 253.6 billion, up 11 percent, with a rate of return of about 2.8 percent.

Chart 3-4 Changes in the Rate of Return onChina's External Assets and Liabilities



Source: State Administration of Foreign Exchange.

Table 3-1 China's International Investment Position at the End of the First-half of 2021

	Line No.	end of 2021
Net International Investment Position[9]	**1**	**19833**
Assets	**2**	**93243**

[9] Net position refers to assets minus liabilities; "+" refers to net assets; "-" refers to net liabilities. The notations in this table are based on the principle of rounding.

1 Direct investments	**3**	**25819**
1.1 Equity and investment fund shares	**4**	22341
1.2 Debt instruments	**5**	3477
1.a Financial sector	**6**	3722
1.1.a Equity and investment fund shares	**7**	3570
1.2.a Debt instruments	**8**	152
1.b Non-financial sector	**9**	22097
1.1.b Equity and investment fund shares	**10**	18771
1.2.b Debt instruments	**11**	3325
2 Portfolio investments	**12**	**9797**
2.1 Equity and investment fund shares	**13**	6484
2.2 Debt securities	**14**	3313
3 Financial derivatives (other than reserves) and employee stock options	**15**	**154**
4 Other investments	**16**	**23205**
4.1 Other equity	**17**	95
4.2 Currency and deposits	**18**	5489
4.3 Loans	**19**	9628
4.4 Insurance, pensions, and standardized guarantee schemes	**20**	216
4.5 Trade credits and advances	**21**	6587
4.6 Other accounts receivable	**22**	1191
5 Reserve assets	**23**	**34269**
5.1 Monetary gold	**24**	1131
5.2 Special drawing rights	**25**	531
5.3 Reserve position in the IMF	**26**	107
5.4 Foreign currency reserves	**27**	32502
5.5 Other reserve assets	**28**	-1
Liabilities	**29**	**73410**
1 Direct investments	**30**	**36238**
1.1 Equity and investment fund shares	**31**	32992
1.2 Debt instruments	**32**	3246
1.a Financial sector	**33**	2119
1.1.a Equity and investment fund shares	**34**	1839
1.2.a Debt instruments	**35**	281
1.b Non-financial sector	**36**	34118
1.1.b Equity and investment fund shares	**37**	31153
1.2.b Debt instruments	**38**	2965
2 Portfolio investments	**39**	**21554**
2.1 Equity and investment fund shares	**40**	13360
2.2 Debt securities	**41**	8194
3 Financial derivatives (other than reserves) and employee stock options	**42**	**103**
4 Other investments	**43**	**15516**

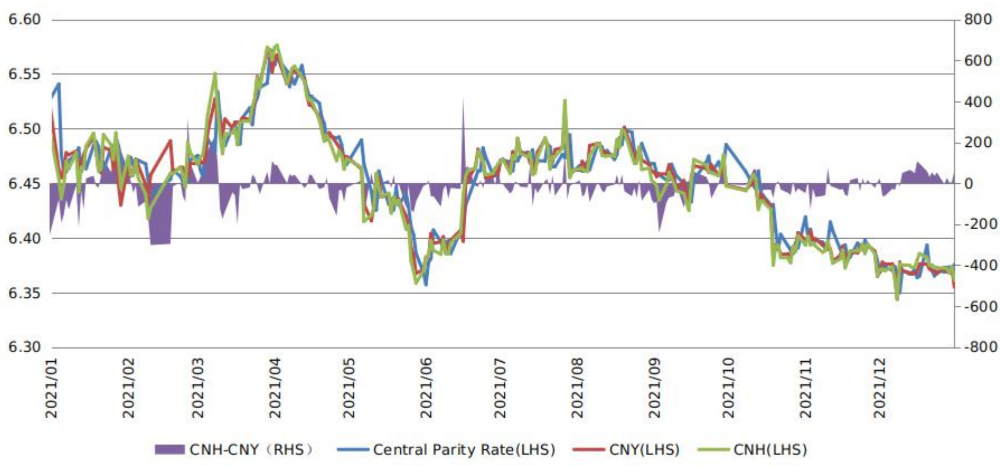
4.1 Other equity	**44**	0
4.2 Currency and deposits	**45**	5971
4.3 Loans	**46**	4447
4.4 Insurance, pensions, and standardized guarantee schemes	**47**	235
4.5 Trade credits and advances	**48**	4053
4.6 Other accounts payable	**49**	304
4.7 Special drawing rights	**50**	507

IV. Operation of the Foreign-Exchange Market and the RMB Exchange Rate

(I) Trends in the RMB Exchange Rate

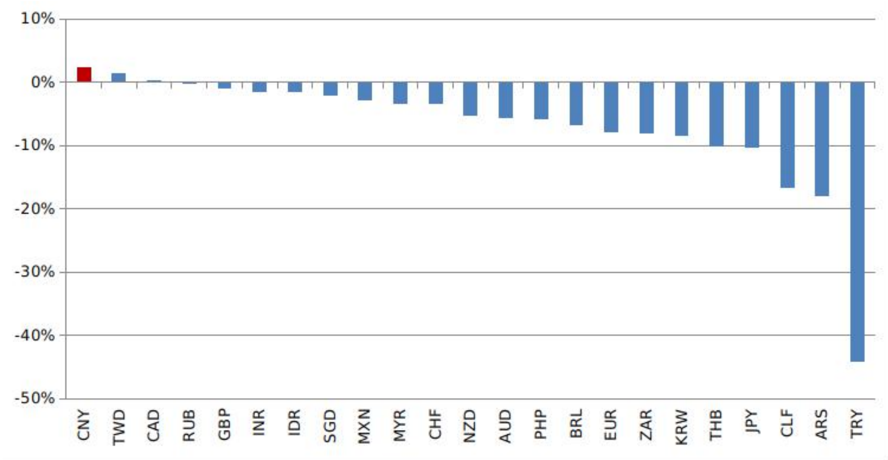
The exchange rate of the RMB against the US dollar is generally stable with two-way fluctuations. At the end of 2021, the central parity of the RMB against the USD was 6.3757, an appreciation of 2.3 percent compared with the end of the previous year. Spot prices in the CNY and CNH markets appreciated by 2.7 percent and 2.2 percent, respectively (see Chart 4-1). The domestic and foreign markets maintained a narrow daily spread of 58 basis points, lower than that in the entire year of 2020 (94 basis points). The exchange rate fluctuated noticeably in both directions during the year. It fluctuated within the range from January to March, appreciated from April to May, depreciated from June to August, and generally appreciated thereafter. The RMB exchange rate against the US dollar remained basically stable at a reasonable and balanced level throughout the year, making it one of the few currencies that remained stable against the US dollar (see Chart 4-2).

Chart 4-1 Trends in the RMB Spot Exchange Rate Against the USD in the Domestic and Offshore Markets, 2021



Sources: CFETS, Bloomberg.

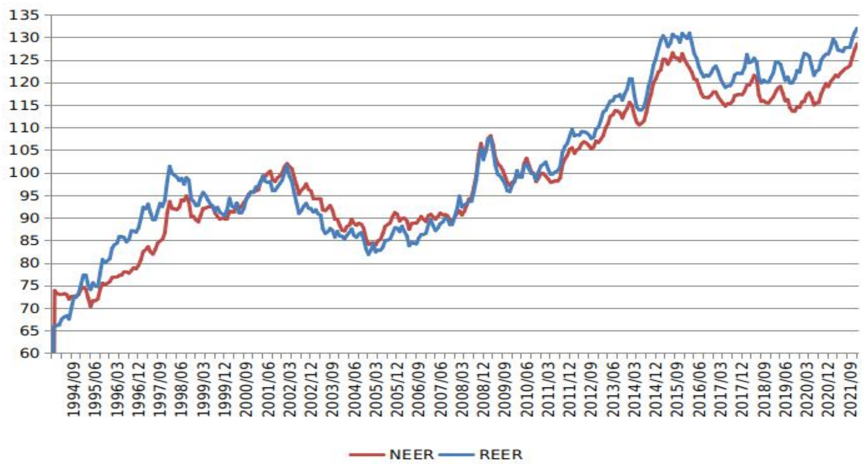
Chart 4-2 Changes in the Bilateral Exchange Rates of the Major Developed Economies and the Emerging Markets against the USD, 2021



Source: Bloomberg.

The RMB exchange rate was basically stable against a basket of currencies. According to CFETS data, at the end of 2021 the RMB exchange-rate indexes of the CFETS, the BIS basket of currencies, and the SDR basket of currencies were 102.47, 106.66, 100.34, respectively, an appreciation of 8.0 percent, 8.1 percent, and 6.5 percent, respectively, compared with that at the end of 2020. According to the BIS, the nominal effective exchange rate of the RMB appreciated by 8.0 percent in 2021. Deducting for inflation, the real effective exchange rate of the RMB depreciated by 4.5 percent (see Chart 4-3).

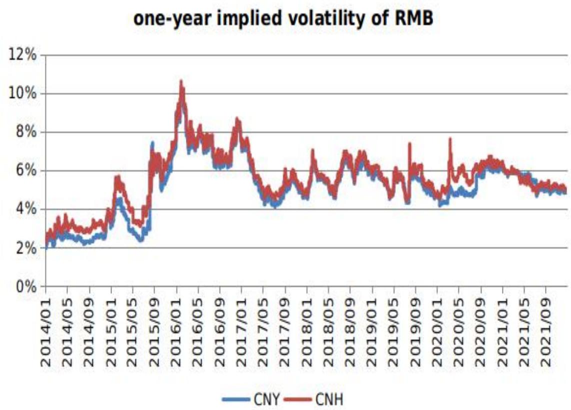
Chart 4-3 Trends in the Effective RMB Exchange Rate (according to the BIS)

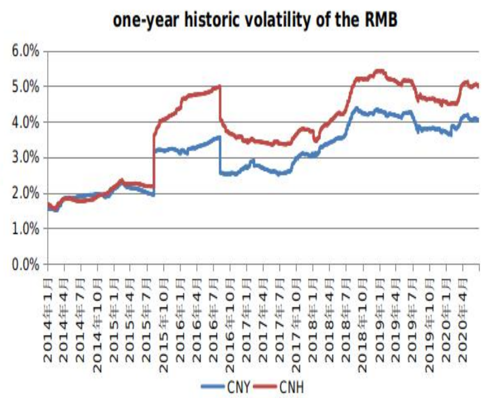


Source: BIS.

The RMB exchange rate remained flexible. The RMB exchange rate is based on market supply and demand, with market expectations on the whole remaining stable and continuing to float in both directions. By the end of 2021, the one-year historic volatility of the RMB against the USD in domestic and foreign markets was 2.8 percent and 3.6 percent, respectively. The implied volatility of the options market was 4.8 percent and 5.0 percent, respectively (see Chart 4-4).

Chart 4-4 One-Year Volatility of the RMB against the USD Exchange Rate in the Domestic and Foreign Markets

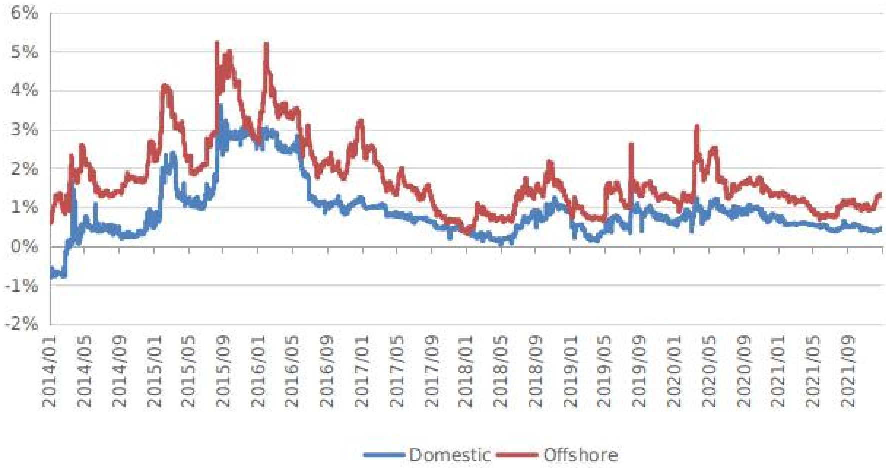




Source: Bloomberg.

RMB exchange-rate expectations were stable. In the options market, at the end of June 2021 domestic and offshore risk reversals (the difference between the volatility of the USD call / RMB put options and the USD put / RMB call options) were 0.4 percent and 1.3 percent, and 0.66 percent and 1.31 percent of that at the end of the previous year, indicating stable exchange-rate expectations.

Chart 4-5 1-Year Risk Reversals of the RMB Against the USD in the Domestic and Offshore Options Markets



Source: Bloomberg.

Box 4

Economic Fundamentals Determine the Exchange-Rate Trends in the Major Global Currencies in 2021

In 2021, against the backdrop of repeated outbreaks of COVID-19 and highlighted by global inflation risks and a generally rising US dollar index, only four currencies, the Israeli shekel, the RMB, the New Taiwan dollar, and the Canadian dollar, rose slightly against the US dollar.

The dollar fluctuated and generally rose as a result of market expectations as the US Federal Reserve began to taper asset purchases and announced a tightening cycle. In 2021, the Federal Reserve's monetary policy first was loosened and then was tightened, with the expectation channel becoming more prominent in policy spillovers and the US dollar index changing significantly ahead of the interest rate hike. Furthermore, the US economy is recovering steadily, with overall economic growth faster than that in the eurozone. Against this backdrop, the US dollar index (USDX) rose 6.4 percent for the entire year, especially in the second half of the year, reaching a peak of 96.84 (November 24). According to the data released by the US Federal Reserve. non-US currencies were generally weaker against the dollar, with the US dollar rising 5.3 percent against the developed currencies and 2.0 percent against the emerging market currencies over the year.

The Asian currencies diverged, having both the strongest and weakest currencies in the world. Only four of the world's major currencies appreciated against the US dollar in 2021, with Asia taking the top three spots: The Israeli shekel, the RMB, and the New Taiwan dollar. Among them, the Israeli shekel is supported by its high vaccination rate, rapid economic recovery, large foreign investment inflows, and decreasing fiscal deficit, thus becoming the world's strongest currency. The RMB maintained a certain trade surplus and appreciated slightly throughout the year due to China's leading global economic development and pandemic prevention and control positions. However, some Asian currencies depreciated significantly, with the Thai baht and the Japanese yen both depreciating by more than 10 percent against the US dollar. The Turkish lira faced a "roller coaster" market and it depreciated by over 40 percent over the full year, becoming the weakest currency in the world due to the continuous turbulence in Turkish financial markets due to the frequent adjustments of its unconventional regulatory policies, such as high inflation and interest rate cuts against the national trends .

The European and North American currencies were in the global middle and lower tiers. The European currencies all fell against the dollar, with the euro down 7.7 percent and the Hungarian forint, Romanian leu, and Swedish krona all depreciating by more than 9 percent. Restricted by the inflationary pressures, the European Central Bank maintained a "dovish" position, keeping its relatively loose monetary policy and continuing to implement its emergency anti-pandemic bond purchase program (PPEP) that resulted in the overall weakness of the euro and other European currencies. As for the North American currencies, the Canadian dollar was the only one of the three currencies to rise against the US dollar, gaining less than 1 percent.

The currencies in South America, Africa, and Oceania were relatively weak due to a combination of factors. The South American currencies overall were weak. The Brazilian real, already the region's best performer, boosted by the Brazilian Central Bank's successive interest rate hikes, depreciated by 6.8 percent against the

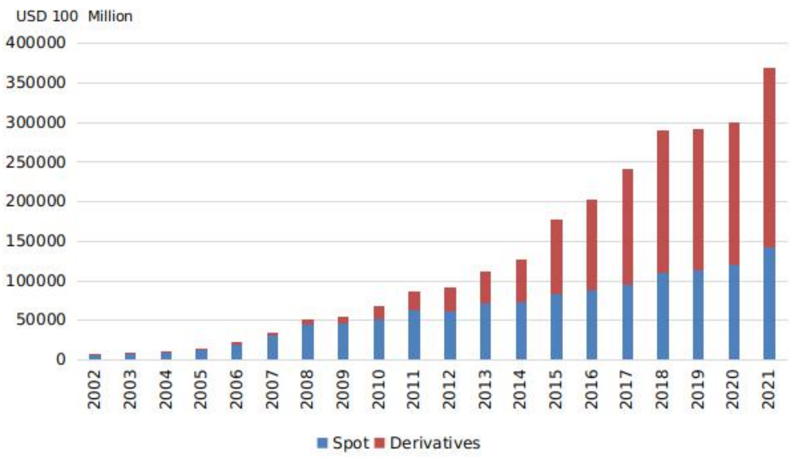
US dollar,. The Colombian peso, Chilean peso, and Argentine peso all depreciated by more than 10 percent against the US dollar and the multilateral effective exchange-rate index, with the decline relatively high compared to the rest of the world mainly due to historical reasons such as high inflation, high debt, and new factors such as the impact of the pandemic. The currencies in Africa and Oceania both depreciated by more than 5 percent against the US dollar, with the South African rand depreciating by 7.9 percent against the US dollar, mainly due to poor economic growth prospects against the backdrop of the pandemic. In Oceania, the Australian dollar fell 6.0 percent, weighed down due to lower ore prices.

In general, although monetary policy is an important variable affecting short-term exchange-rate changes, the strength of a currency is ultimately determined by the economic fundamentals. Currencies that appreciated or were relatively stable in 2021 are mostly supported by fundamentals such as a rapid economic recovery in the respective country (region). Currencies that depreciated significantly mostly suffered from an economic drag. A stable economy means a stable currency, which remains the fundamental principle guiding the exchange-rate movements of the major currencies.

(II) Transactions in the Foreign-Exchange Market

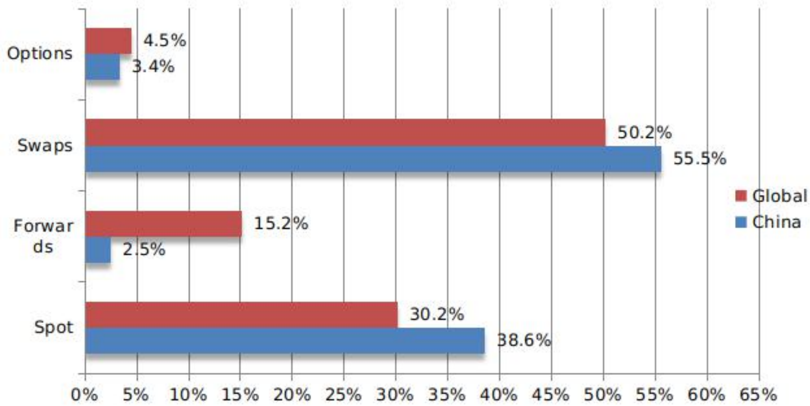
In 2021, the cumulative trading volume of the RMB/foreign-currency market totaled USD 36.9 trillion, an increase of 32 percent compared with that in 2020, with an average daily trading volume of USD 151.7 billion (Chart 4-7). The total trading volume in the client market and the inter-bank market were USD 5.5 trillion and USD 31.3 trillion, respectively. Spot and derivative transactions witnessed a trading volume of USD 14.2 trillion and USD 22.6 trillion, respectively (see Chart 4-6). Derivatives accounted for 61 percent of the total transactions in the foreign-exchange market (see Chart 4-7).

Chart 4-6 Trading Volume in China's Foreign-Exchange Market



Sources: SAFE, CFETS.

Chart 4-7 Comparison of the Structure of Products in the Domestic and Global Foreign-Exchange Markets



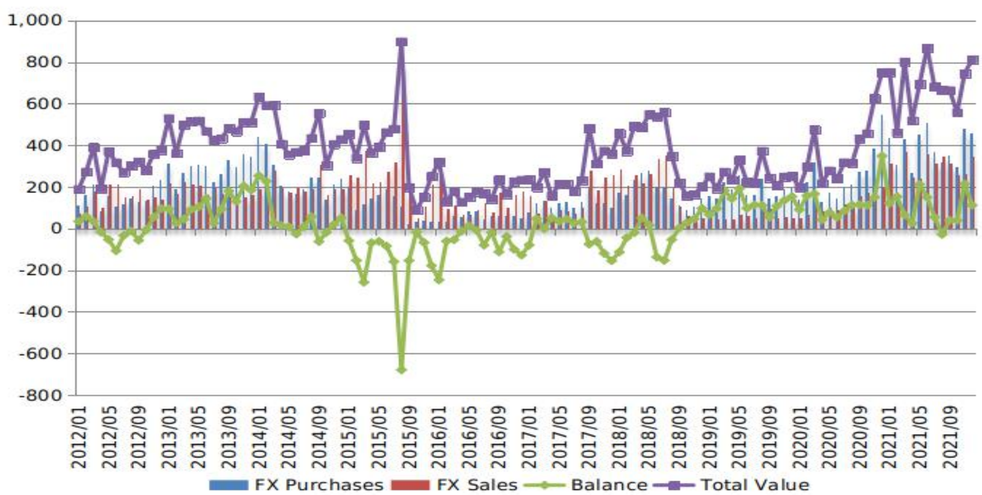
Note: Data for China are for 2021; the global data are from the BIS survey in April 2019.

Sources: SAFE, CFETS, BIS.

Spot foreign-exchange transactions grew steadily. In 2021, the spot market saw a trading volume of USD 14.2 trillion, up 19 percent year on year. In terms of market distribution, spot purchases and sales of foreign exchange in the client market totaled USD 4.2 trillion (including the banks' proprietary trading, but excluding the performance of forwards), up 18 percent year on year. The spot inter-bank foreign-exchange market saw a trading volume of USD 10.0 trillion, up 19 percent. The share of USD transactions was 96 percent.

Foreign-exchange forward transactions increased rapidly. In 2021, the forward market saw a cumulative trading volume of USD 930.9 billion, up 65 percent year on year. In terms of market distribution, in the client market purchases and sales of forwards in foreign exchange totaled USD 822.0 billion, of which purchases and sales of forwards were USD 468.8 billion and USD 353.2 billion, up 79 percent, 54 percent, and 128 percent, respectively (see Chart 4-8). Short-term 6-month transactions accounted for 73 percent, up four percentage points year on year. The inter-bank forward market saw a cumulative trading volume of USD 108.9 billion, up 4 percent year on year.

Chart 4-8 Forward Settlement and Sale of Foreign Exchange by Banks to Customers



Source: SAFE.

Swap trading grew steadily. In 2021, cumulative foreign-exchange and currency-swap transactions totaled USD 20.5 trillion, up 23 percent year on year. In terms of market distribution, cumulative foreign-exchange and currency-swap transactions in the client market reached USD 135.7 billion, down 43 percent. Spot purchases/forward sales and spot sales/forward purchases reached

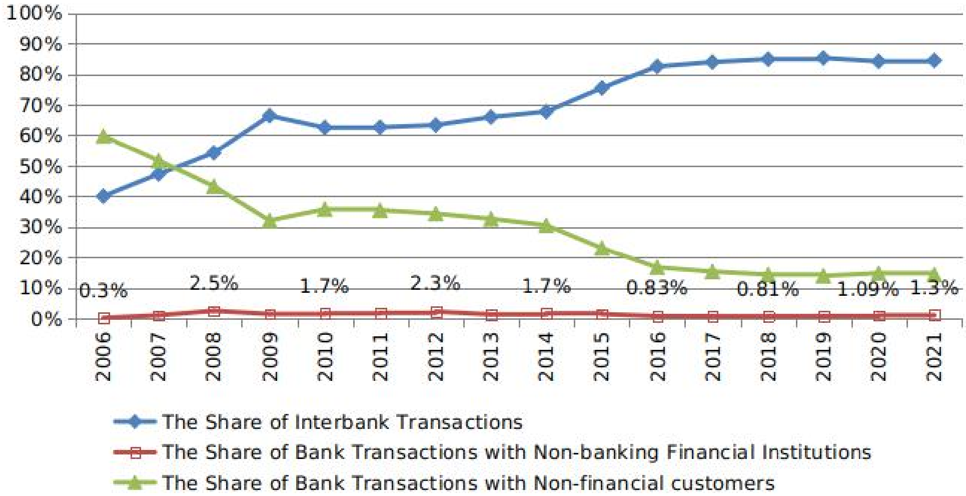
USD 107.2 billion and USD 28.4 billion, respectively, down 41 percent and 51 percent, respectively. The abundant US dollar liquidity in the domestic market has encouraged banks to use swaps to convert US dollar funds into RMB funds. The inter-bank foreign-exchange and currency-swap markets saw cumulative transactions of USD 20.3 trillion, up 24 percent.

Options transactions increased rapidly. In 2021, the trading volume of options totaled USD 1.2 billion, up 47 percent year on year. In terms of market distribution, the client market saw a total trading volume of USD 344.6 billion, up 26 percent. The inter-bank market saw a total trading volume of USD 893.4 billion, up 58 percent.

The foreign-exchange hedging rate of enterprises increased. The SAFE has focused on the problem of "urgency, difficulty, and hope" in the exchange-rate risk management of enterprises, has guided enterprises to establish the concept of exchange-rate risk neutrality, and has actively used foreign-exchange derivative hedging products to better adapt to the two-way fluctuations in the RMB exchange rate. In 2021, the hedging rate of enterprises increased by 4.6 percentage points to 21.7 percent compared with that in 2020.

The structure of foreign-exchange market participants remained basically stable. Proprietary transactions by banks continued to dominate (see Chart 4-9). The market share of non-financial clients dropped slightly, from 14.8 percent to 14.3 percent. The market share of transactions by non-bank financial institutions edged up from 1.1 percent to 1.3 percent in 2020.

Chart 4-9 Structure of Participants in China's Foreign-Exchange Market



Sources: SAFE, CFETS.

Table 4-1 Transactions in the RMB/Foreign-Exchange Market, 2021

Product	Trading Volume (100 million USD)
Spot	**142223**
Client Market	**42196**
Interbank Foreign Exchange Market	**100028**
Forward	**9309**
Client Market	**8220**
Less than 3 months (including 3 months)	4349
3 months to 1 year (including 1 year)	3263
More than 1 year	608
Interbank Foreign Exchange Market	**1089**
Less than 3 months (including 3 months)	739
3 months to 1 year (including 1 year)	273
More than 1 year	77
Foreign Exchange and Currency Swaps	**204763**
Client Market	**1357**
Interbank Foreign Exchange Market	**203406**
Less than 3 months (including 3 months)	186175
3 months to 1 year (including 1 year)	16799
More than 1 year	431
Options	**12381**
Client Market	**3446**
Foreign Exchange Call Options/RMB Put Options	1460
Foreign Exchange Put Options/RMB Call Options	1986
Less than 3 months (including 3 months)	1796
3 months to 1 year (including 1 year)	1376

More than 1 year	275
Interbank Foreign Exchange Market	**8934**
Less than 3 months (including 3 months)	5764
3 months to 1 year (including 1 year)	3156
More than 1 year	15
Total	**368676**
Client Market	**55219**
Interbank Foreign Exchange Market	**313457**
Including: Spots	142223
Forwards	9309
Foreign Exchange and Currency Swaps	204763
Options	12381

Note: The trading volumes here are all unilateral transactions and the data employ rounded-off numbers.

Sources: SAFE, CFETS.

Box 5

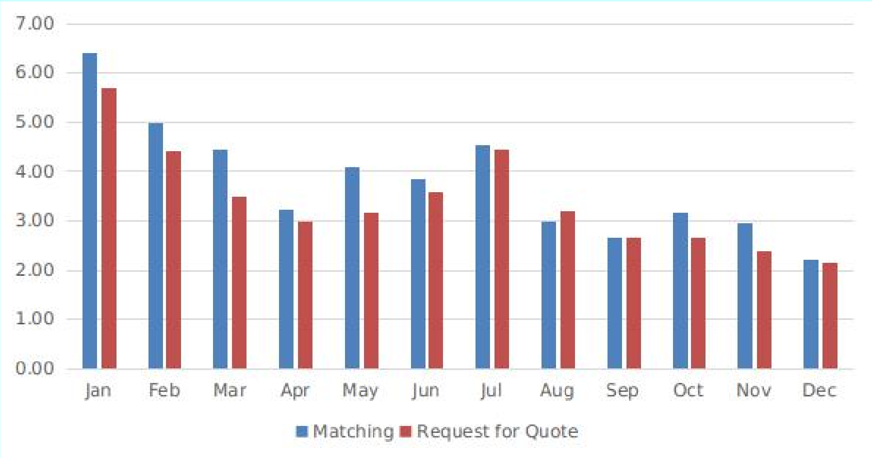
The Reform of the Market-Maker System Improved the Liquidity in the Foreign-Exchange Market

In January 2021, the SAFE revised the *Guidelines for Market Makers in the Inter-bank Foreign-Exchange Market*, encouraging market makers to improve their comprehensive trading and market-making capabilities for various products, and guiding more banks to participate in quotations and to provide liquidity. The structure of the inter-bank foreign-exchange market is optimized on the basis of the continuation of a three-tiered competitive system of "market makers, tentative market makers, and ordinary institutions." At the first tier, there are twenty-five market makers, including large banks, joint-stock banks, policy banks, foreign banks, and urban commercial banks, covering a comprehensive range of types and having a strong market-making capability. The second tier consists of the tentative market makers by products, fifteen in total, showing a significant increase in the number. The third tier consists of 719 ordinary financial institutions. By optimizing the structure of market makers, we expanded the market-making force, further activated the market-making initiative of China's foreign-exchange market institutions, and improved the quality of market making and the liquidity supply level.

The quotation quality of market makers and market liquidity continued to

be improved. In 2021, all indices measuring the quotation quality of market makers were improved, with notably improved quoting activeness and quality, a narrowing optimal bilateral market quotation spread, and improved market liquidity. Taking the spot quotation of the RMB against the USD as an example, the bilateral spread of the best morning offers in the inter-bank foreign-exchange market in 2021 is generally decreasing month by month, by an average decrease of 2.5 basis points compared with that in 2020. The enthusiasm and quality of the market-makers' quotations have been significantly improved and market liquidity has been continuously boosted.

Chart C5-1 Spread of the Optimal Spot Morning Offer in the RMB Foreign-Exchange Market

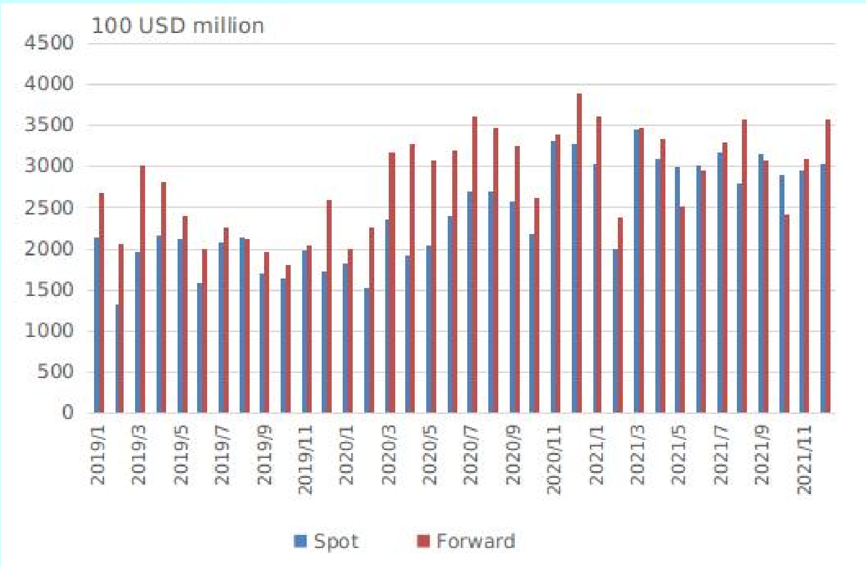


Source: CFETS.

More abundant sources of liquidity further enhanced the stability of the foreign-exchange market. The market-making business of various products in the inter-bank foreign-exchange market presents differentiated features. Under spot inquiry, market makers sell foreign exchange net to ordinary financial institutions, and the tentative market makers try to buy foreign exchange from ordinary financial institutions. Under forward/swap inquiry, market makers buy foreign exchange net from the market, while the tentative market makers try to maintain a small net position, buy foreign exchange from ordinary institutions, and sell foreign exchange to market makers, playing the role of a liquidity adapter. Under forward/swap matching, market makers mainly net foreign exchange from the market, while tentative market makers mainly buy foreign exchange net. The differentiated market-making activities provide a richer source of liquidity for ordinary institutions and further enhance market stability.

The willingness of market-making institutions to provide markets for ordinary financial institutions has significantly increased, and their ability to serve the real economy has been significantly enhanced. Taking the spot market as an example, the average daily volume of market-making institutions to ordinary institutions in 2021 increased by 23.7 percent compared to 2020 and by 58.6 percent compared to 2019. Among them, the daily turnover of market makers to ordinary institutions increased by 18.6 percent. After the expansion of the list of tentative market- making institutions, the amount of market making for ordinary financial institutions increased rapidly and the average daily turnover increased by 2.4 times. The trading of ordinary institutions is mostly driven by actual customer demand, and the liquidity supply of market-making institutions is inclined to ordinary institutions, which helps to further reduce the foreign-exchange transaction costs in serving the real economy.

Chart C5-2 Market-making Volume between Market Makers and Ordinary Members in the Foreign-Exchange Market



Source: CFETS.

V. Outlook for the Balance of Payments

In 2022, global economic growth will slow down, the monetary policies of the major developed economies will continue to adjust, and there will be many unstable and uncertain factors in the external environment. China adheres to the general tone of seeking progress while maintaining stability and it constantly makes efforts to implement various policies and measures to stabilize the macroeconomic market so as to support economic operations within a reasonable range and to maintain a trend of long-term positive development. The comprehensive deepening reform and opening up are continuing to show results so as to continue to support the high-quality development of cross-border trade and investment and the steady opening of financial markets. A more mature balance-of-payments adjustment mechanism will further enhance China’s ability to cope with changes in the external environment and will help China maintain a basic balance-of-payments pattern.

The current account surplus will continue to remain within a reasonable and balanced range. First, the growth rate of imports and exports of trade in goods may stabilize and maintain a certain scale of surplus. If the impact of the global pandemic on international economic and trade activities is mitigated, the pulling effect of external demand on China's exports will be more stable and sustainable. China's production and supply advantages will still exist, the development of foreign trade will be more diversified, and the growth rate of imports and exports will stabilize under the high base effect. Second, the balance in services trade may recover slowly, and the deficit will gradually stabilize and remain at a relatively low level. With the relaxation of restrictions on cross-border mobility of personnel in some countries, travel expenses, such as for study abroad in China, may increase slightly. On the whole, if the global pandemic eases and economic activities gradually resume, China's current account revenue and expenditures will return to normal, but the pattern in the current account surplus will not change and it will continue to remain within a reasonable range.

Cross-border two-way investments are expected to maintain a trend of reasonable, orderly, and overall balanced development. In recent years, the maturity of China's foreign-exchange market has been continuously improved, the RMB exchange rate has been fluctuating in both directions and has become more flexible, and the role of macroeconomic regulation and the automatic stabilizer of the balance of payments have been enhanced. The further optimization of China's external asset liability structure will better adapt to the adjustments and changes in monetary policy in the developed economies. In general, the long-term trend of stable and positive economic fundamentals in China will not change and will continue to support the basic stability of cross-border capital flows. On the one hand, foreign-investment trends in China and the allocation of RMB assets will not change. China's economy will maintain the high-quality development and the income of foreign-invested enterprises will be at a stable elevated level. The domestic financial market has been steadily opening to the outside world. The bond and stock markets both have sound investment value. In the future, there still will be large space for overseas investors to increase their allocations, which will be conducive to the stable inflow of medium- and long-term international capital. On the other hand, China's market players' demand for foreign investment will gradually be released and the channels for foreign investment will be expanded in an orderly manner. Relevant cross-border capital flows will maintain a trend of steady development.

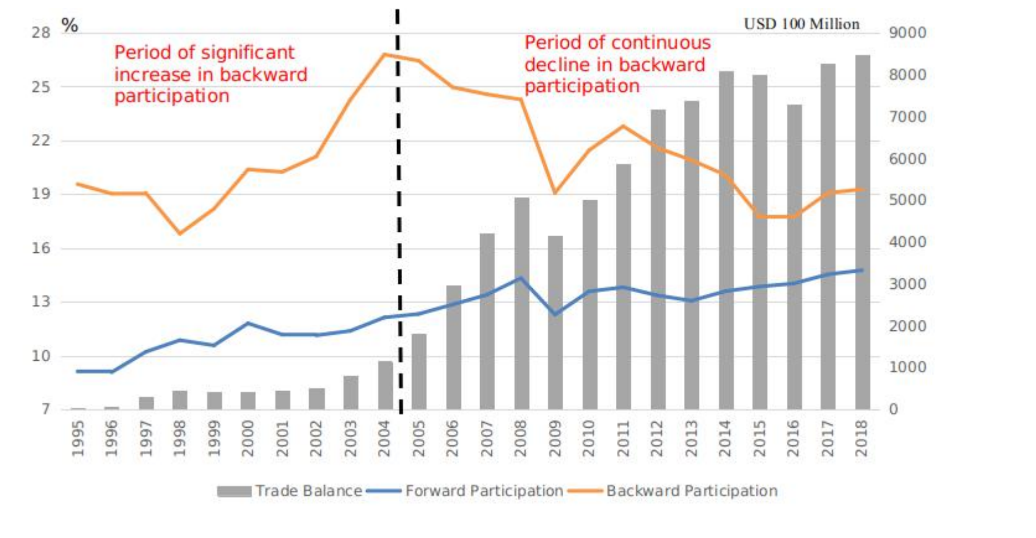
Box 6

Integration into the Global Value Chain Has Become an Important Factor Affecting China's Balance of Payments

Since the reform and opening-up policy, China's trade has gradually become integrated into the global value chain and has played an increasingly vital role. At present, China’s industry has developed from primary manufacturing dominated by the export of medium- to low-end products to advanced manufacturing dominated by the export of technology-intensive products. The continuous rise of the service level of manufacturing has not only improved the quality and scale of trade in goods and services but it has also contributed to an expansion of foreign direct investments, which has played an important role in maintaining an equilibrium in China's balance of payments and in optimizing the structure of its balance of payments.

Integration into the global value chain promotes the further development of China's export manufacturing. China's manufacturing industry is increasingly integrated into the global trading system. The backward participation (dependence of domestic exports on intermediate goods from other countries/regions) experienced a process of first rising and then falling (see Chart C6-1), reflecting the two-stage features of China's foreign trade development. From the 1990s to the beginning of this century, China initially participated in the international division of labor in manufacturing. The processing trade, with its characteristics of “both-ends-abroad,” accelerated development, and its scale increased by more than twenty times from 1995 to 2005. This not only led to the increase in China's exports but also promoted the rapid growth of imports in related intermediates. The intermediates from other countries / regions included in the exports continued to increase. Since the beginning of this century, with the deepening of the integration into the global value chain, China's own technological level has been continuously improved, large-scale production capacity has gradually been developed, and the value-added from commodity exports has continuously increased, making the backward participation begin to decline. According to the relevant data of the Organization for Economic Co-operation and Development (OECD), the backward participation of China's manufacturing industry was 19.3 percent in 2018, down 7.1 percentage points from 2005.

Chart C6-1 Forward and Backward Participation and the Trade Balance of China's Manufacturing Industry



Note: Forward participation refers to the "value-added brought by exports of intermediate goods / exports," and backward participation refers to the "value-added from the export of domestic goods outside China/domestic exports."

Sources: General Administration of Customs of China, TIVA database.

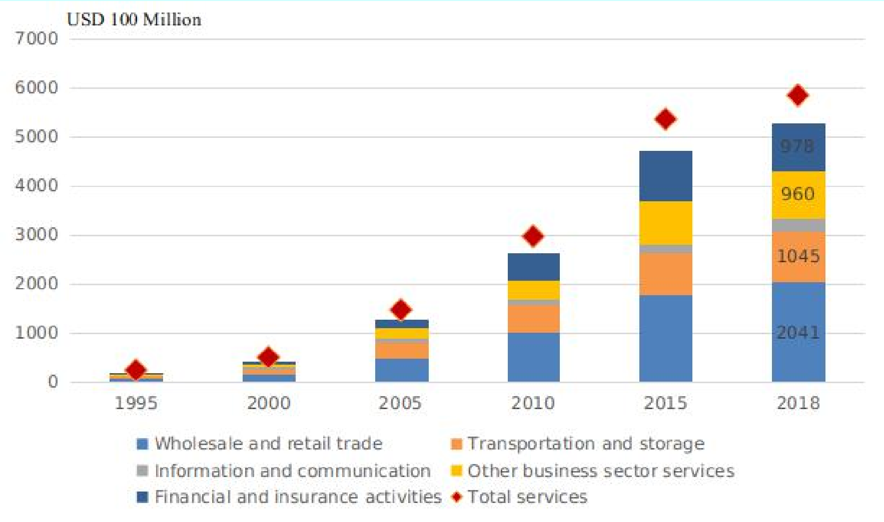
The ascent of China in the value chain plays an increasingly key role in the development of global trade. Over the past two decades, China's forward participation (a country's ability to provide intermediate goods for global trade) has increased steadily, which means that China's contribution to the re-export of the processed products of its trading partners has increased. For example, electronic products and transportation tools account for a relatively high proportion of global trade, with a long value chain and a high technical content. With its deep integration into globalization, China has provided more high-quality intermediates for global trade in these fields rather than only being engaged in terminal assembly and production, reflecting improvements in China's position in the global value chain. In 2018, the forward participation of China's manufacturing industry was 14.8 percent, an increase of 2.5 percentage points over 2005. In general, according to the World Bank's classification of the value-chain stage, China's exports have gradually developed from labor-intensive low-end products to technology-intensive high-end products.

The integration of China's manufacturing industry into the global value chain is an important reason for the improvement in the level of cross-border services and for the attraction of foreign direct investments. At present, the value of sales, technology, and other services contained in China's export commodities is becoming larger and larger. According to OECD data, in 2018 the added value of domestic wholesale and retail, transportation, and financial and insurance services driven by China's manufacturing exports reached USD 204.1 billion, USD 104.5 billion, and USD 97.8 billion, respectively, and the added value of other business services such as R&D and professional consulting reached USD 96 billion, all of which maintained rapid growth (see Chart C6-2). Improvements in the overall level of the domestic service industry have also promoted the international competitiveness of China's trade in services. The scale of cross-border productive trade in services[10] in 2021 increased by seventeen times compared with that in 1995. On the other hand, the integration of the manufacturing industry into the global value chain has brought foreign capital into China for investment and development. Since the reform and opening-up, China's industrial chain and supply chain have been gradually improved, the economy has maintained steady development, and the rapid accumulation of national wealth has improved the capacity for domestic consumption, attracting

[10] Productive trade in services mainly includes processing services, transportation services, construction, insurance services, financial services, telecommunications, computer and information services, other business services, maintenance services, intellectual property fees, etc.

multinational companies to set up factories and establish enterprises in China. According to data on the balance of payments, the net inflow of foreign direct investments in China has gradually increased from USD 35.8 billion in 1995 to USD 334 billion in 2021, with average annual growth of 32 percent.

Chart C6-2 Added Value of the Domestic Service Industry Is Included in China's Manufacturing Exports



Source: TIVA database.

Looking ahead, the transformation and upgrading of China's manufacturing industry will continue to advance, its role in the global value chain will continue to improve, its international competitiveness will be further enhanced, and its contribution to global trade will become more prominent. At the same time, the quality and efficiency of China's imports and exports have been improved and the productive- services trade has developed steadily, which will lay a solid foundation for the balanced and structural optimization of China's balance of payments.

In 2022, the foreign-exchange management department will adhere to the guidance of Xi’s thought on socialism with Chinese characteristics for a new era, fully implement the spirit of the 19th National Congress of the Communist Party of China and all the plenary sessions of the 19th National Congress of the Communist Party of China, implement a new development concept, build a new development pattern, coordinate development and security, deepen the reform and opening-up in the foreign-exchange field, strive to maintain a basic balance in international payments and steady operation of the foreign-exchange market, and take practical actions to meet the victory of the 20th National Congress of the Communist Party of China.

We will deepen reform and opening-up in the field of foreign exchange, boost macroeconomic stability, and consolidate the foundation for a basic balance of international payments. First, we will steadily and orderly promote the high-level opening of the capital account, including expanding the cross-border investment pilot of private equity investment funds; expanding the scope of foreign debt facilitation pilot projects in which the pilot enterprises in some regions will have their foreign debt registered directly by banks; improving fund management of domestic bond issuances by overseas institutions; and continuing to promote the pilot of the integrated domestic and foreign currency capital pool business of transnational corporations. Second, we will promote reform and innovation in foreign-exchange management under the current account. We will deepen the reform of foreign-exchange management facilitation in traditional forms of trade and promote the standardization, innovation, and development of new forms of foreign trade. Third, we will build an open and diversified foreign-exchange market with sound functions, support financial institutions to launch more foreign-exchange derivatives that meet market needs, and comprehensively support the exchange-rate risk management of small, medium-sized, and micro enterprises. Fourth, we will support a regional opening-up and innovation and will do a respectable job in the pilot implementation of the high-level opening-up of cross-border trade and investment. Fifth, we will improve the management of foreign-exchange reserves. We will promote the development of a specialized investment capacity, scientific and technological operations and management capacity, and market-oriented institutional governance capacity so as to ensure the safety, liquidity, value preservation, and appreciation of the foreign-exchange reserves.

We will maintain stable operation of the international balance of payments and foreign-exchange market and we will create a good environment for the stable development of the domestic economy. On the one hand, we will adhere to the market-oriented adjustment mechanism and macro prudential management of cross-border capital flows and we will actively prevent and resolve the risk of external shocks. We will continue to maintain the flexibility of the RMB exchange rate, improve the monitoring, early warning, and response mechanism for cross-border capital flows, enrich the policy toolbox, and strengthen macro prudential management and expectation guidance at the proper time. On the other hand, we should improve the micro supervision of the foreign-exchange market and maintain healthy order in the foreign-exchange market. We will adhere to the cross-cyclical consistency, stability, and predictability of micro regulatory and law enforcement standards, gradually establish a real, diversified, dutiful, safe, and efficient authenticity management mechanism for the foreign-exchange business, crack down on illegal activities in the foreign-exchange field with "zero tolerance," promote the standardized development of the foreign-exchange market, and effectively safeguard national economic and financial security.